

MMO Economic Board

Meeting of 23 September 2015

- o The 9th meeting of the MMO Economic Board took place on 23 September 2015, with the participation of experts from the various steps in the milk supply chain: CEJA (young farmers), COPA-COGECA (producers and cooperatives), EMB (European Milk Board), EDA (dairy industry), Eucolait (dairy trade) and Eurocommerce (retail). ECVC (Via Campesina) was not present. DG AGRI presentations and information exchanged during the meeting showed the following.
 - o EU milk production was up by 1.1% in the first 7 months of the year, but by 2.8% in the first 4 months after milk quota expiry. Production increases were registered in 16 MS in the 7 month period and in 19 MS in the period April-July.
 - o Average farm gate milk prices approximated 29.7 c/kg in July (12% below the last 5 years' average) and a further decrease is expected in August (-0.9%). Announcements for the months to come give a mixed picture: some expect further price cuts while others expect stable prices. Organic milk prices continue to offer better returns to producers.
 - o A slight recovery in the margin index was observed in the 2nd quarter thanks to decreasing feed costs. Immediate cash flow difficulties remain predominant. The solidarity package for farmers announced early September was positively received by farmers as a tool to help solve crucial financial problems at farm level, while market stabilising tools still need to show how effective they can be, depending on their uptake.
 - o Applications for private storage aid have reached 150 000 t butter and close to 50 000 t SMP since the opening of the scheme in the wake of the Russian import ban, while offers for sale into intervention now cover close to 20 000 t SMP.
 - o Dairy product quotations have shown signs of recovery over the last 2 weeks. On the world market, prices generally increased, especially for Oceania and the US. The last 3 GdT auctions closed with double digit increases in the global index, pushing market sentiment upwards.
 - o The assessment of EU stock levels based on a residual approach (production + imports - consumption - exports) confirmed important stocks for SMP. The picture is more optimistic for cheese (where stocks are comparable to 2012 levels) and butter (declining trend started in July).
- o At world level, milk production increased by some 1.8 million t in the first half of the year, mainly due to the EU (+ 833 500 t) and the US (+ 766 000 t). There is no sign of production slowdown in the EU but the USDA is revising downwards its world production forecast. World exports are decreasing, reflecting demand slow down, but EU exports remain dynamic for most dairy products. China imports are back to normal levels, i.e. below the 2013-2014 peak volumes but above 2012. Concerns remain with regard to possible difficulties in oil producing countries traditionally importing dairy products, given decreasing oil returns. Assessing the stock situation in importing countries remains an open question.
- o With regard to EU internal consumption, latest retail price decreases were depicted as resulting from the market surplus situation. Over the summer, retailers addressed local situations at individual level and supply chain dialogue was opened in a number of cases. Actions have been taken to promote internal consumption. Consumption patterns tend to be local, but overall a decrease in drinking milk volume sales is observed, while other dairy categories experience better performance.
- o For the short-term outlook, cumulative EU milk deliveries in 2015 were estimated to increase by 1.1%. Milk production increases continue in IE, HU, NL, ES, PL, UK, while downward trends are expected in FR and DE. Production would continue to increase in 2016 but by no more than 0.9%. For 2015, increased milk production would translate into 1.3% more cheese (and a stock increase by 30 000 t), 7.5% more SMP (and +25 000 t stocks) and 4% more butter (and + 5 000 t stocks).
- o Overall, there is some perception that the worst might be passed but nobody would bet on asserting that the slight recovery signs noticed in the latest weeks already point towards a lasting positive trend. While the supply/demand imbalance persists, market sentiment has improved.

ANNEX 1

Milk Market Situation

European Commission



European
Commission



Milk Market Situation

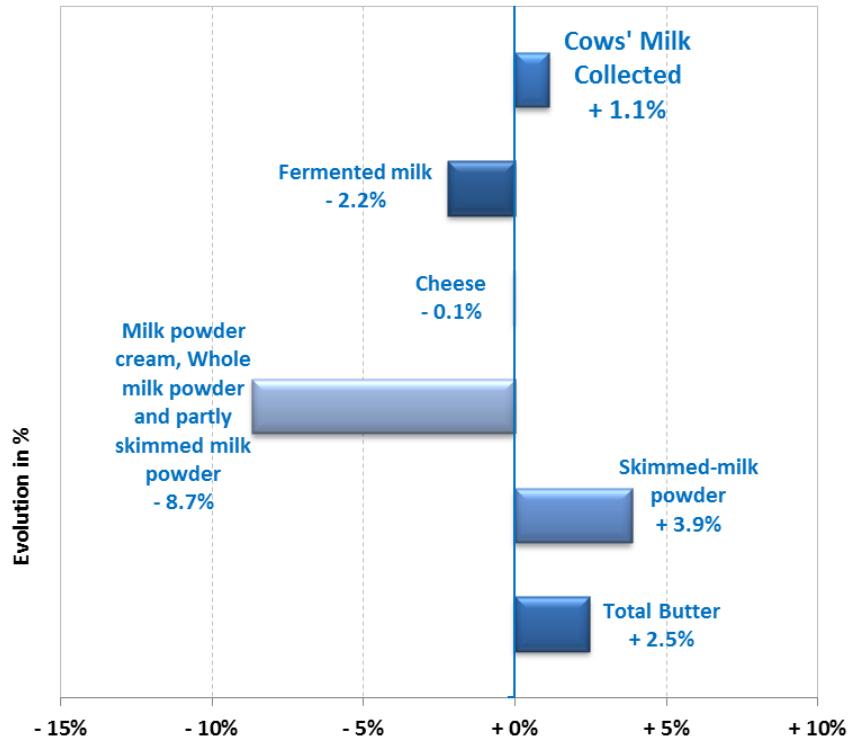
Brussels, 23 September 2015

EU Productions



European Commission

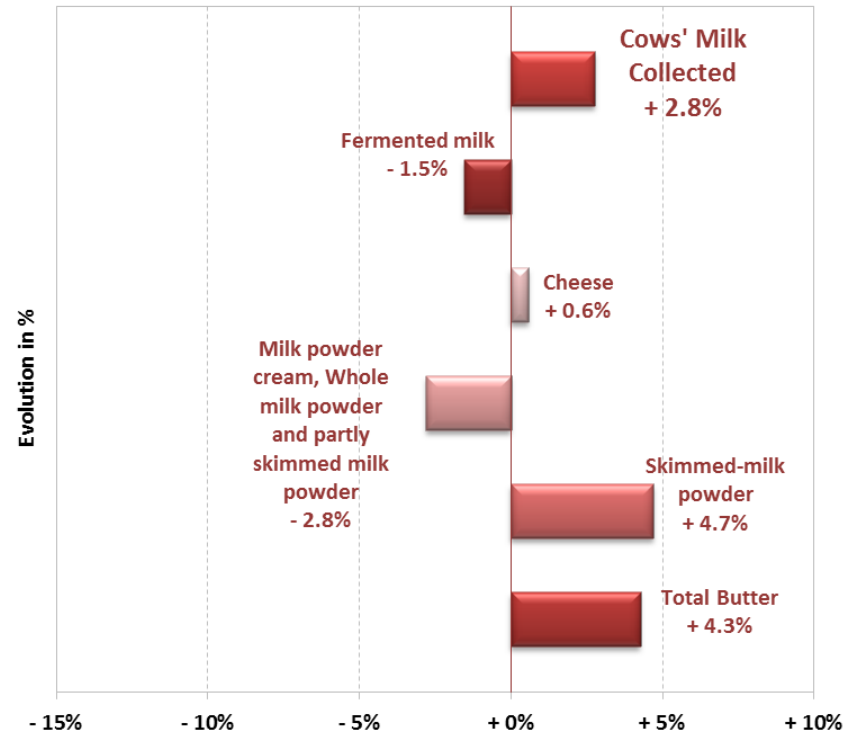
EU-28 Deliveries/Productions development
(Jan-Jul 2015 compared to Jan-Jul 2014)



Rem : ES milk deliveries estimated
ES data not considered (except cow's milk)

Source : MS' Communications to Eurostat,
and, for milk: AGEA, FEGA,
Reg. 479/2010.Art1(a)1

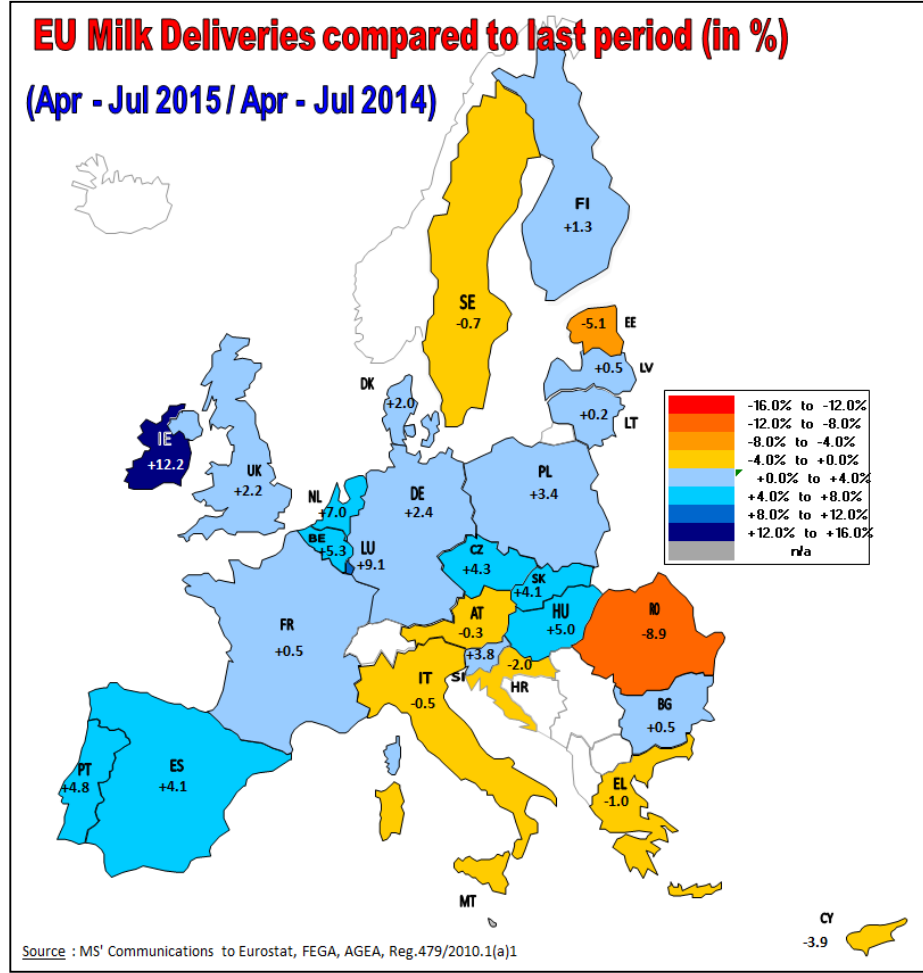
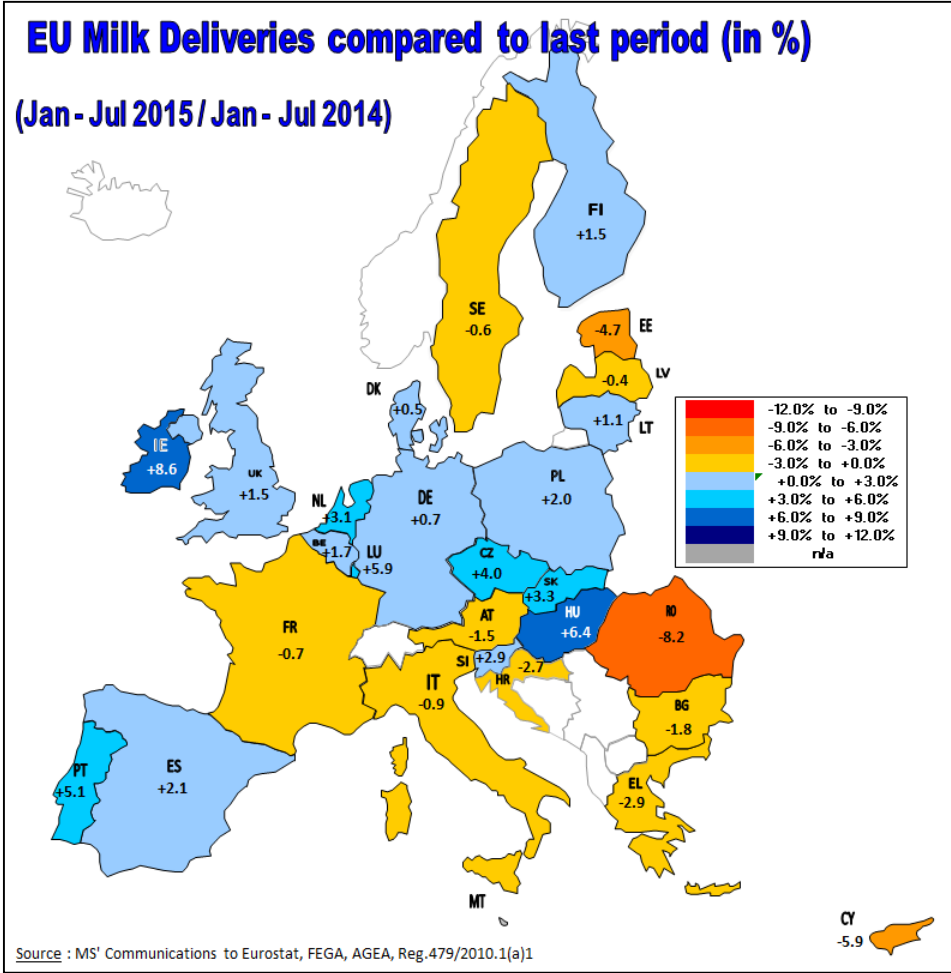
EU-28 Deliveries/Productions development
(Apr 2015 - Jul 2015 compared to Apr 2014 - Jul 2014)



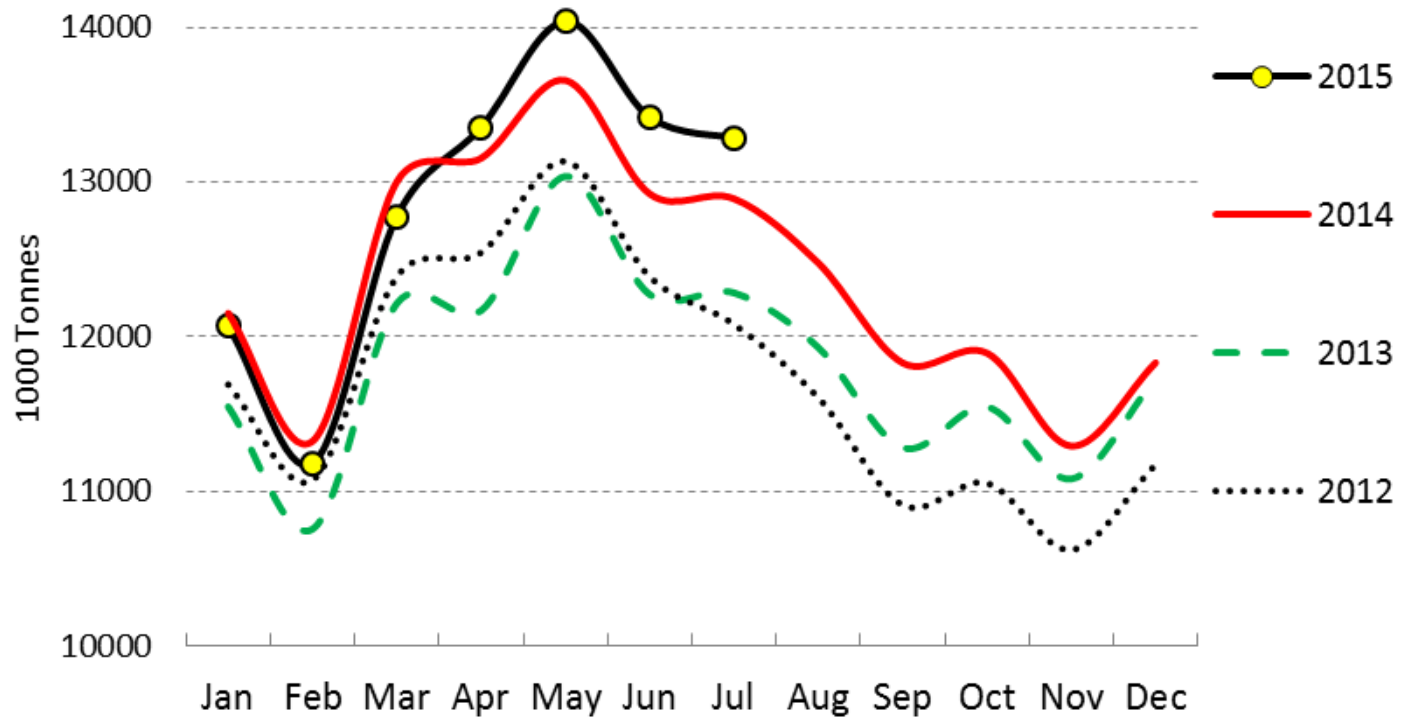
Rem : ES milk deliveries estimated
ES data not considered (except cow's milk)

Source : MS' Communications to Eurostat,
and, for milk: AGEA, FEGA
Reg.479/2010.Art1(a)1

!!! Data from some Member States are confidential and are NOT included in this table !!!



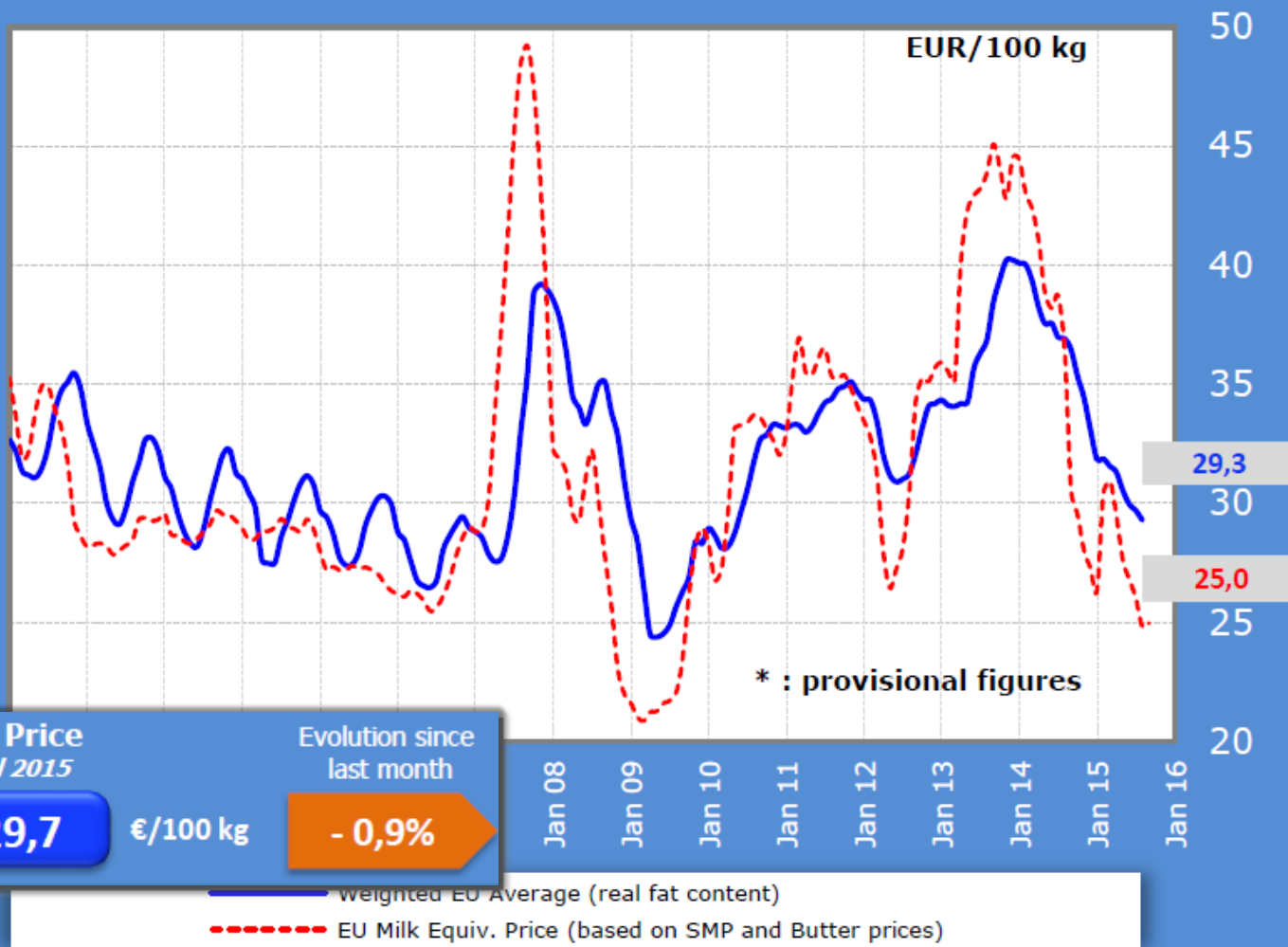
EU - Cows' milk collected



Source : Estat - Newcronos

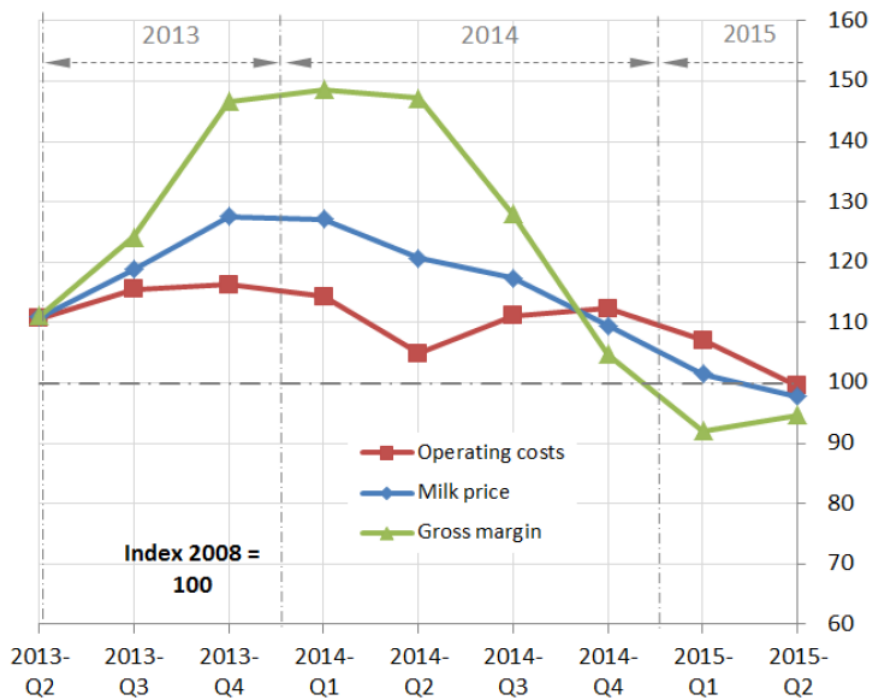
Last update : Jan-Jul

EU Raw Milk Prices Evolution (up to August 2015*)



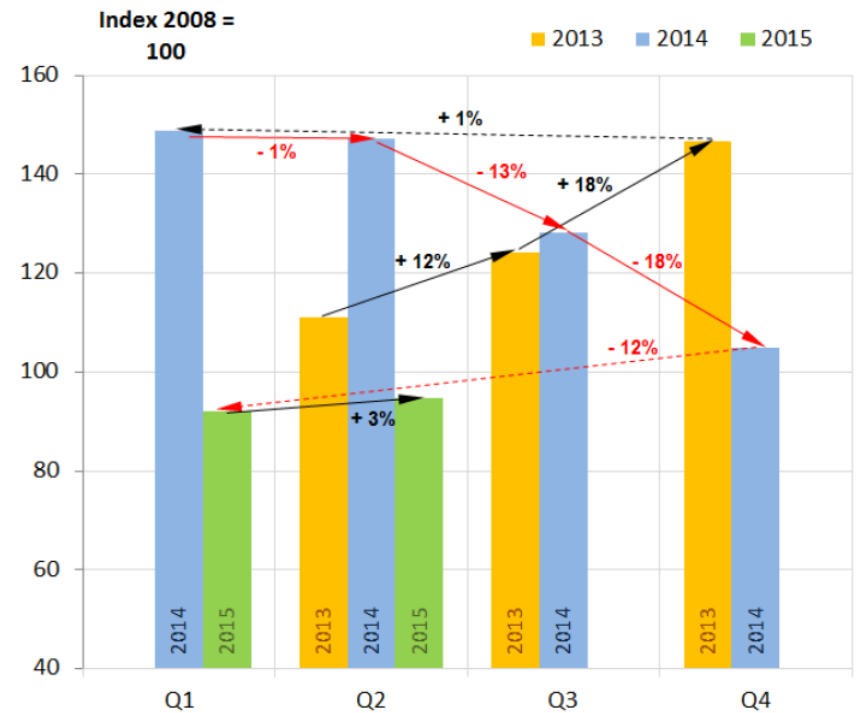
EU GROSS MARGIN (2nd Quarter 2015)

Estimations of EU Milk price, operating costs and margin per tonne



Source : FADN - NEW base (year 2012) + indexes: Eurostat, DG AGRI

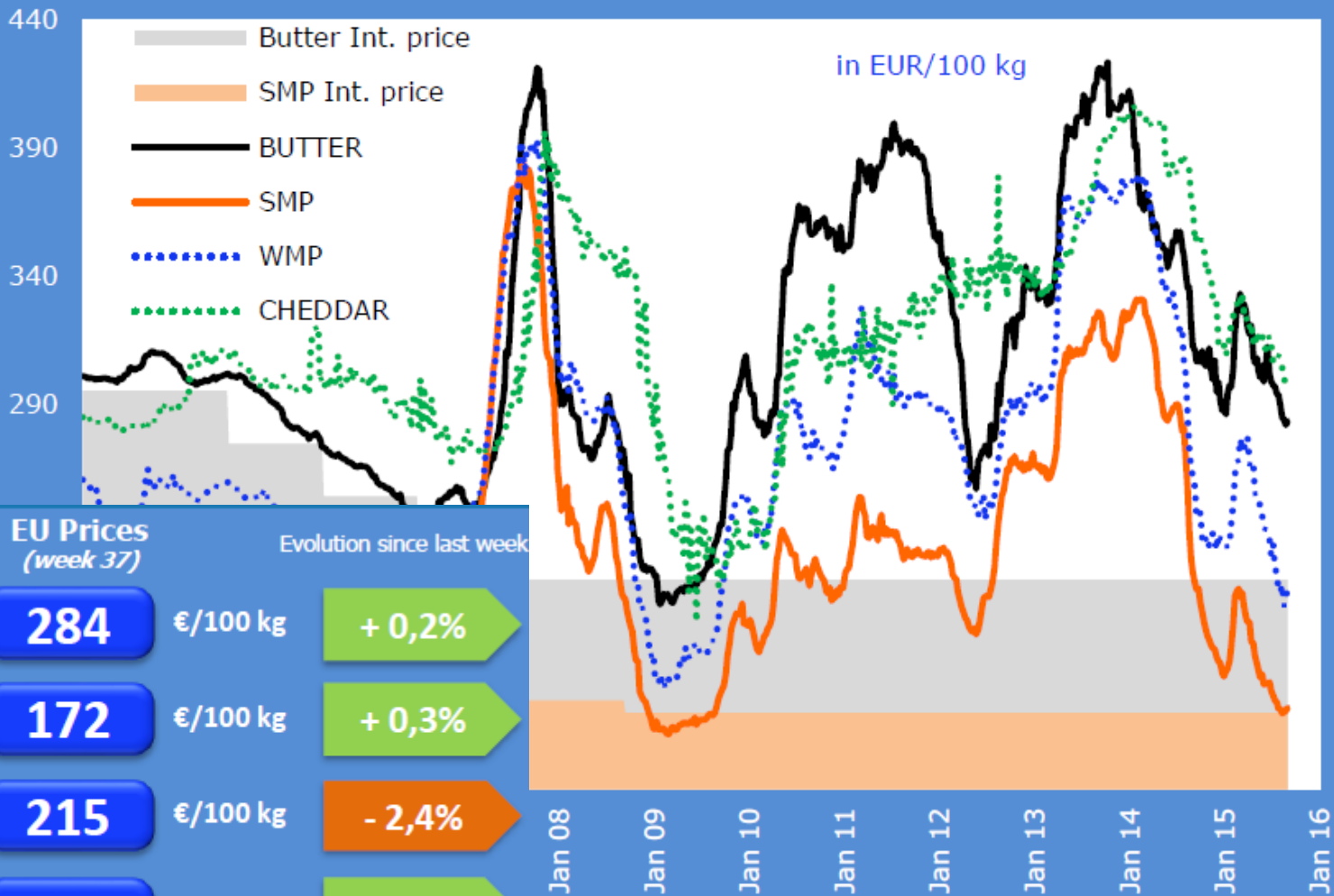
Estimation of EU Gross margin



Source : FADN - NEW base (year 2012) + indexes: Eurostat, DG AGRI

Source : FADN - NEW base : year 2012 + indexes: Eurostat, DG AGRI

EU average quotations of main commodities



EU Prices
(week 37)

Evolution since last week

BUTTER

284

€/100 kg

+ 0,2%

S.M.P.

172

€/100 kg

+ 0,3%

W.M.P.

215

€/100 kg

- 2,4%

CHEDDAR

297

€/100 kg

+ 0,4%

Jan 08

Jan 09

Jan 10

Jan 11

Jan 12

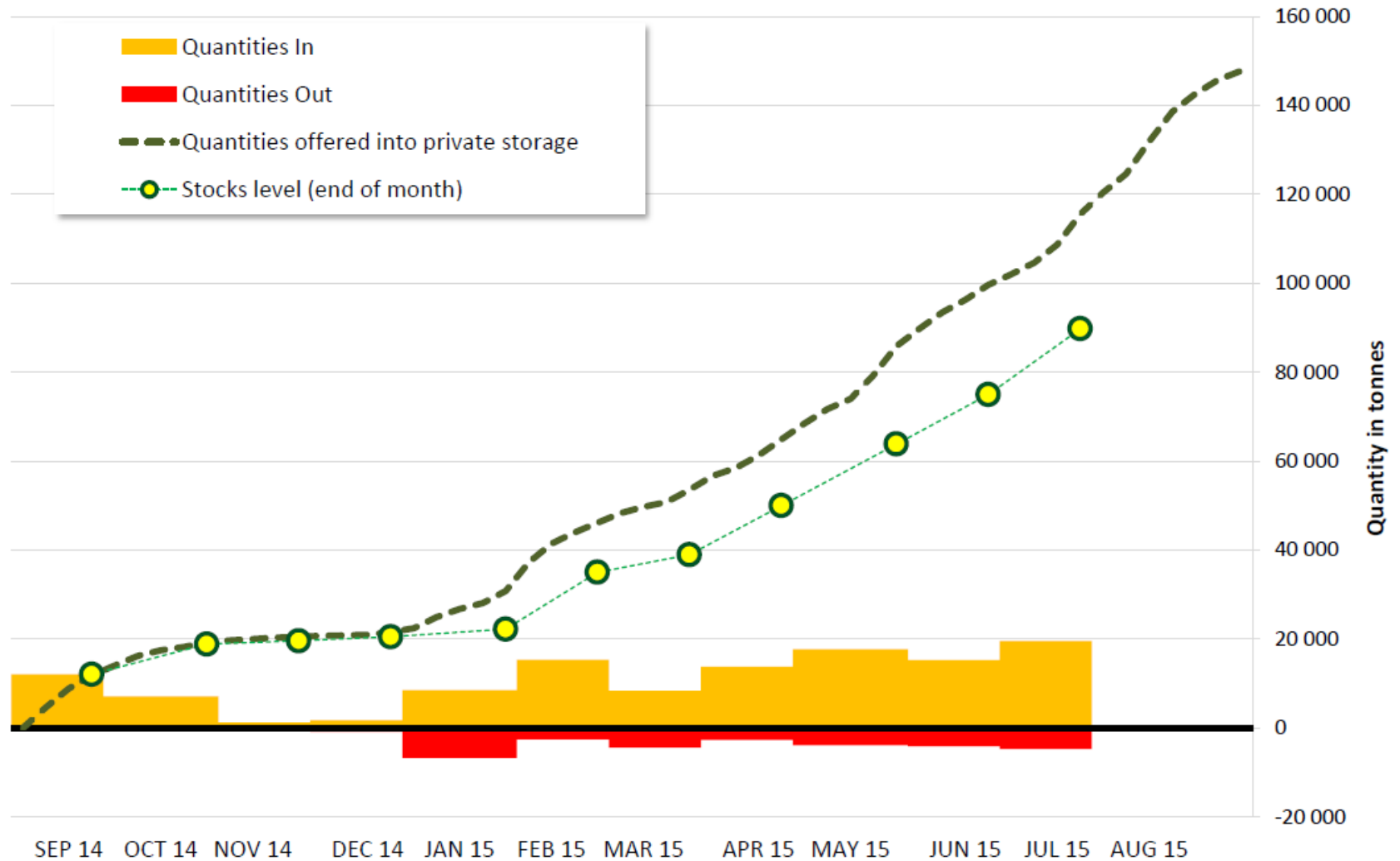
Jan 13

Jan 14

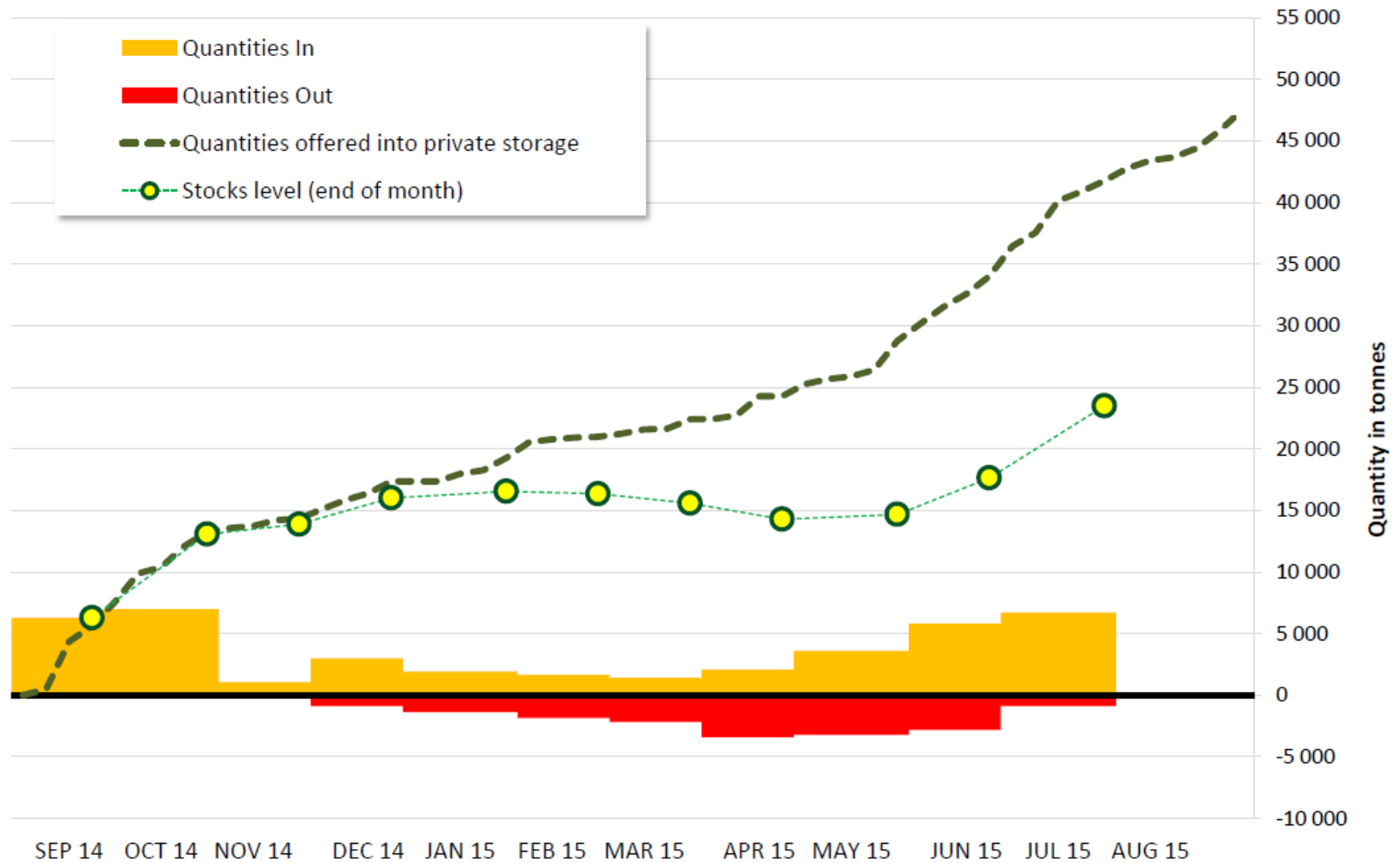
Jan 15

Jan 16

























Private Storage Aid Scheme (2014-2015) - BUTTER



Private Storage Aid Scheme (2014-2015) - S.M.P.



Latest World Quotations of Dairy Products

In US\$/t	Latest Quotations			Week - 2					
	20/09/2015			06/09/2015			% change (previous quotation)		
	EU	Oceania	USA	EU	Oceania	USA	EU	Oceania	USA
Butter	 3 201	 2 988	 5 814	3 159	2 825	5 525	 + 1.3%	 + 5.8%	 + 5.2%
SMP	 1 943	 1 938	 1 973	1 914	1 788	1 926	 + 1.5%	 + 8.4%	 + 2.4%
WMP	 2 425	 2 300	 2 811	2 455	2 025	2 811	 - 1.2%	 + 13.6%	 -
Cheddar	 3 343	 3 000	 3 681	3 292	3 000	3 737	 + 1.5%	 -	 - 1.5%

Source : Member States Notifications, USDA

ANNEX 2

EU dairy products monthly stock situation at the end of July, 2015

EDA



**EU dairy products
monthly stock situation
at the end of July, 2015**

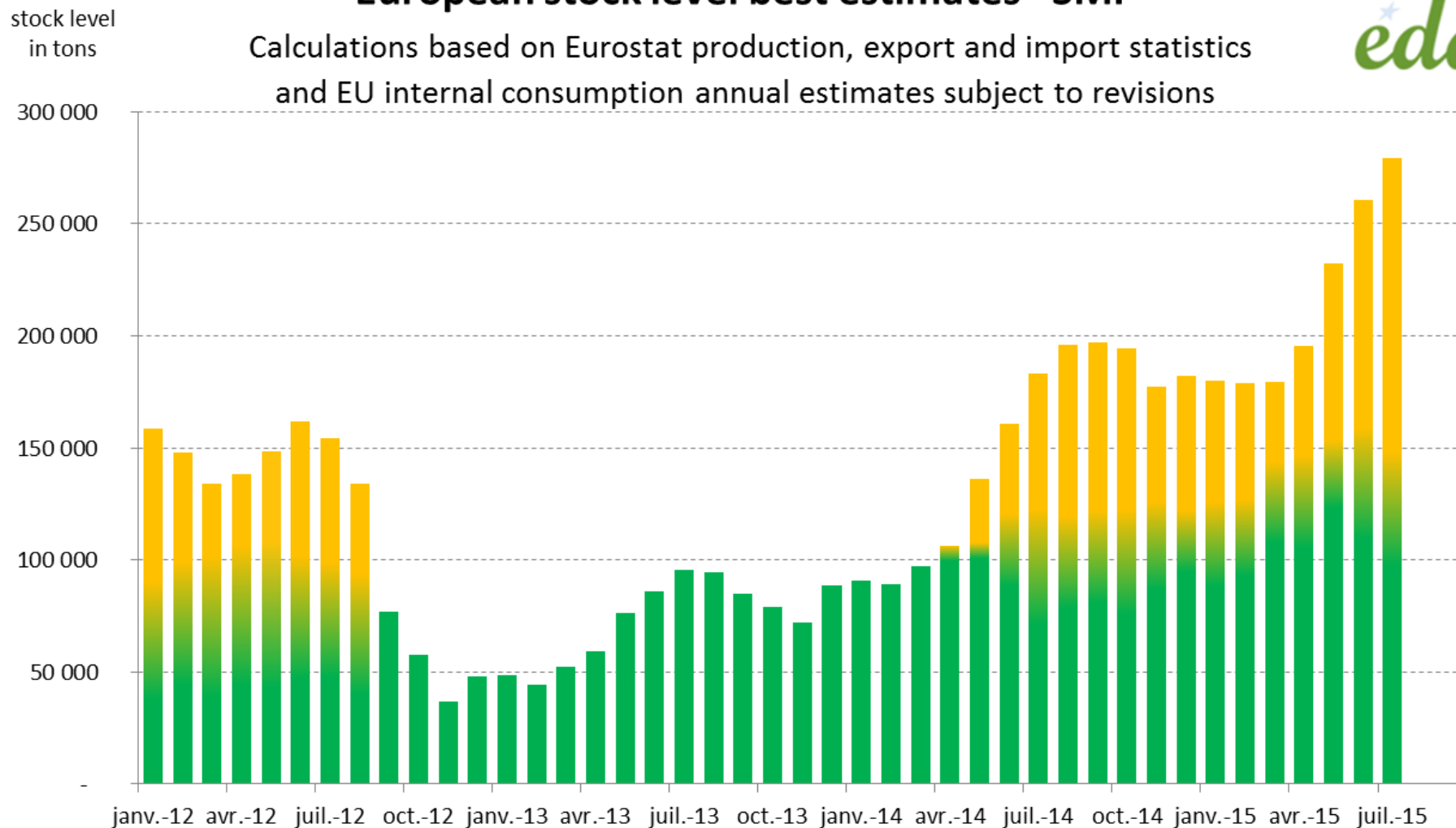
**Milk Market Observatory
Economic Board
September 23rd, 2015**

Methodology

- For each dairy product and each month, the stock estimates are based on the equation:
 - **Stock variation** = EU production + EU import – EU internal consumption – EU exports
- ZMB balance sheets and forecasts have been used as references for :
 - End of year stocks levels in 2012 and 2013
 - Yearly consumption levels in 2012, 2013, 2014 and forecast for 2015
- Monthly production statistics are based on ZMB Dairy World publications.
- Exports and imports figures are based on MMO website figures.
- The initial stocks entered in the model at the beginning of 2012 are :
 - SMP: 152 000 t
 - Butter: 80 000 t
 - Cheese: 200 000 t (arbitrary basis)
- The green parts in each graph mean that this stock level can be considered as normal for the month.
- The orange part means that this stock level can be considered as too high for the month
- These qualifications are based on the EDA analysts' personal views and past market observation.

European stock level best estimates - SMP

Calculations based on Eurostat production, export and import statistics
and EU internal consumption annual estimates subject to revisions

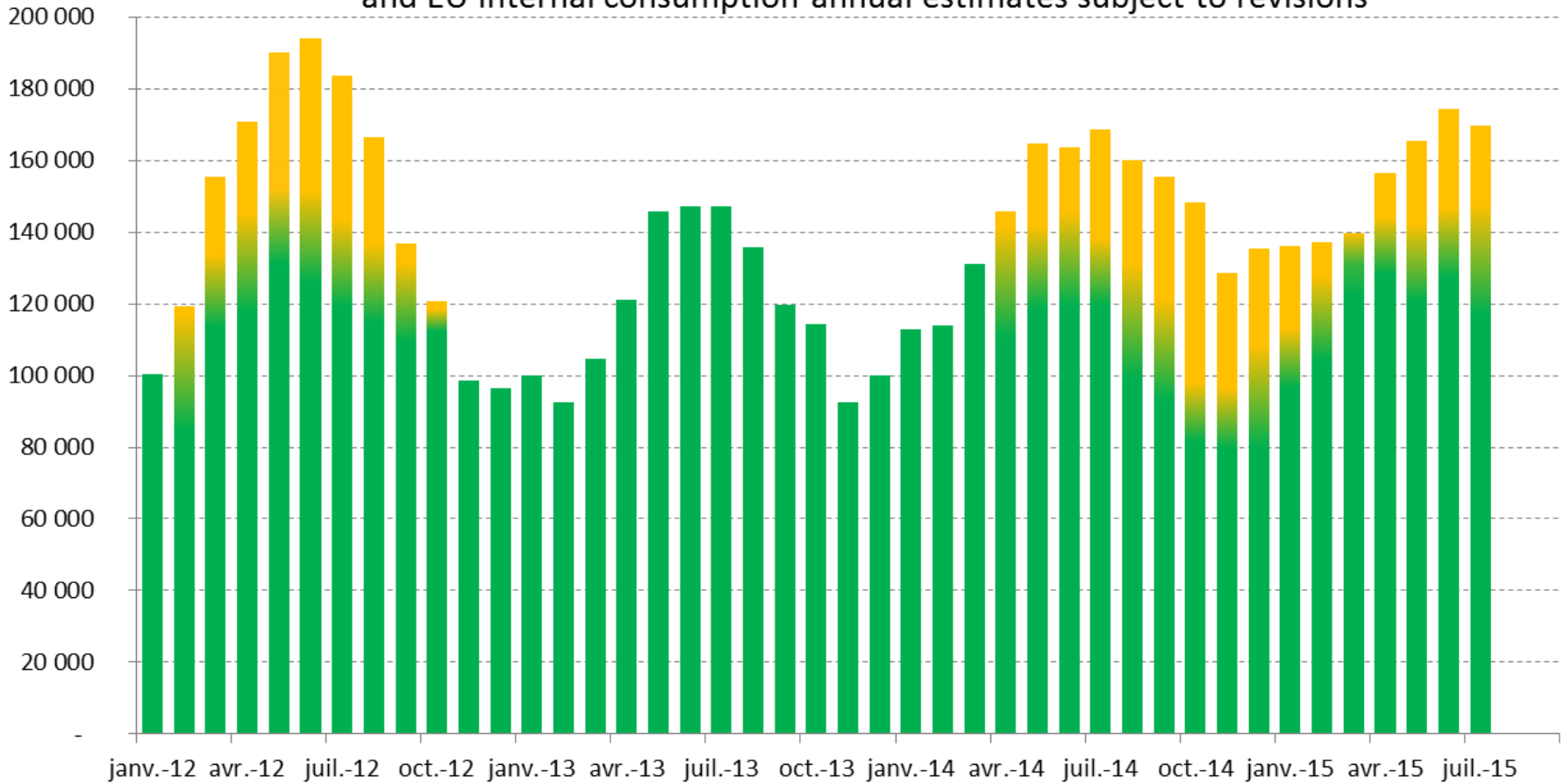


European stock level best estimates - Butter



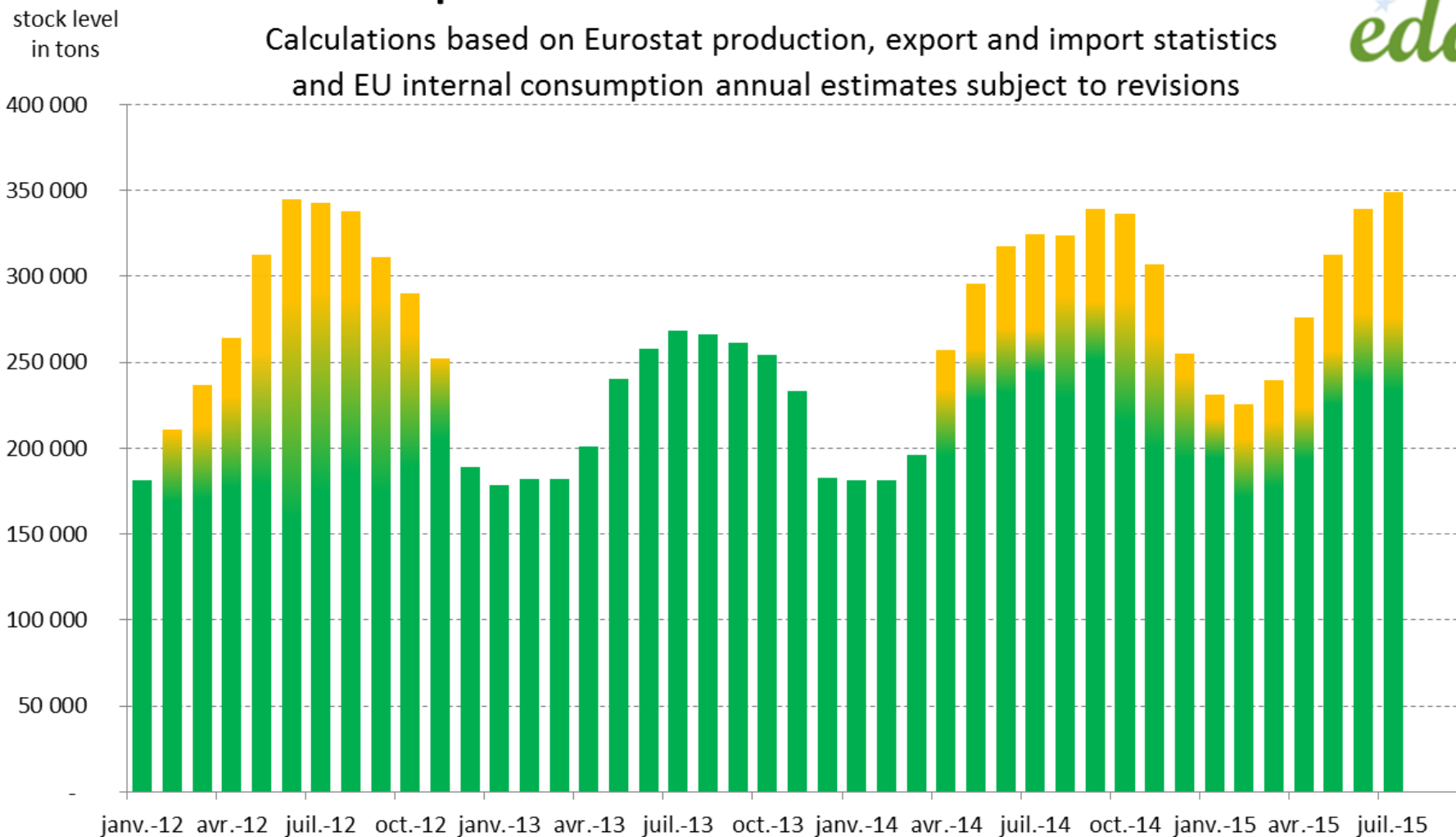
Calculations based on Eurostat production, export and import statistics and EU internal consumption annual estimates subject to revisions

stock level
in tons



European stock level best estimates - Cheese

Calculations based on Eurostat production, export and import statistics and EU internal consumption annual estimates subject to revisions



ANNEX 3

Perspectives from the Dairy Trade

Eucolait



Perspectives from the Dairy Trade

Milk Market Observatory Meeting
23 September 2015



Outline

- Global Supply
- Global Exports
- Global Demand
- Conclusions

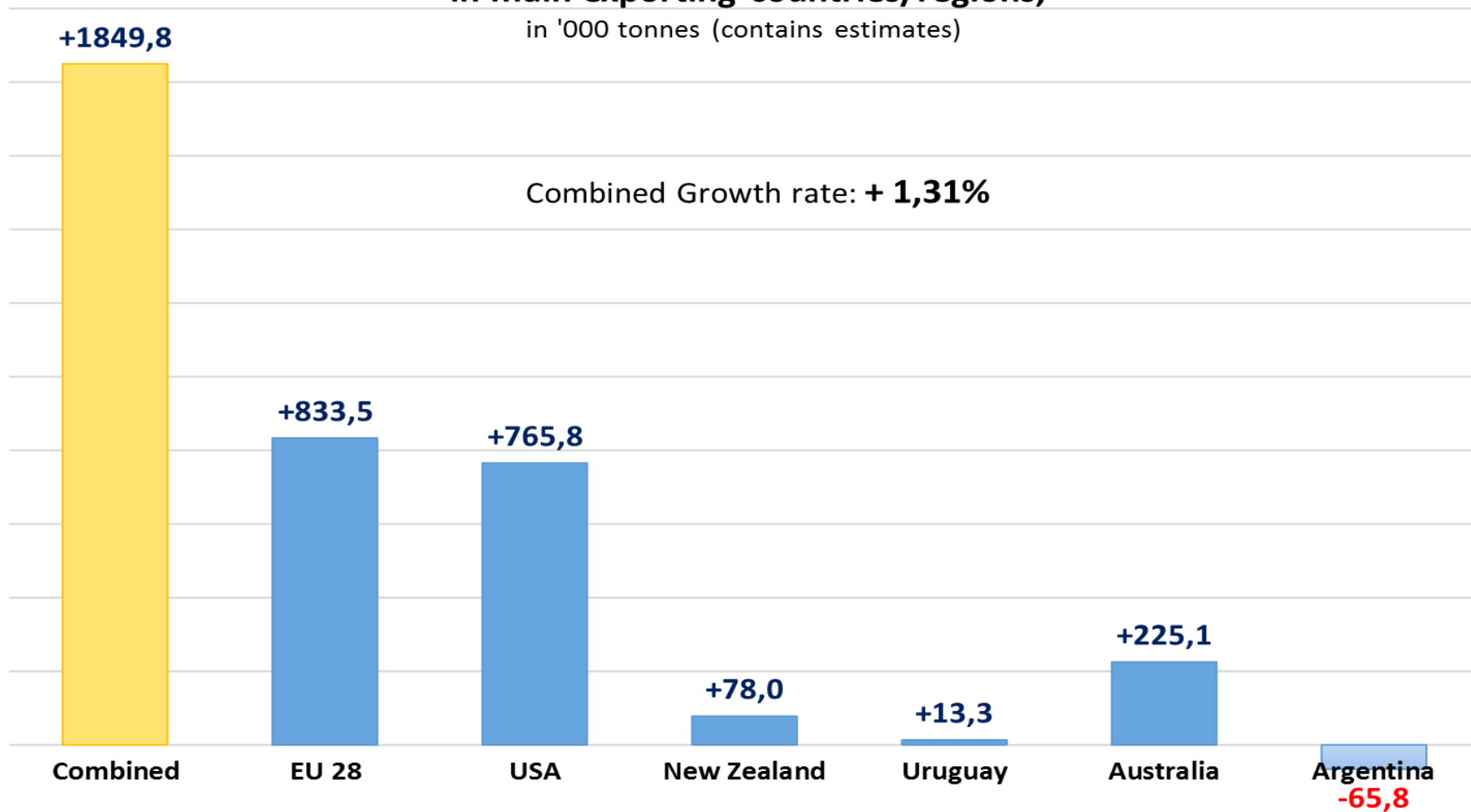


H1 2015 milk production in key export regions



Comparing H1 2015 milk production with H1 2014
in main exporting countries/regions,
in '000 tonnes (contains estimates)

Combined Growth rate: + 1,31%





Production outlook



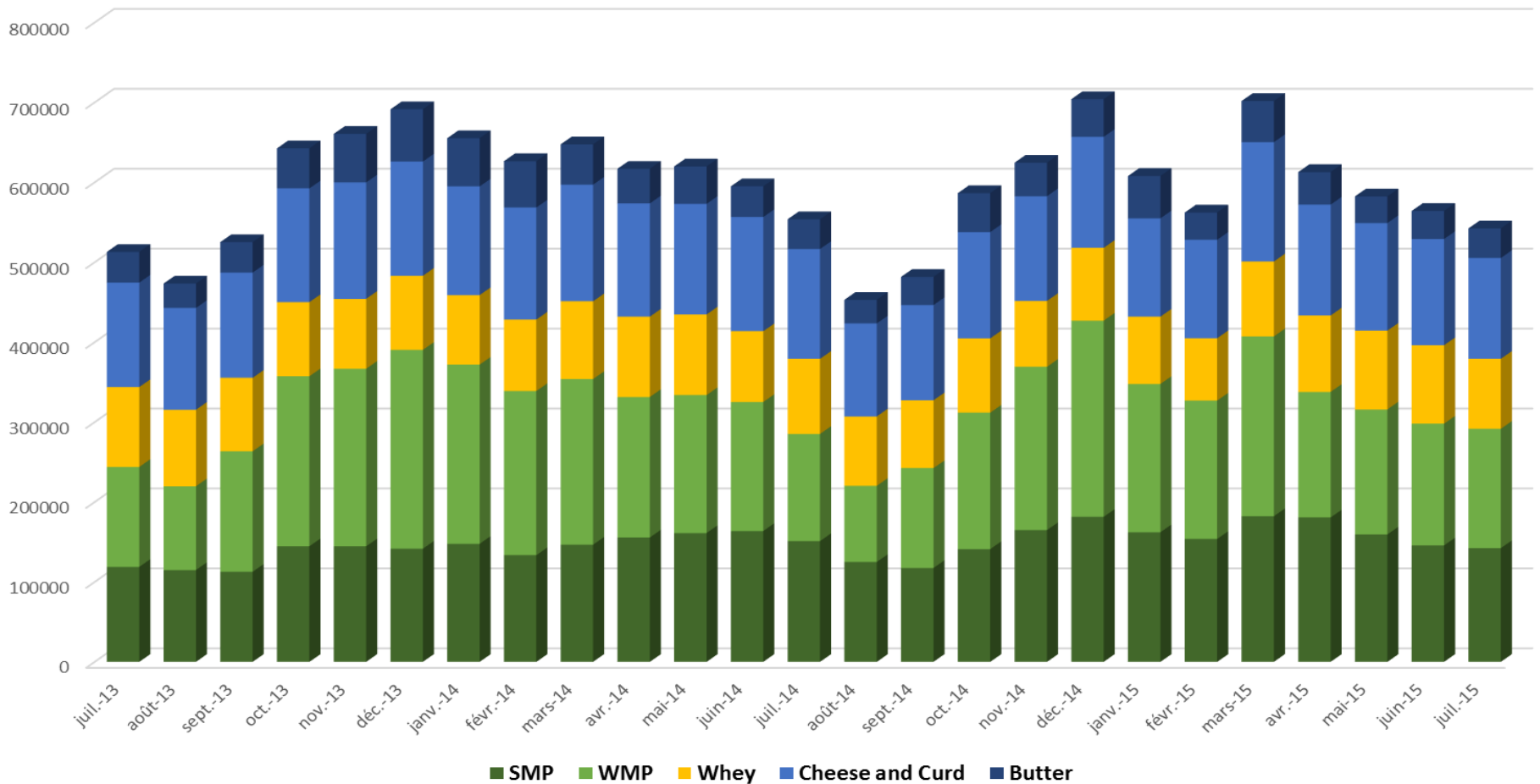
- EU – some slow-down of growth detectable?
- US production forecast for 2015 unchanged at +1,4% or 94,7 M tonnes; 2016 forecast lowered to +2%
- NZ: Fonterra forecast for the 2015/16 season at 1,589 million kgMS (-2 to -3%)
- Australia: forecast for 2015/16 season unchanged at + 2% (9,6-9,7 billion liters)



Global Exports



Monthly cumulated global exports
EU+USA+NZ+Aus+Arg+Uru
(tonnes)

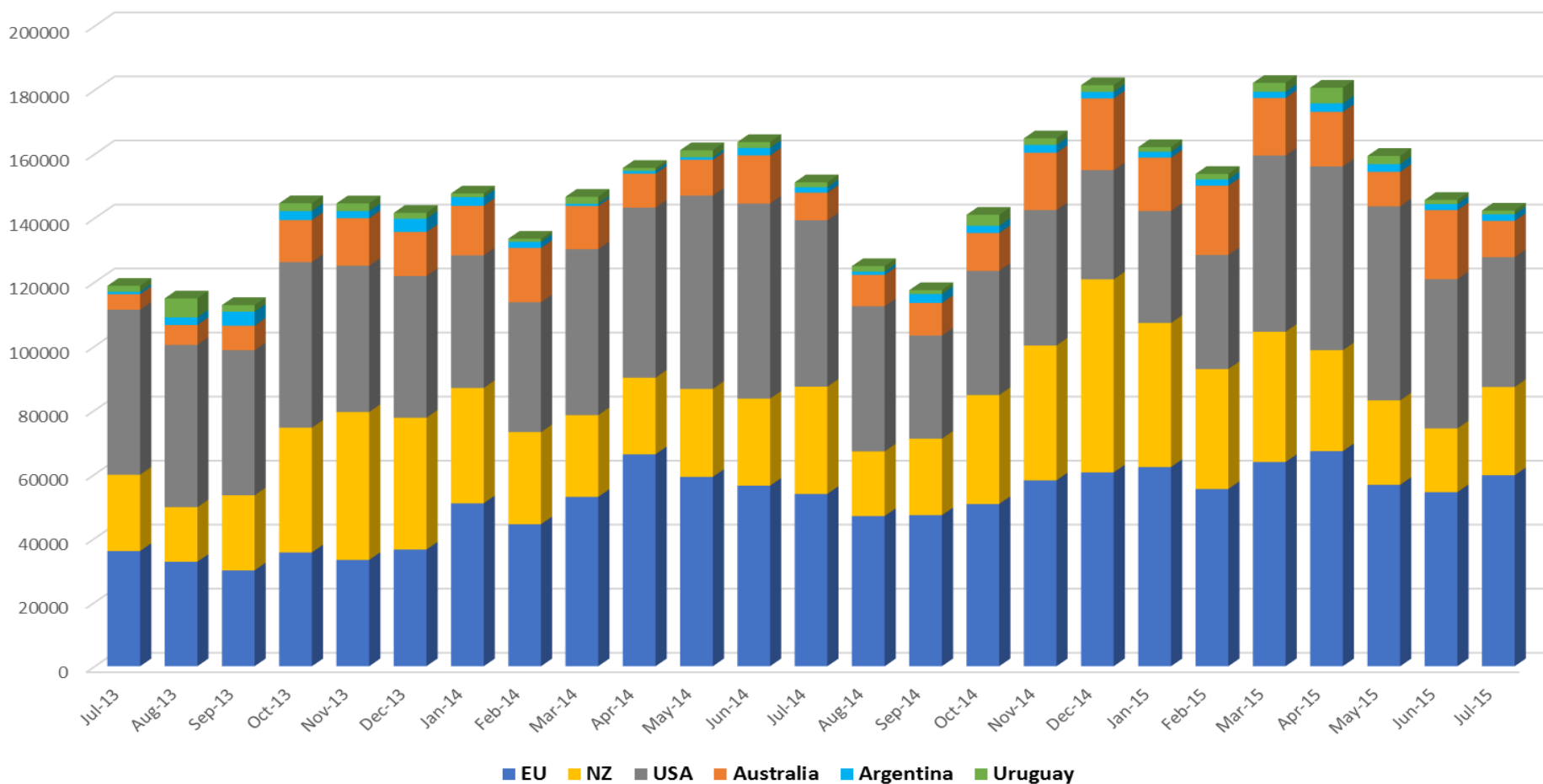




Global SMP Exports



Monthly cumulated SMP exports
EU+USA+NZ+Aus+Arg+Uru
(tonnes)

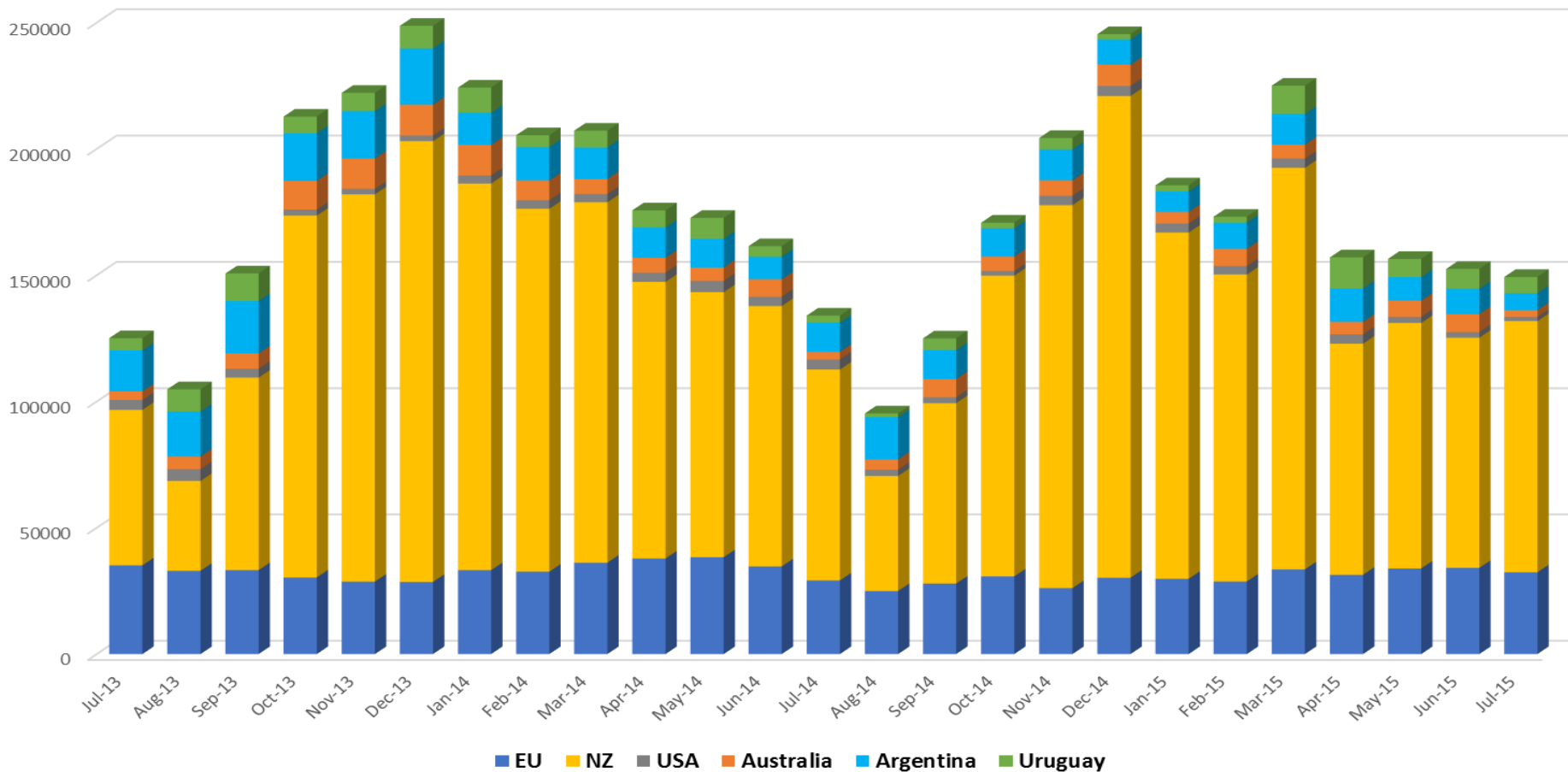




Global WMP Exports



Monthly cumulated WMP exports
EU+USA+NZ+Aus+Arg+Uru
(tonnes)

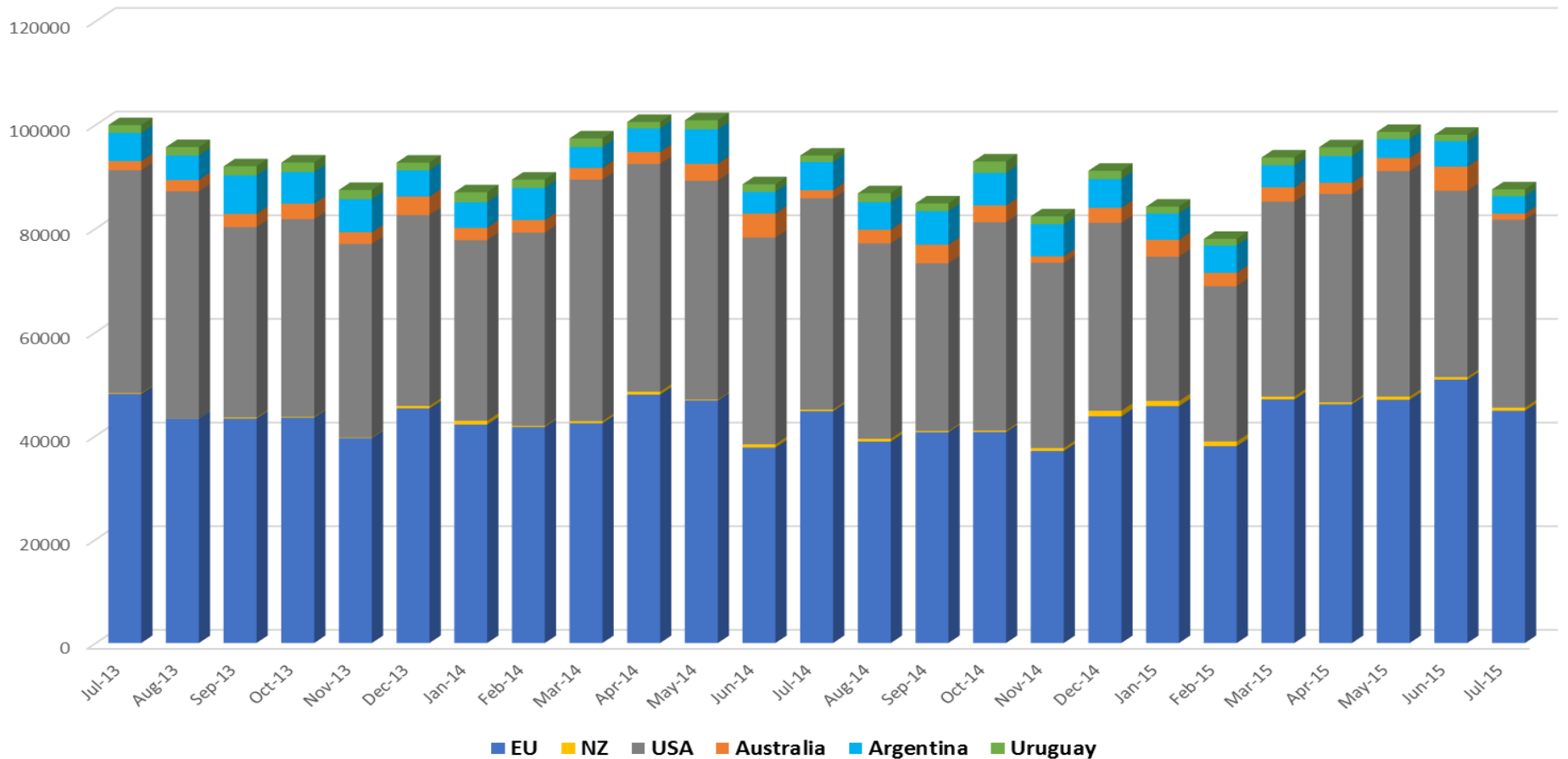




Global Whey Exports



Monthly cumulated Whey exports
EU+USA+NZ+Aus+Arg+Uru
(tonnes)

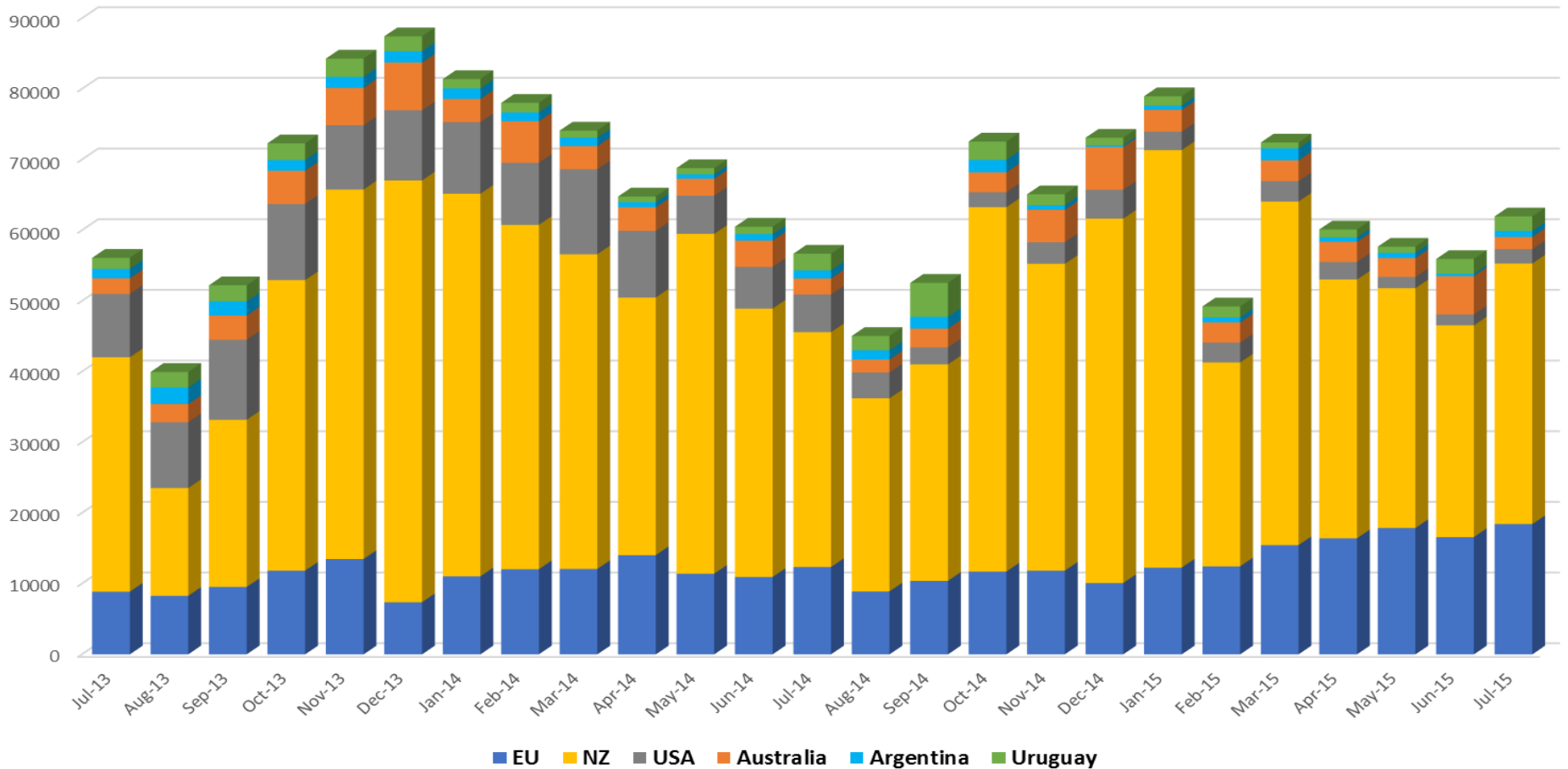




Global Butterfat Exports



Monthly cumulated Butter and Butteroil exports
EU+USA+NZ+Aus+Arg+Uru
(tonnes)

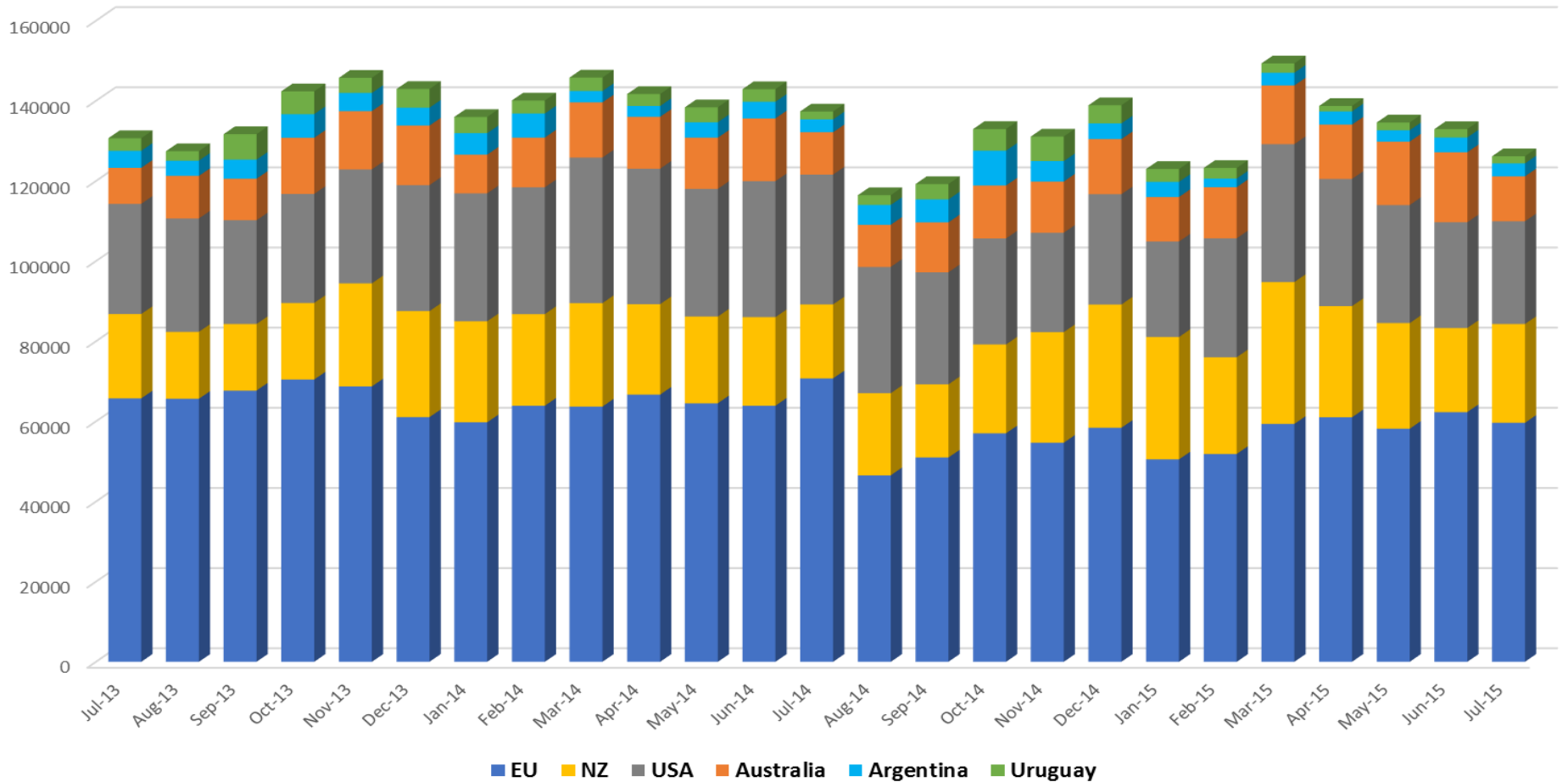




Cheese Exports



Monthly cumulated cheese exports
EU+USA+NZ+Aus+Arg+Uru
(tonnes)





Main markets for EU dairy products in H1 2015



EU SMP EXPORTS

Main destinations % of shares in quantities

Main destinations	% of shares in quantities
Algeria	15%
Egypt	10%
China	7%
Indonesia	6%
Thailand	5%
Philippines	4%
Vietnam	4%
Saudi Arabia	4%
Pakistan	4%
Malaysia	4%
RoW	37%

EU WMP EXPORTS

Main destinations % of shares in quantities

Main destinations	% of shares in quantities
Oman	17%
Algeria	11%
Nigeria	7%
Cuba	6%
Saudi Arabia	4%
Lebanon	4%
United Arab Emirates	4%
Kuwait	3%
Angola	3%
Dominican Republic	2%
RoW	39%

EU WHEY EXPORTS

Main destinations % of shares

Main destinations	% of shares
China	31%
Indonesia	15%
Malaysia	10%
Thailand	7%
Vietnam	4%
Pakistan	3%
Japan	3%
Singapore	2%
Philippines	2%
Korea South	2%
RoW	22%

EU BUTTER EXPORTS

Main destinations % of shares

Main destinations	% of shares
Saudi Arabia	13%
Egypt	12%
United States	10%
Singapore	7%
Morocco	4%
Turkey	4%
United Arab Emirates	4%
China	4%
Taiwan	3%
Uzbekistan	3%
RoW	36%

EU CHEESE EXPORTS

Main destinations % of shares

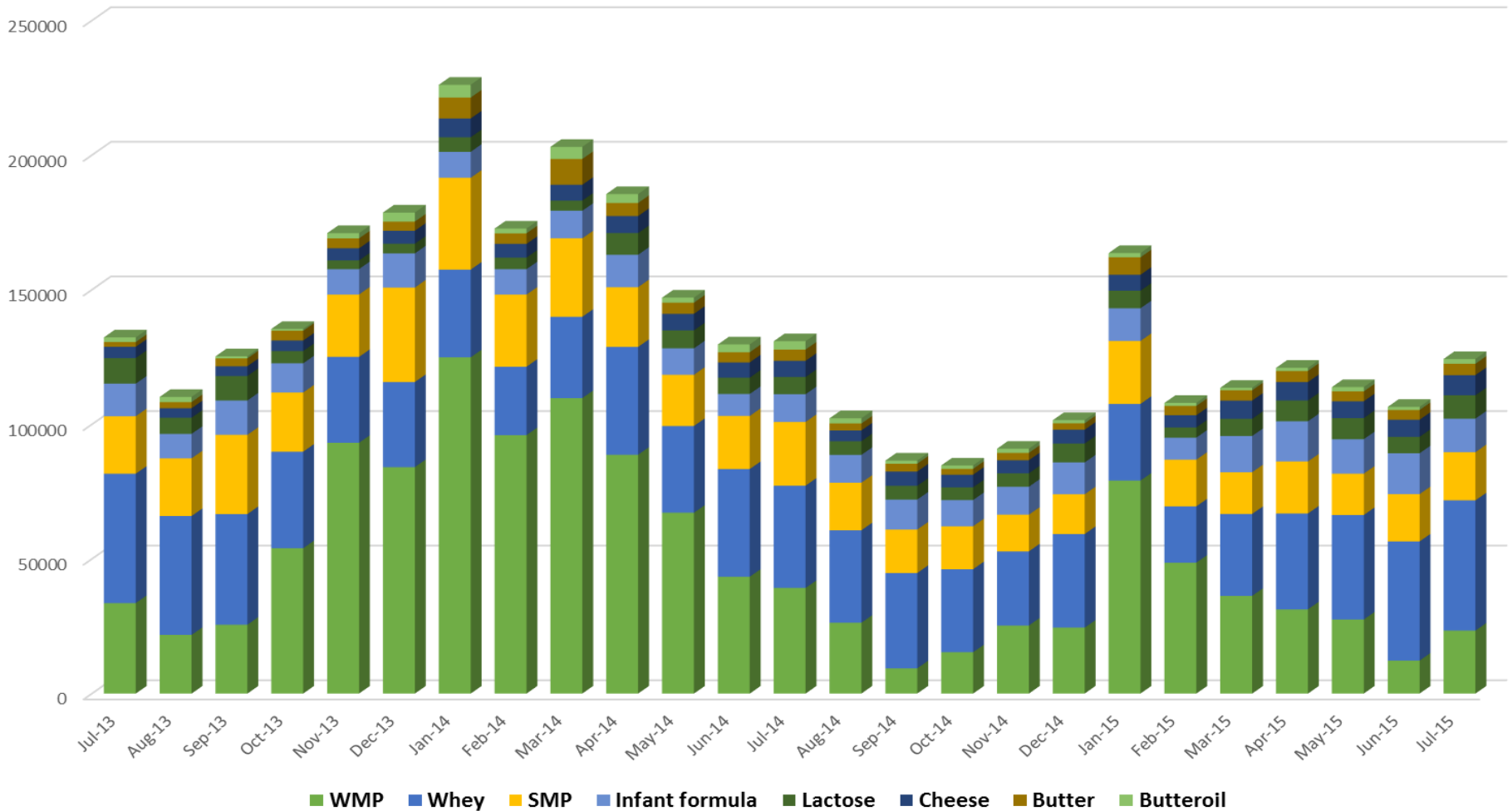
Main destinations	% of shares
United States	19%
Japan	10%
Switzerland	8%
Saudi Arabia	5%
Korea South	5%
Algeria	3%
Egypt	3%
Australia	3%
Libya	3%
United Arab Emirates	2%
RoW	39%



China Imports



CHINA MONTHLY CUMULATED GLOBAL IMPORTS
(tonnes)

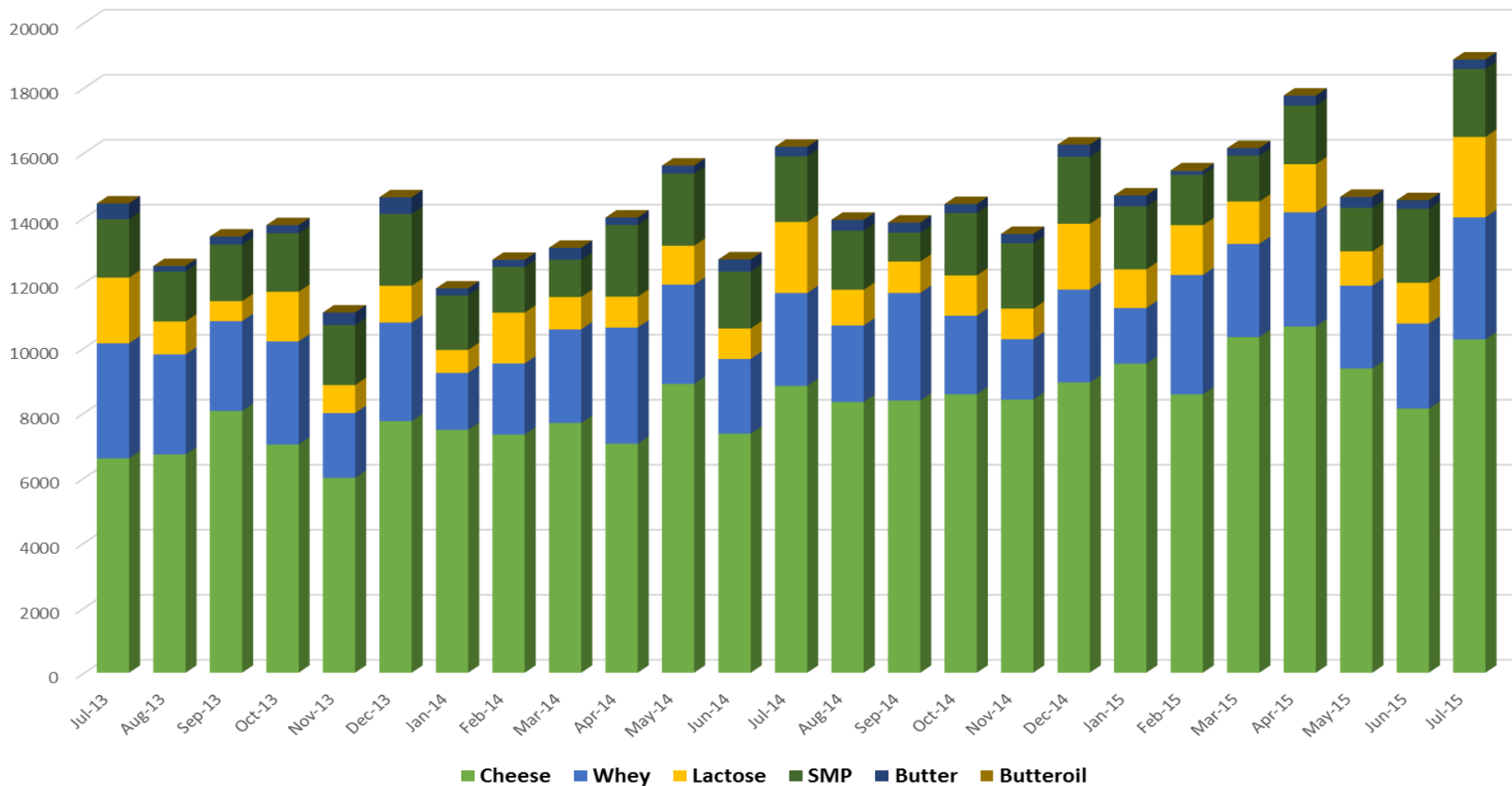




South Korea imports



SOUTH KOREA MONTHLY CUMULATED IMPORTS
(tonnes)

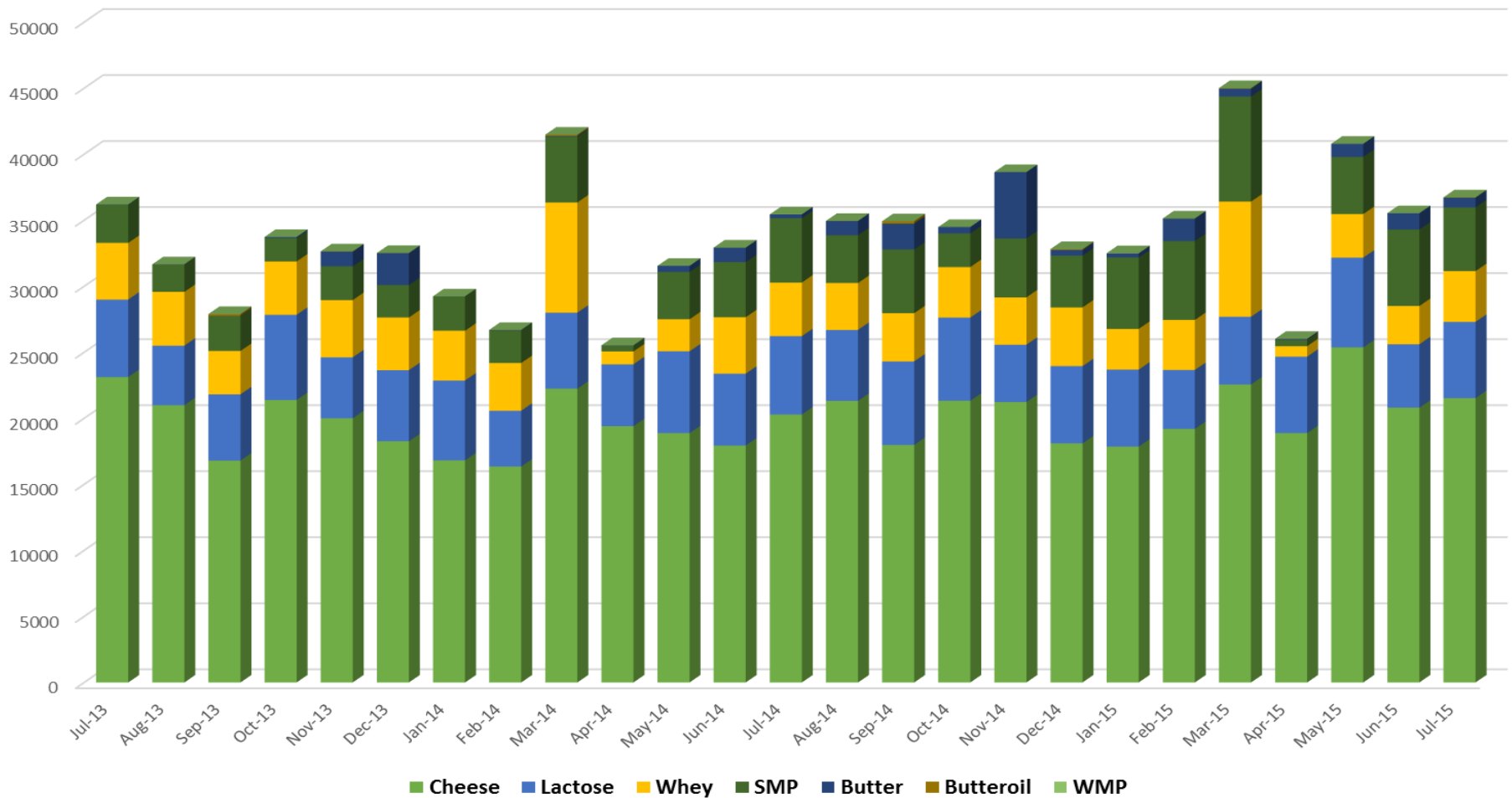




Japan imports



JAPAN MONTHLY CUMULATED IMPORTS
(tonnes)

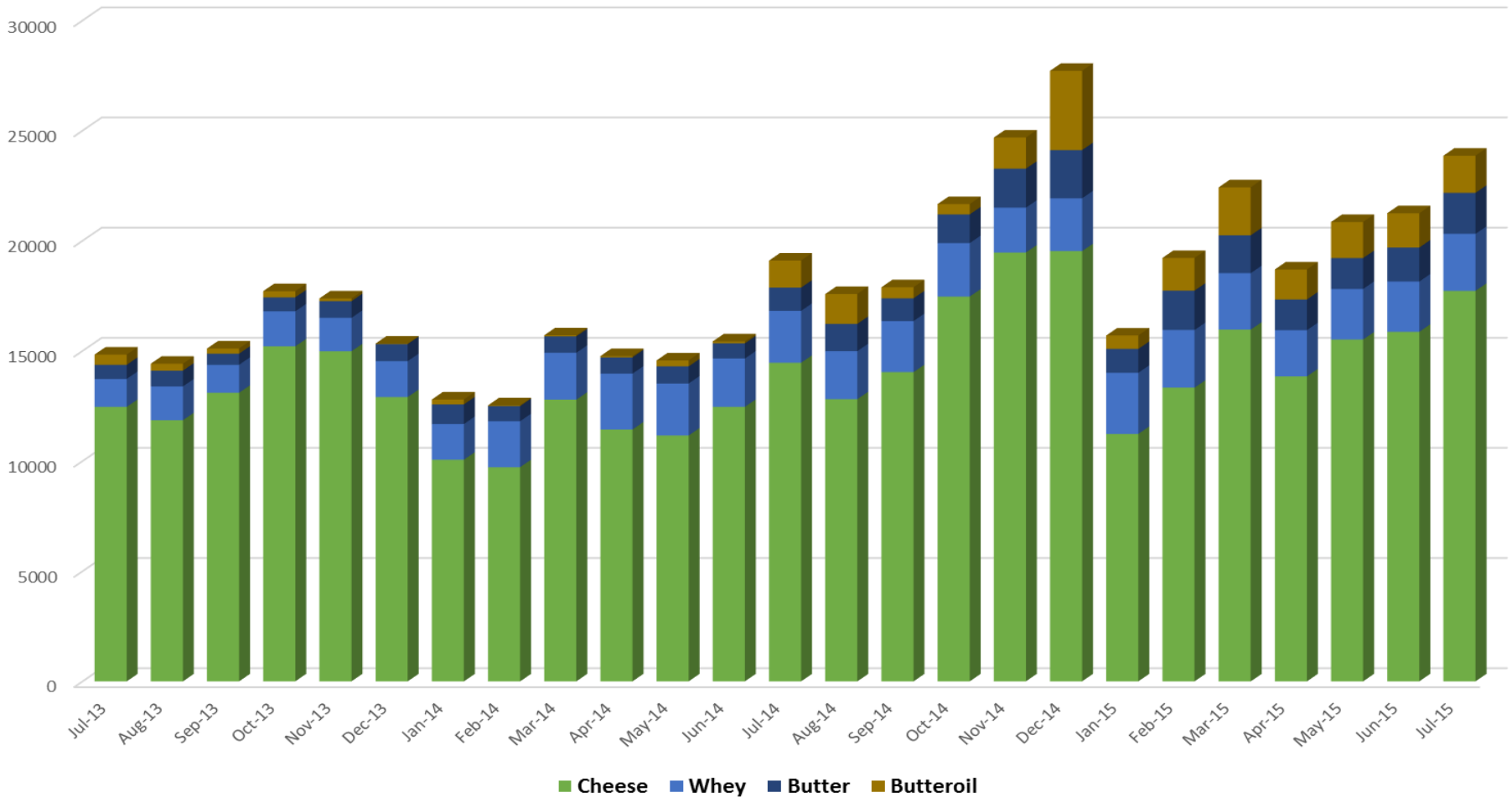




US Imports



USA MONTHLY CUMULATED IMPORTS
(tonnes)

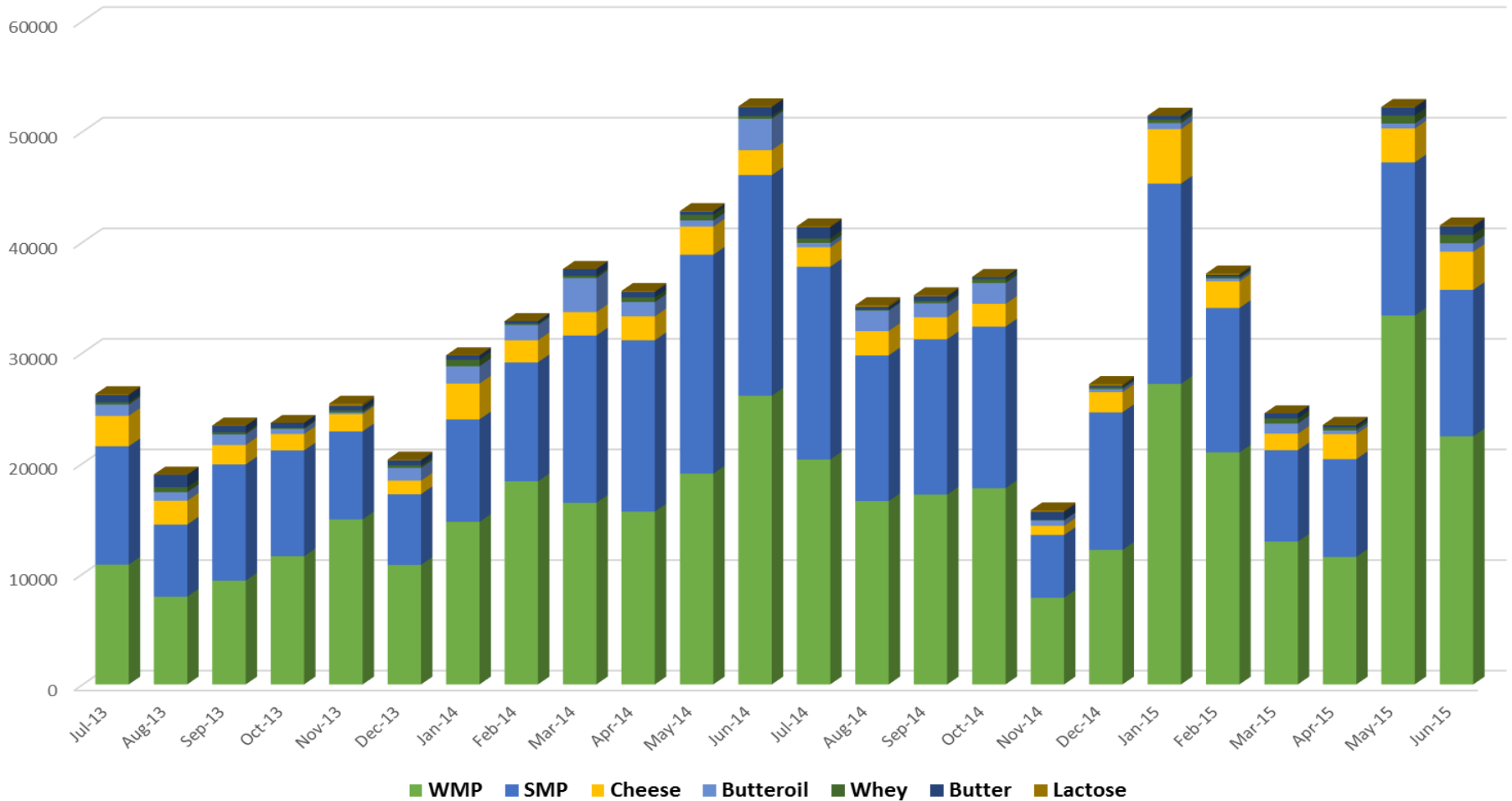




Algeria Imports



ALGERIA MONTHLY CUMULATED GLOBAL IMPORTS
(tonnes)





Conclusions



- Sentiment has somewhat improved although the supply/demand imbalance persists
- China imports return to more normal volumes, no significant increases expected
- Concerns about demand in emerging markets (Middle East, Africa)
- US demand and relative absence on the world market continues to help Europe
- It appears the bottom has been reached but no immediate recovery is in sight
- No change in the medium-long term fundamentals



Thank You

Sources used in presentation: GTIS, EU Commission, USDA, Dairy Australia, DCANZ, Fonterra, Clal, Inale

Eucolait

www.eucolait.eu

info@eucolait.eu

ANNEX 4

Short-term forecasts Dairy

EUROPEAN COMMISSION



European
Commission



Short-term forecasts Dairy

MMO
23 Sept 2015

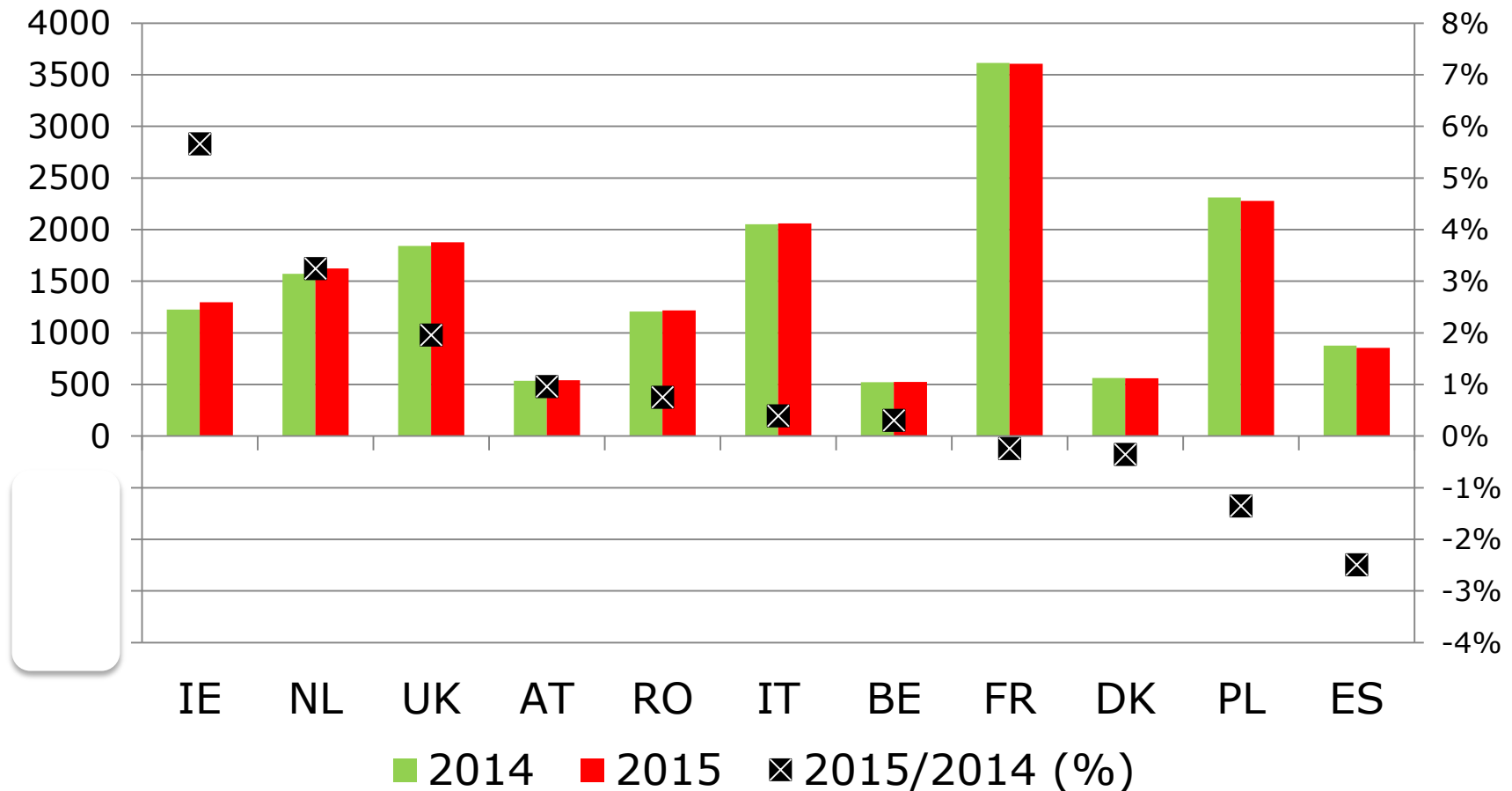
Sophie H elaine

*DG Agriculture and Rural Development
European Commission*

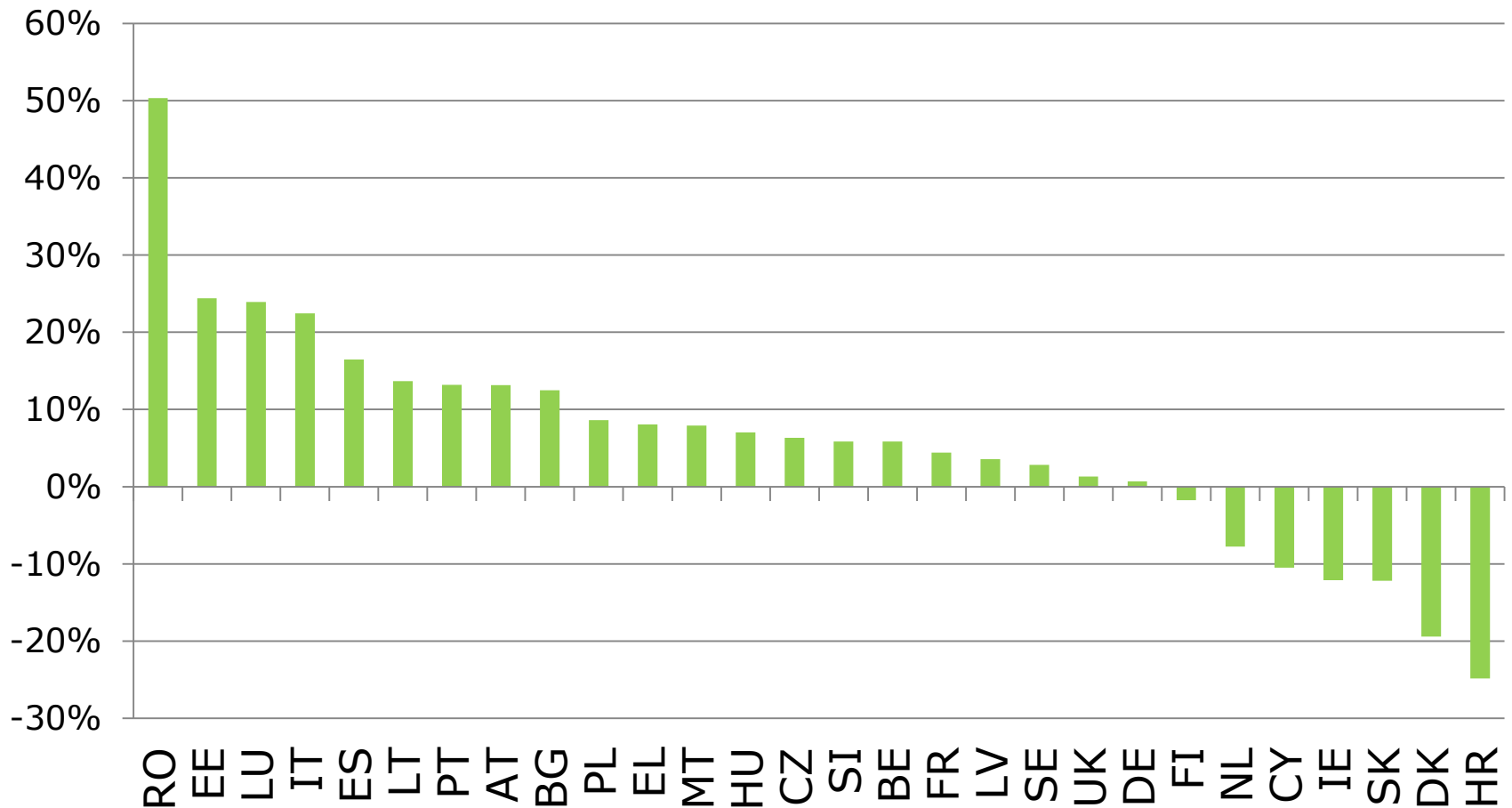
Outline

- Number of dairy cows
- Cow slaughterings
- Deliveries
- Product use, trade and stocks

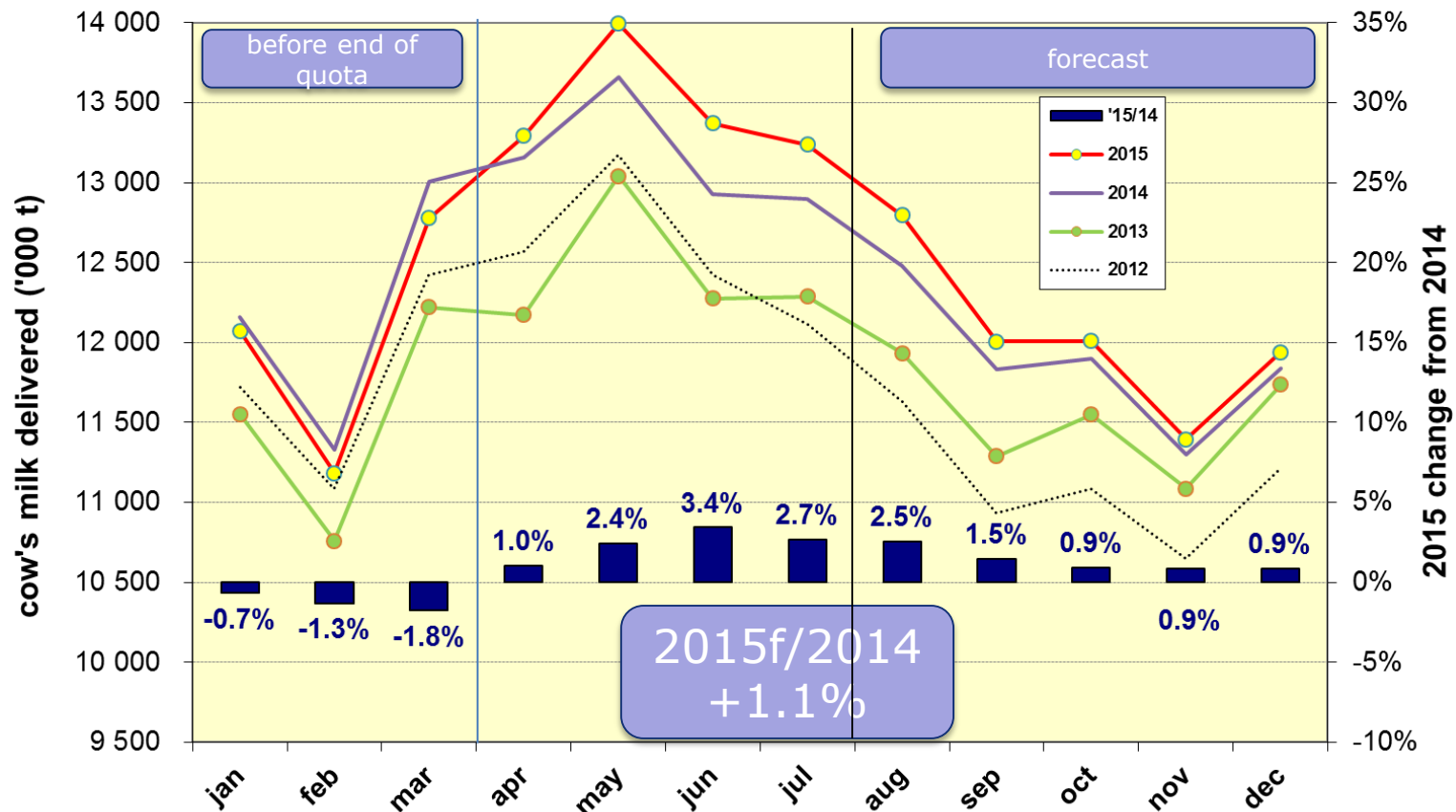
Number of dairy cows (1000 heads) May/June survey



Change in (beef and dairy) cow slaughterings Jan-June 2015/2014

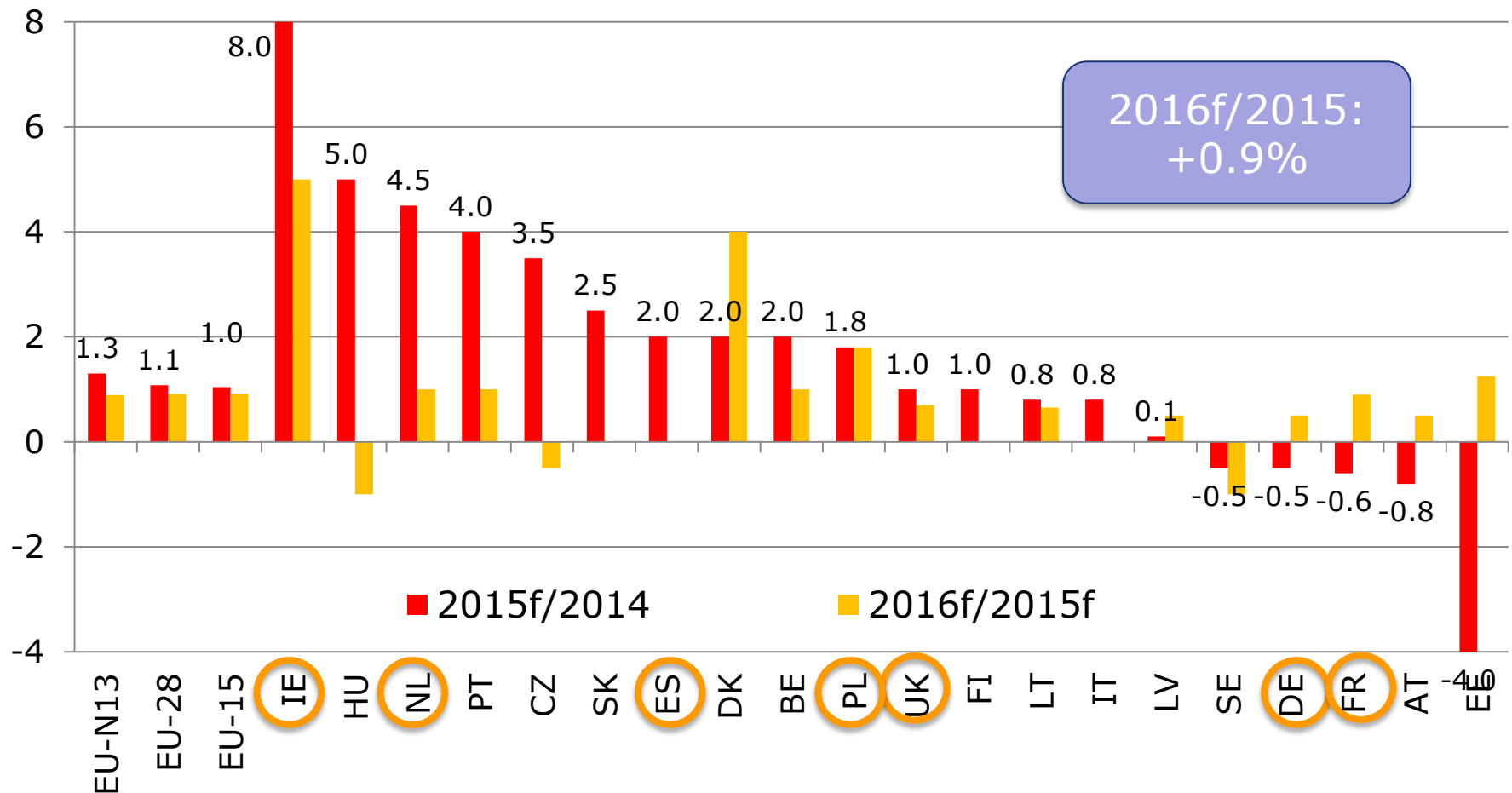


An expected slow down in EU milk deliveries growth in the coming months



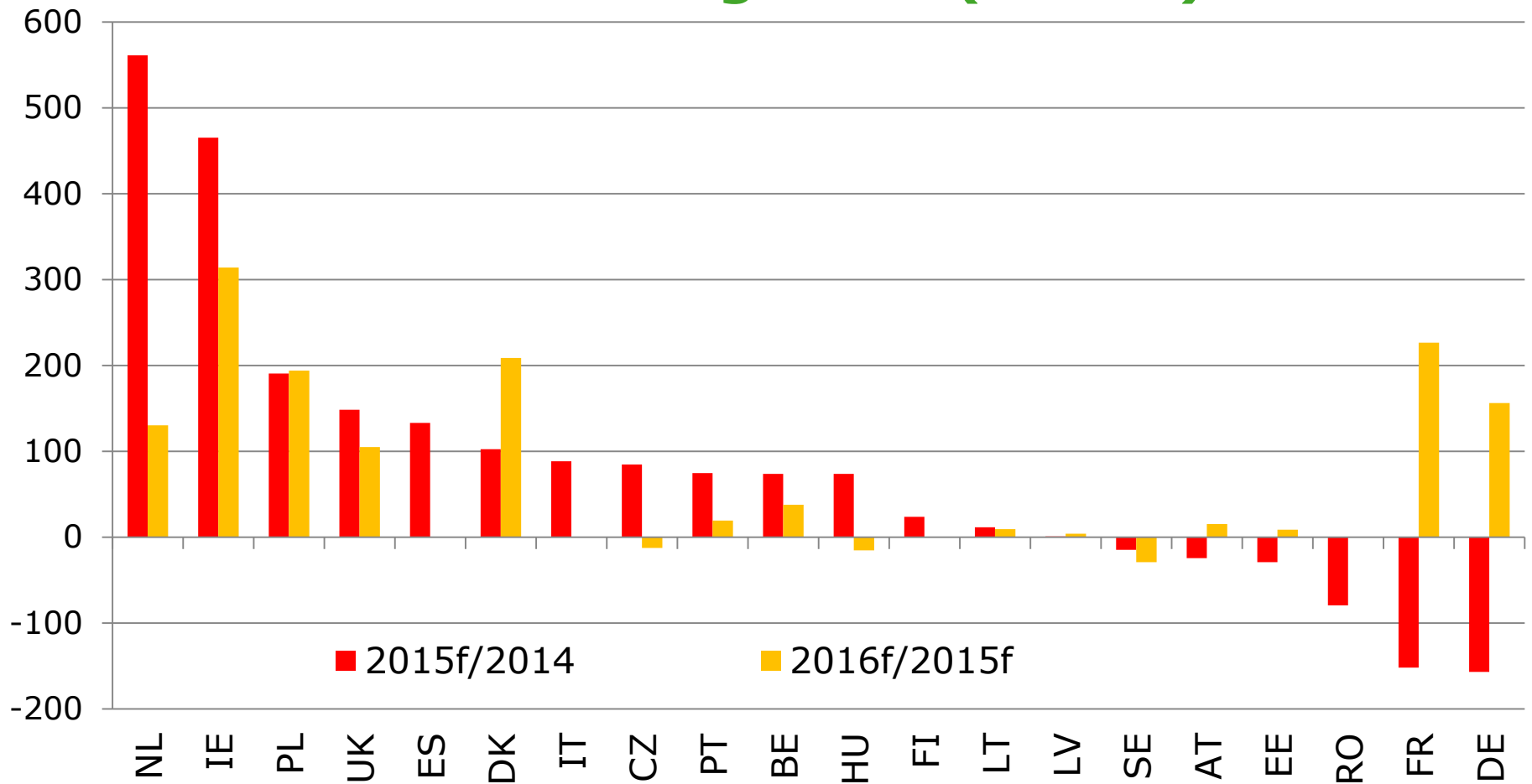
Source: DG Agriculture and Rural Development, forecasts
 DE: based on ZMB data (not accounting for foreign milk), ES: MS notifications, IT: Assolatte

Different MS profiles for milk deliveries annual growth (%)

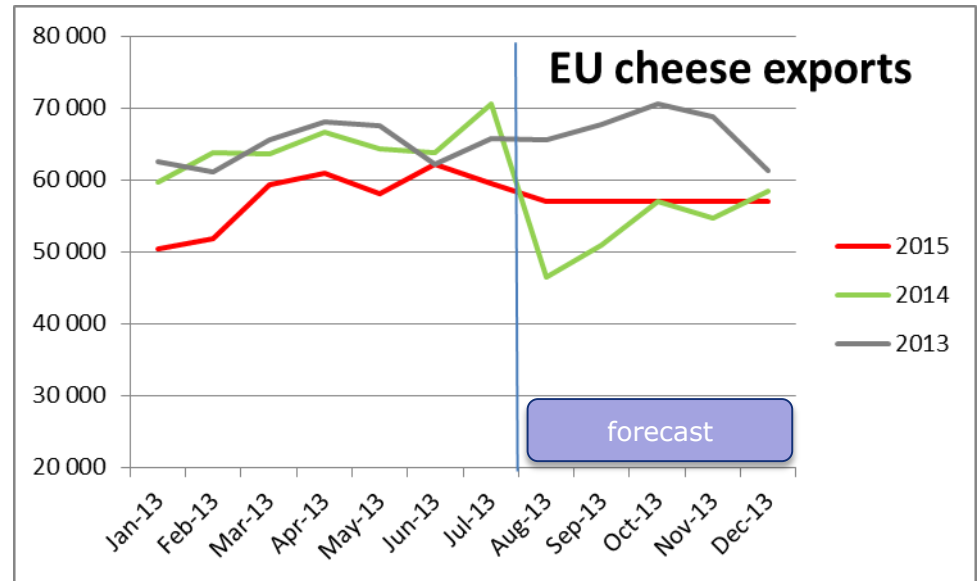
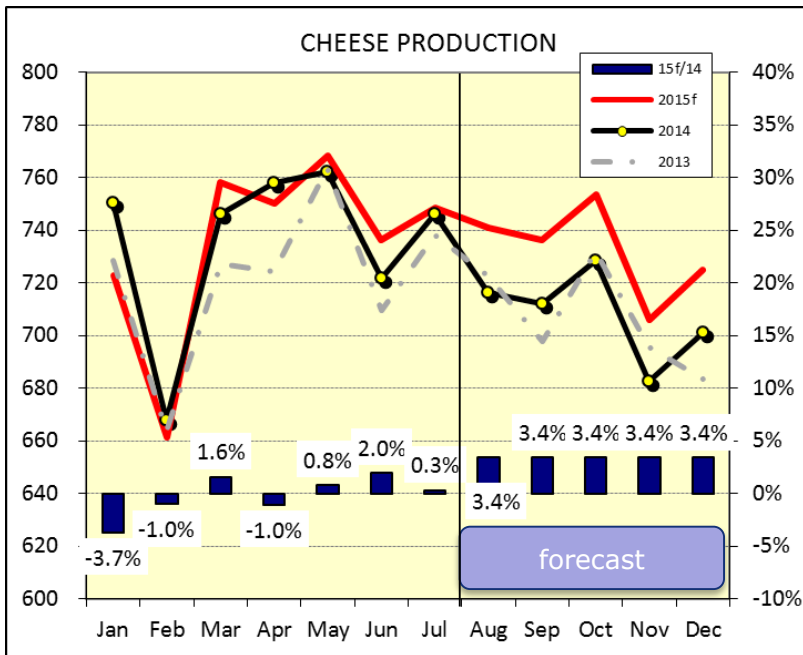


Source: DG Agriculture and Rural Development, forecasts

Milk deliveries annual growth (1000 t)

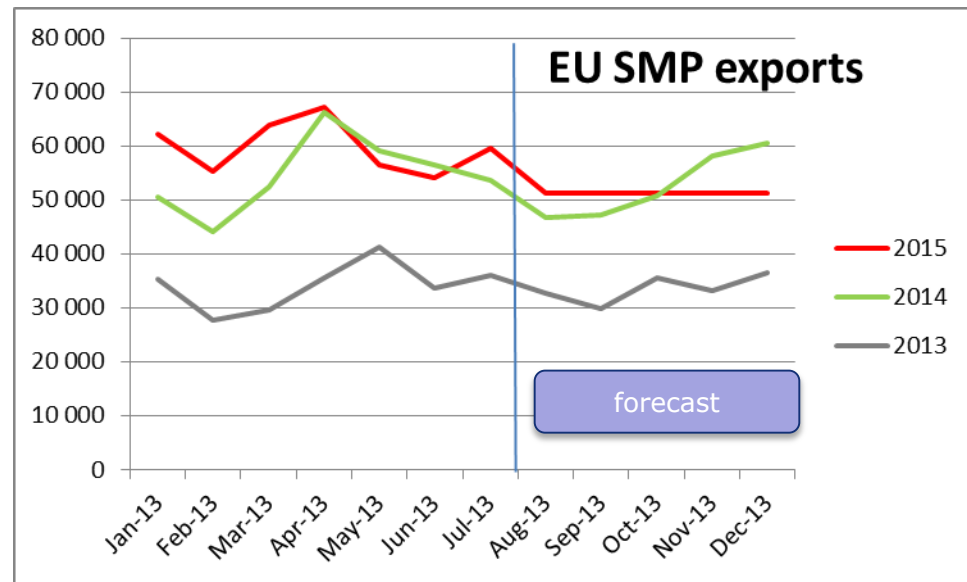
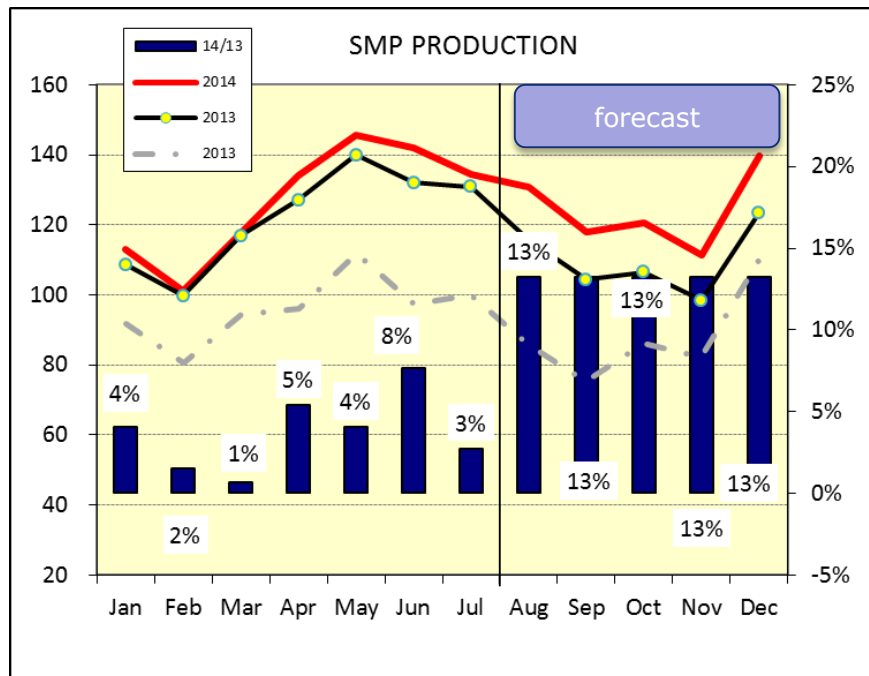


Use of milk: Cheese



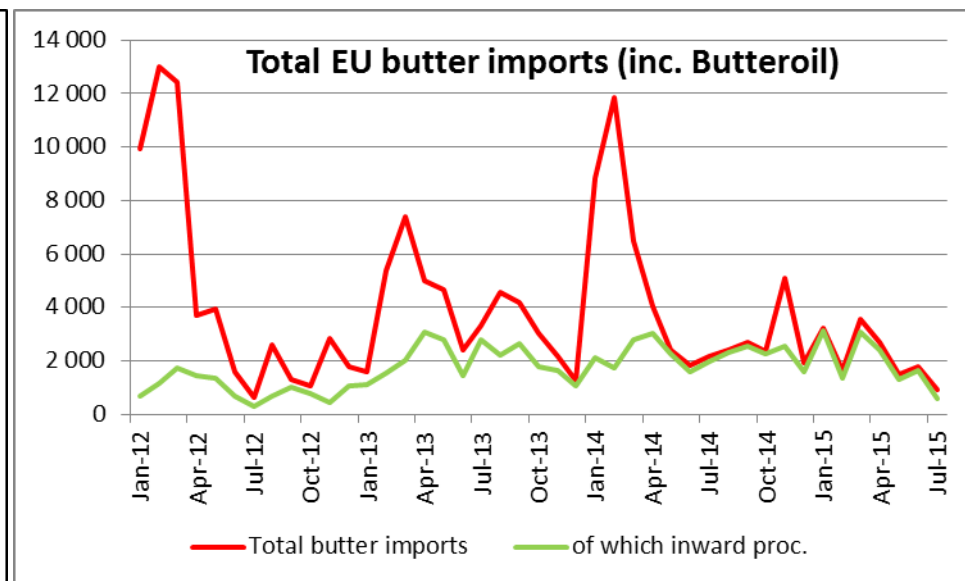
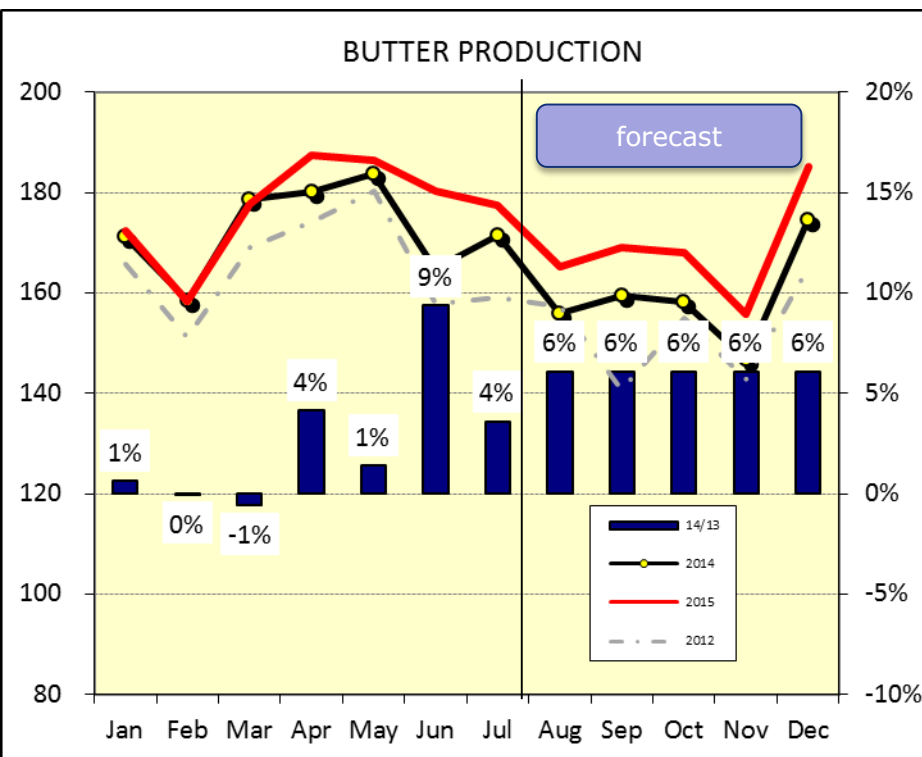
2015f (/2014):
 Prod. 9.69 Mt (+1.3%)
 Exp. 690 000 t (-4.5%)
 Per cap. cons 19.1 kg/cap (+1.1%)
 Stocks change: + 30 000 t

Use of milk: SMP



2015f (/2014):
 Prod. 1.5 Mt (+7.5%)
 Exp. 675 000 t (+4.5%)
 Stocks:
 Private stocks: +25 000 t
 Intervention: + 55 000 t

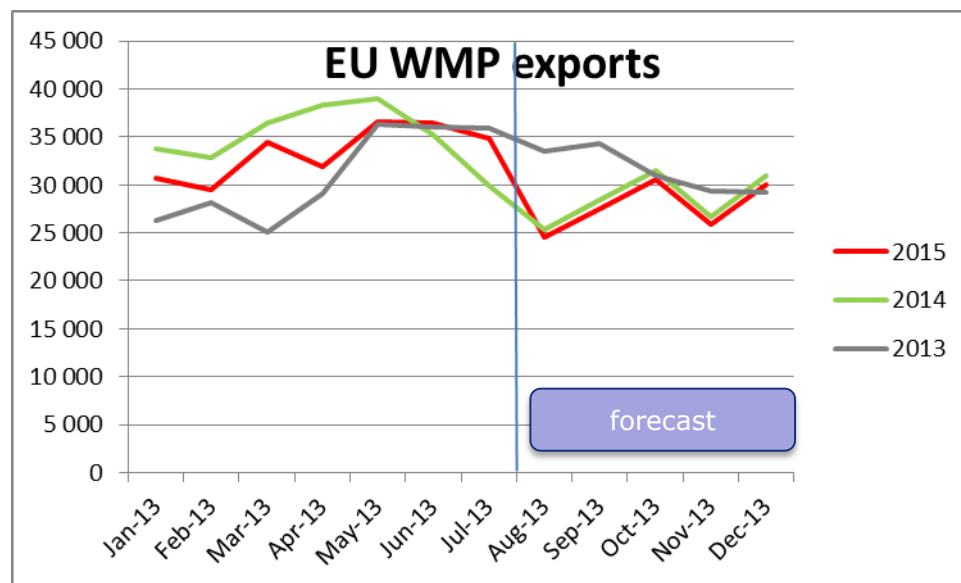
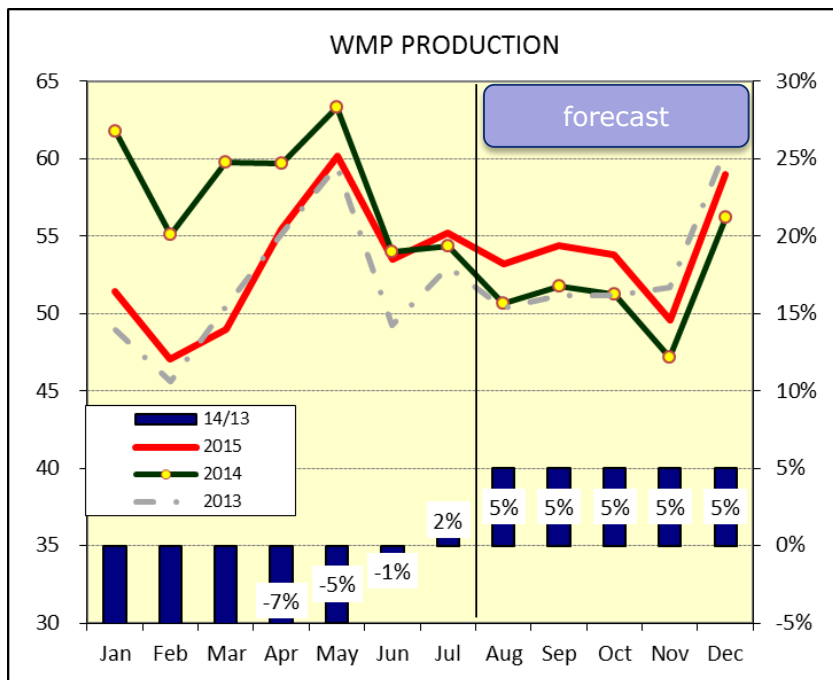
Use of milk: Butter



2015f (/2014):
 Prod. 2.32 Mt (+4%)
 Exp. 150 000 t (+12%)
 Per cap. cons: 4.3 kg/cap (+3.4%)
 Private stocks: +5 000 t

Source: DG Agriculture and Rural Development, draft forecasts

Use of milk: WMP



2015f (/2014):
 Prod. 740 000 t (-3.5%)
 Exp. 370 000 t (-4%)