Last update : 28.03.2017

MMO Economic Board

Meeting of 28 March 2017

- The 20th meeting of the MMO Economic Board took place on 28 March 2017, with the participation of experts from the various steps in the milk supply chain: CEJA (young farmers), COPA-COGECA (producers and cooperatives), ECVC (Via Campesina), EMB (European Milk Board), EDA (dairy industry), Eucolait (dairy trade) and Eurocommerce (retail). Presentations and information exchanged during the meeting showed the following.
- EU milk collection increased by 0.4% in 2016 (0.5 mio t, compared to 3.7 mio t in 2015 and 6.5 mio t in 2014). Contraction in milk deliveries continued in January 2017 by 2.4%. Provisional figures for February confirm the trend, with vast decreases in main producing Member States.
- Average EU farm gate milk prices reached 33.4 c/kg in January 2017. Estimates for February point to a further increase cumulating some 31% rise since July, up to a level equivalent to the 5-year average.
- EU dairy product prices are generally in a downward trend since the beginning of the year, but still maintain levels well above one year ago (+76% for wheypowder, + 57% for butter, +41% for WMP, +11% for SMP and +30/40% for cheeses). Prices in Oceania have converged with those in the EU and the US, following several weeks being overvalued specially for milk powders and cheese. The EU is fairly competitive for butter and cheese, but for SMP the US are 11% cheaper.
- Neither sales from public intervention nor offers for buying-in have been recorded so far this year for SMP. With no PSA schemes in operation, SMP, butter and cheese volumes benefiting from PSA continue to decrease.
- The assessment of EU stock levels based on a residual approach (production + imports – consumption - exports) reveals a slight rebuilding of private stocks for SMP. In view of the seasonal production ramp-up, offers to public intervention are expected in the coming weeks. Butter stocks remain at historical low levels, with shortage exacerbating in the second half of the year. Butter prices are therefore expected to stay firm. Low stock levels for cheese, coupled with strong domestic consumption and exports, should push prices upwards especially after the spring flush.
- World milk production closed 2016 with a slight decrease (-0.05%). Following a significant drop in Q4 2016 mainly driven by the EU, developments in the last months lead to a new equilibrium (despite US production in continuous expansion and NZ picking up). Combined growth in January 2017 reached -1.17%. US herd and yield per cow continue to grow; production could increase by 2.4% in 2017. NZ is expected to end the season with negative growth, but at a -1%/-2% rate (compared to the earlier forecasted -7%). Strong production declines are reported in Australia, Argentina and China.
- Global imports have been rather sluggish in recent months. Despite weaker demand for SMP in the Middle East and Asia, US and NZ exports have generally expanded, to the detriment of the EU. Butter trade has decreased in recent months due to high prices but demand is still strong, with consumption in the US reaching a 50-year peak. Global demand for cheese is also healthy, with the EU improving its position in main markets (US, Japan, South Korea) and good prospect with the entry into force of the CETA agreement. EU wheypowder exports increased in 2016 by 3% and the trend continues early 2017; the US nevertheless became the main world exporter last year. Exports of milk and cream from the EU raised by 26% last year, with bigger competition from Oceania, especially in China where NZ is gaining market share.
- After a rather weak start in January 2017, China imports improved in February for all product categories except for butterfat. Analysts project an overall increase of dairy imports in China this year. Demand in the US remains strong, although cheese consumption has decreased slightly in recent weeks and stocks have built up. Following a steady increase in cheese imports, Japan became the second export market for the EU in 2016. A new feature is that some 20% of Japanese imports of SMP and wheypowder originate in Turkey. Mexico continues expanding SMP imports, to the benefit of the US; EU exports of cheese, caseinates and infant formula are increasing.
- With regard to EU retail sales, liquid milk consumption is generally declining in volume (although higher prices are pushing value up). Demand for butter, cheese and other value-added products (milk shakes, desserts) is steadily increasing both in volume and value. Sales of organic dairy products increase at double digit rate in France, reaching a 7,3% market share for liquid milk. Increased competition is reported in the UK from substitute products based on vegetable protein.
- Cow slaughtering in the EU increased by 7% in 2016, but the number of dairy cows was still high in December (only -0.4% compared to 2015) with many farmers replacing cows with more productive heifers. In view of the herd situation and other market factors, a 0.6% increase in EU milk collection can be expected in 2017 with most of it taking place in the second half of the year.
- The functioning of futures markets was discussed as one of the tools that can help the dairy sector cope with price volatility. Complexity and lack of knowledge were mentioned among the obstacles to its development in the EU, although growing interest has been observed in recent months especially for SMP contracts. Details are available in the market brief published in March by the Commission.
- The market is characterized by an unprecedented price gap between fat and protein. Market sentiment is negatively impacted by SMP price developments, despite its limited weight in EU production (less than 10%). Global market balance appears uncertain with production picking up in the US and NZ, and a rather modest demand expansion.

ANNEX 1

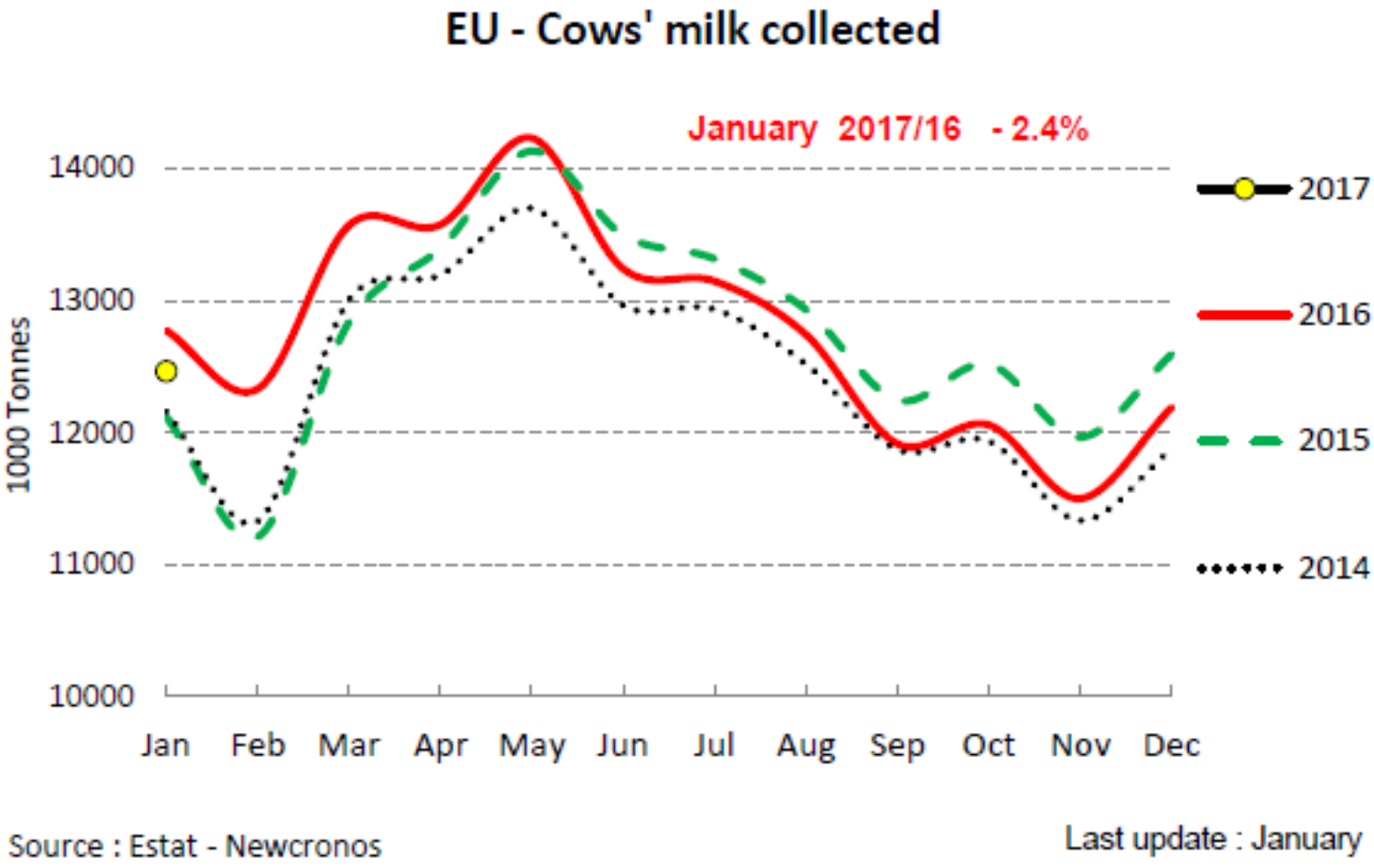
Milk Market Situation

European Commission

Milk Market Situation

Brussels, 28 March 2017

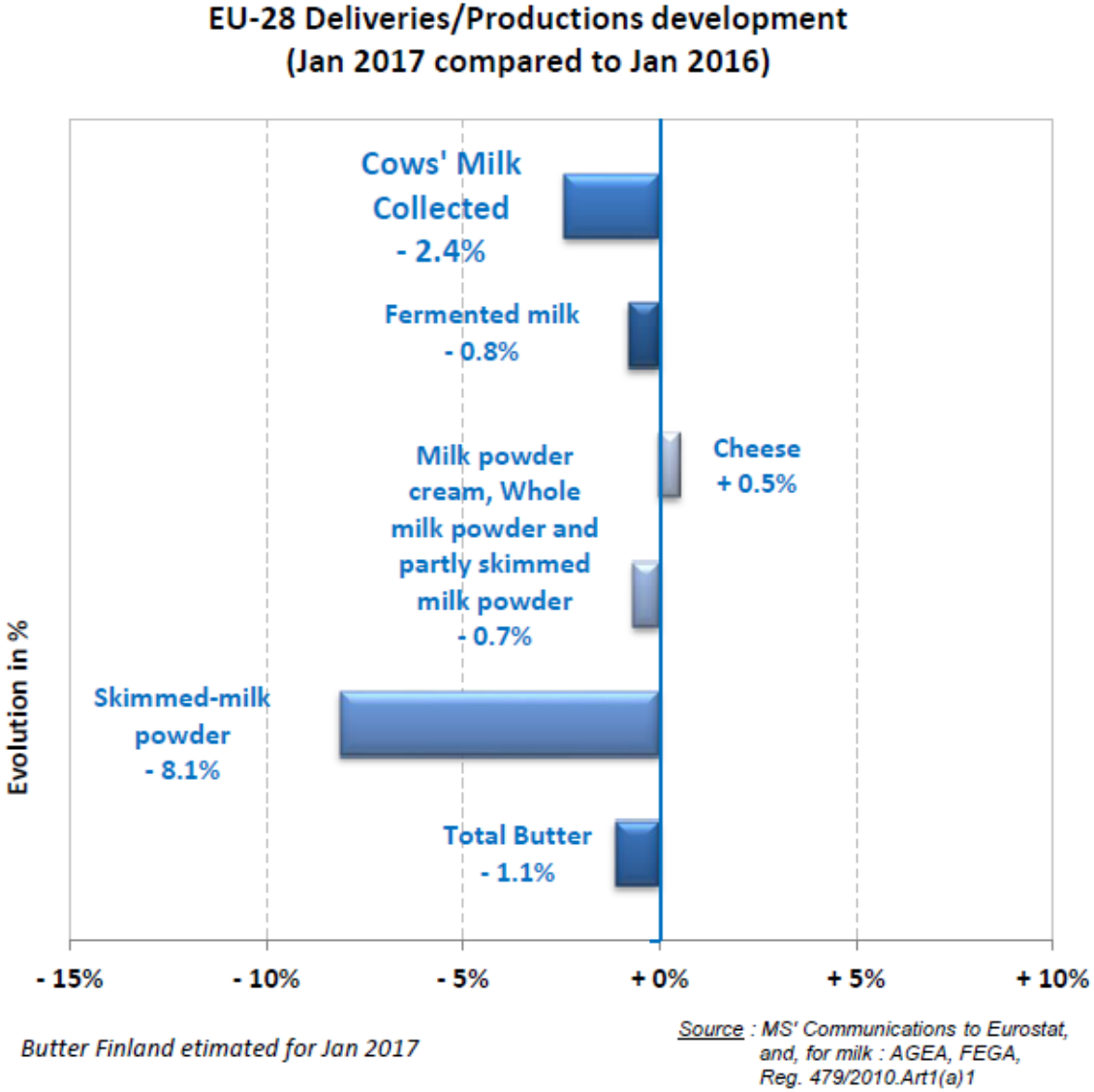
EU Milk deliveries



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

28/03/2017

EU Productions



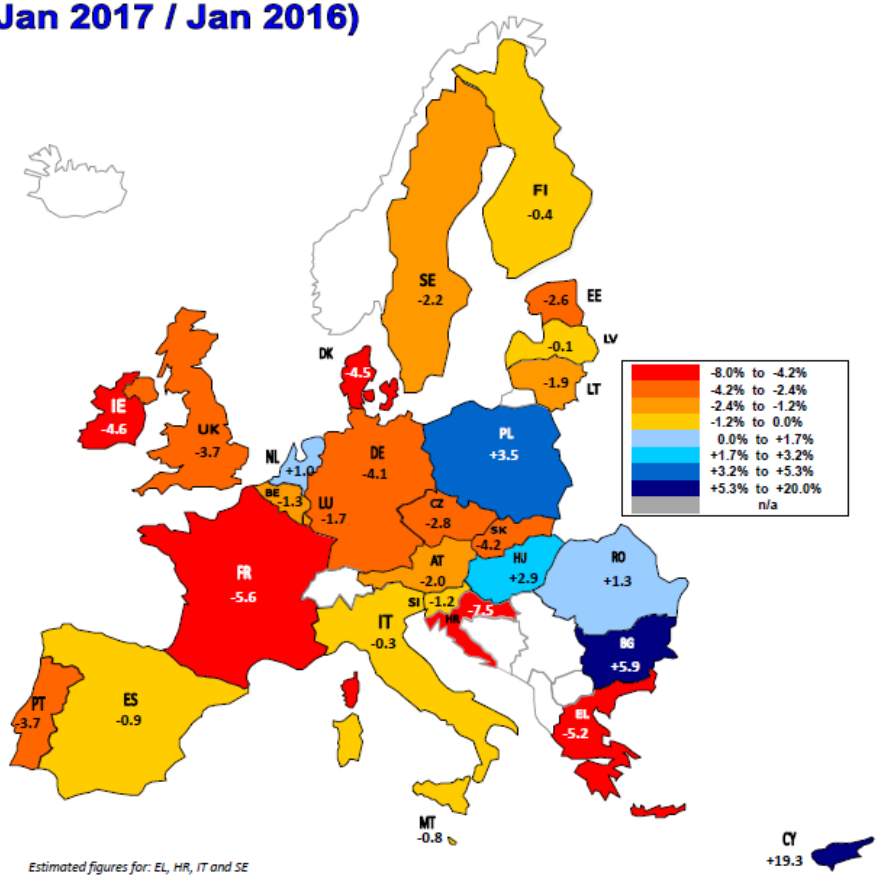
!!! Data from some Member States are confidential and are NOT included in this table !!!

EU Milk deliveries

European Commission

EU Milk Deliveries compared to last period (in %)

(Jan 2017 / Jan 2016)



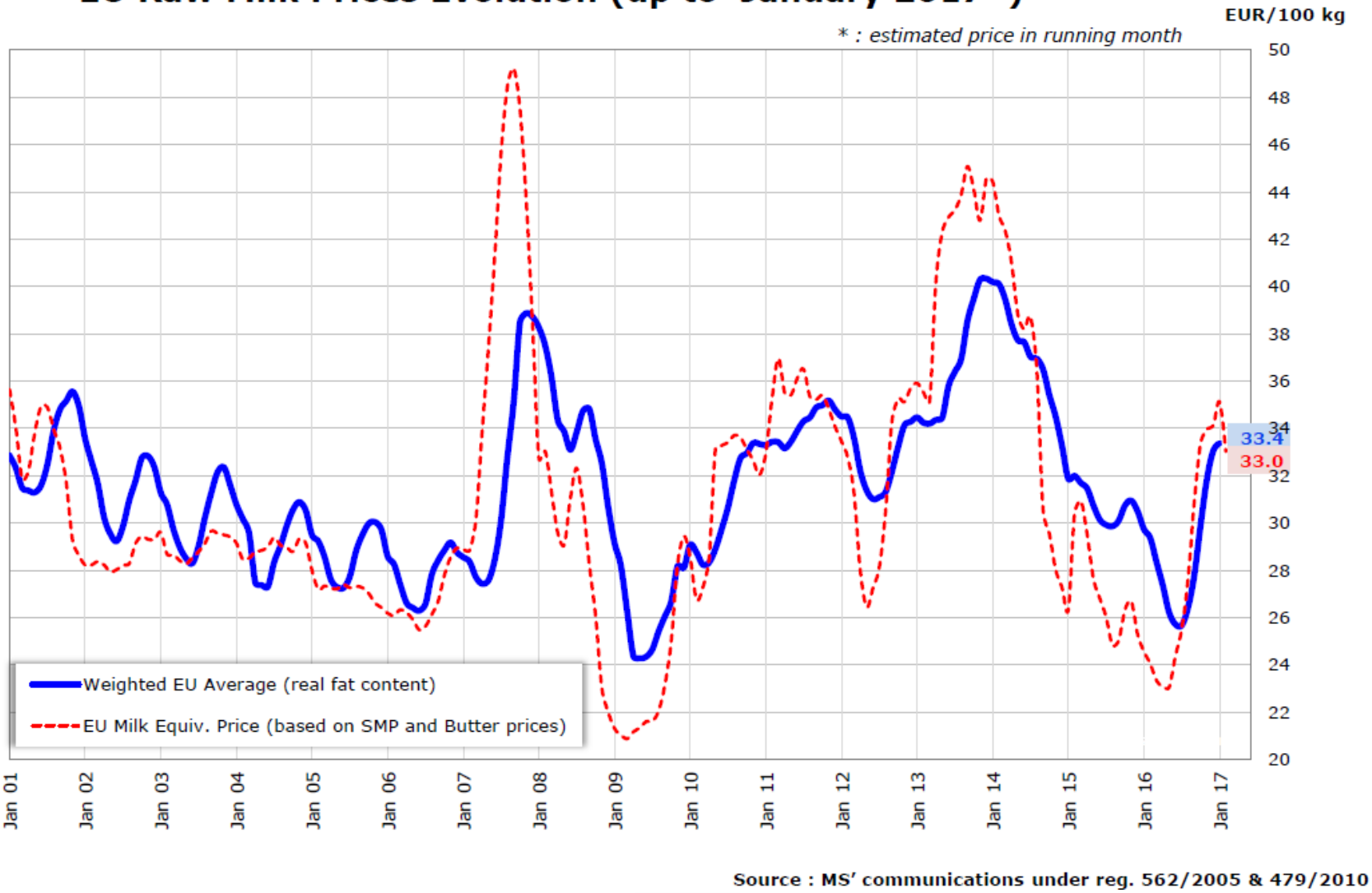
Source : MS' Communications to Eurostat, FEGA, AGEA, Reg.479/2010.1(a)1

28/03/2017

Jan 17 compared to Jan 16				
	evolution in %		evolution in 1000 Tons	
Rank	MS	%	MS	Tons
1.	CY	+ 19,3%	PL	+ 32
2.	BG	+ 5,9%	NL	+ 13
3.	PL	+ 3,5%	HU	+ 4
4.	HU	+ 2,9%	CY	+ 3
5.	RO	+ 1,3%	BG	+ 2
6.	NL	+ 1,0%	RO	+ 1
7.	LV	- 0,1%	MT	- 0
8.	IT	- 0,3%	LV	- 0
9.	FI	- 0,4%	LU	- 1
10.	MT	- 0,8%	SI	- 1
11.	ES	- 0,9%	FI	- 1
12.	SI	- 1,2%	EE	- 2
13.	BE	- 1,3%	LT	- 2
14.	LU	- 1,7%	IT	- 3
15.	LT	- 1,9%	EL	- 3
16.	AT	- 2,0%	SK	- 3
17.	SE	- 2,2%	HR	- 3
18.	EE	- 2,6%	BE	- 4
19.	CZ	- 2,8%	ES	- 5
20.	PT	- 3,7%	AT	- 5
21.	UK	- 3,7%	SE	- 6
22.	DE	- 4,1%	PT	- 6
23.	SK	- 4,2%	IE	- 7
24.	DK	- 4,5%	CZ	- 7
25.	IE	- 4,6%	DK	- 20
26.	EL	- 5,2%	UK	- 46
27.	FR	- 5,6%	DE	- 114
28.	HR	- 7,5%	FR	- 126
	EU28	- 2,4%	EU28	- 310

European Commission

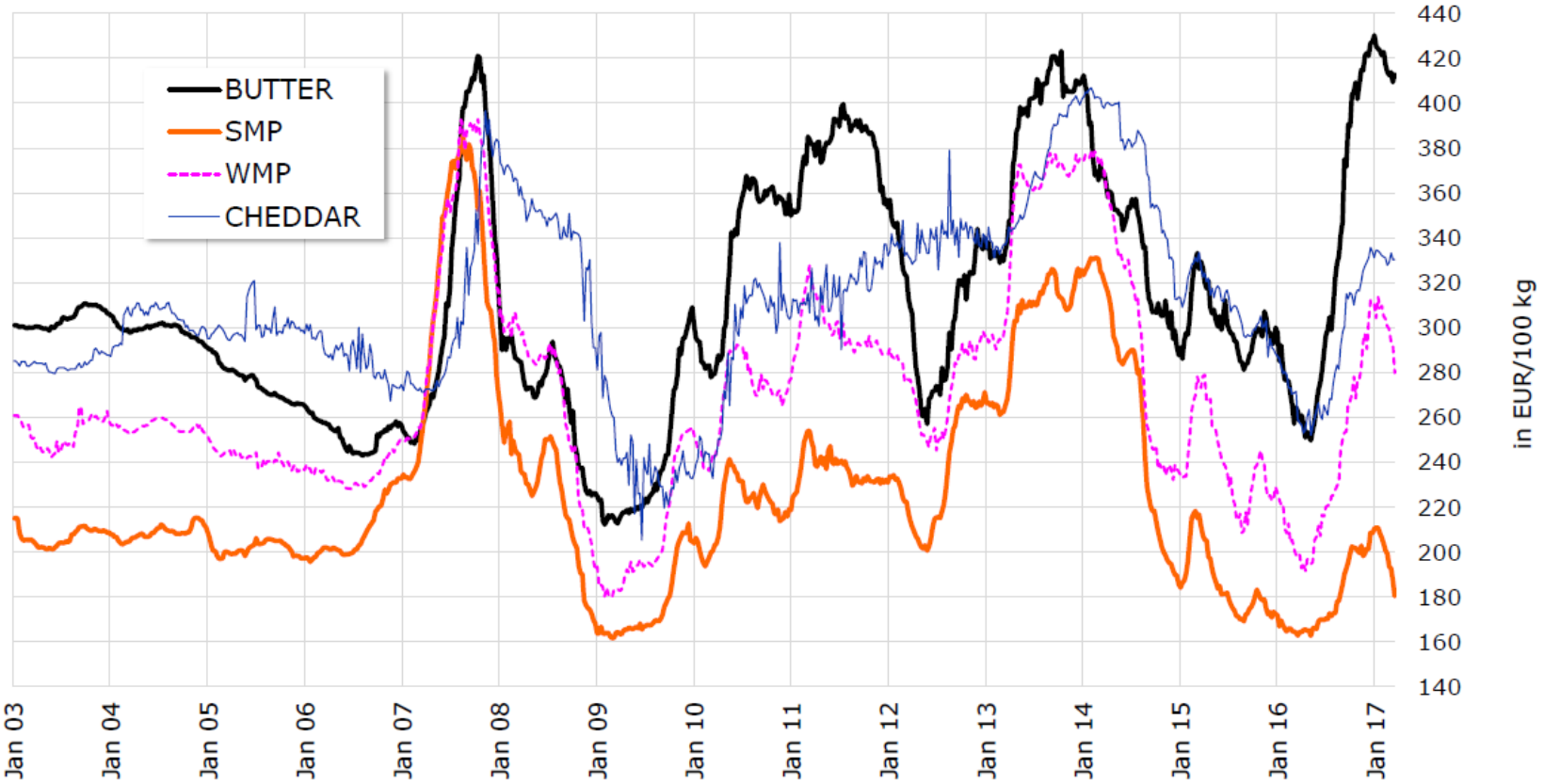
EU Raw Milk Prices Evolution (up to January 2017*)



Source : MS' communications under reg. 562/2005 & 479/2010

EU Dairy Quotations

(EU Average Prices based on MS communication and weighted by production)

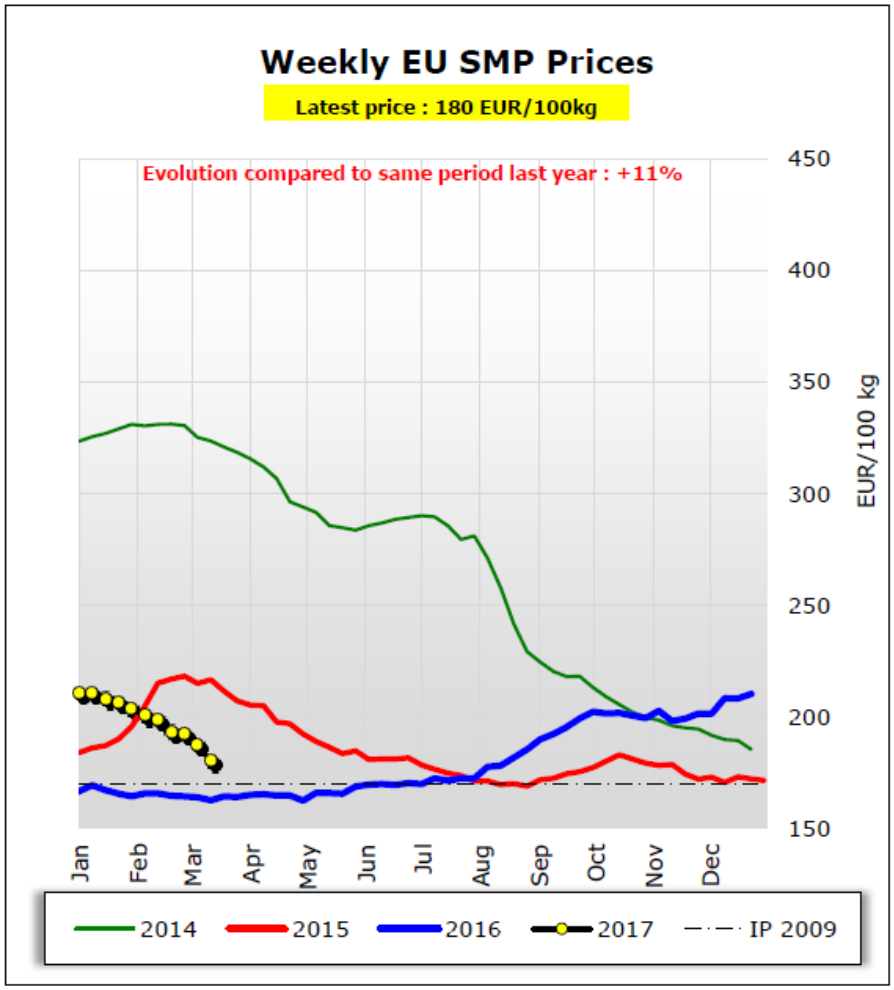


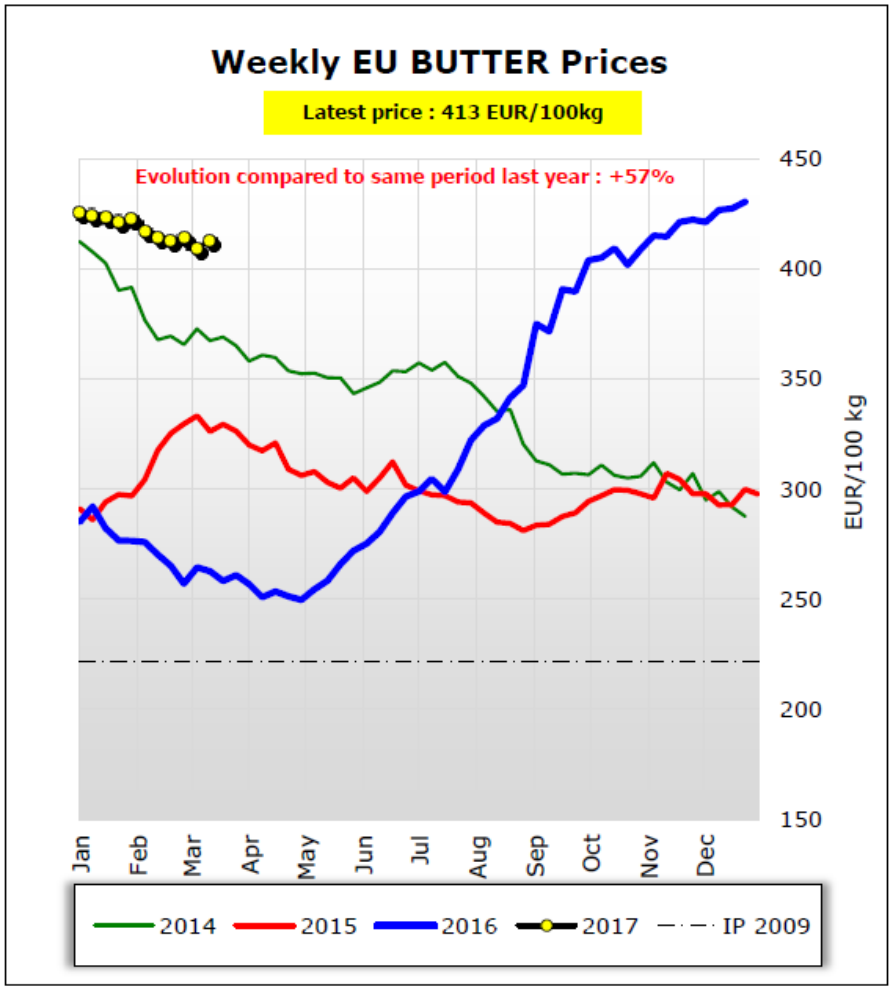
Source: MS' communications under reg. 562/2005 and 479/2010

European Commission

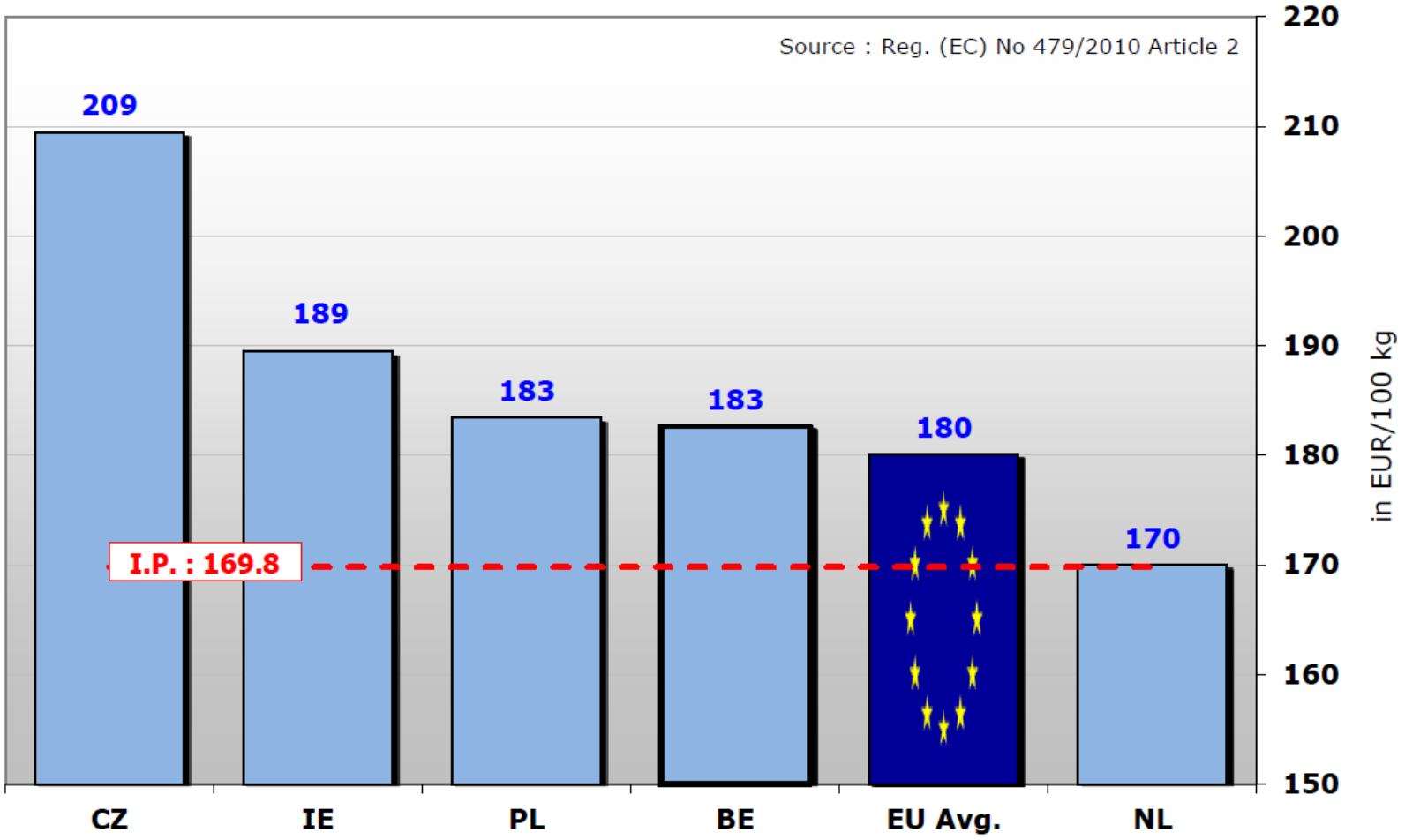
Prices of EU Dairy commodities

(Source : Reg. (EC) No 479/2010 Art. 2)





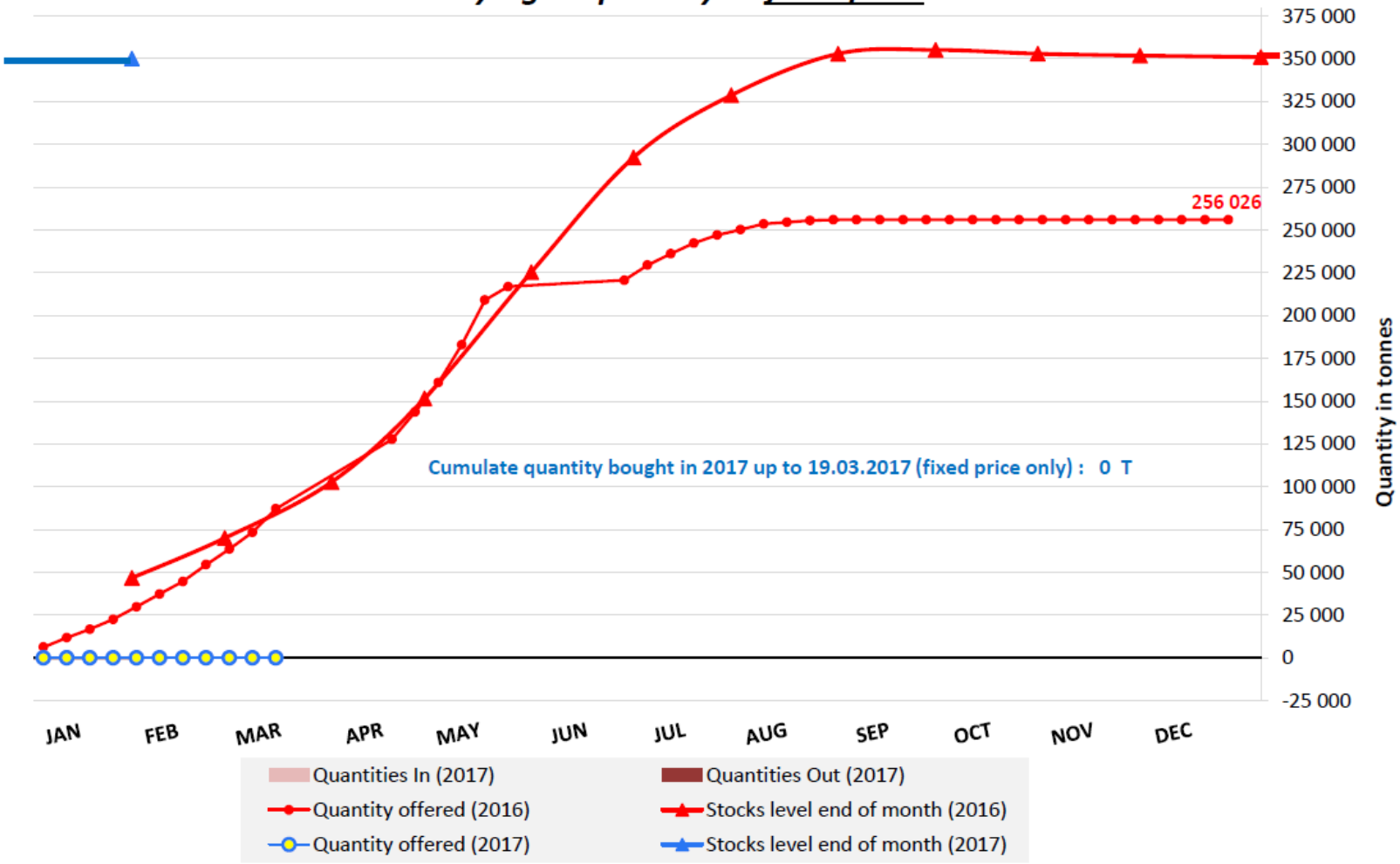
EU S.M.P. Prices (up to 19.03.2017)



European Commission

Public SMP Intervention scheme (2016-2017)

Buying-in quantity at fixed price



PSA ending stocks 2017

	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC
SMP	62,1											
BUTTER	15,9											
CHEESE	13,5											

(x 1000 t)

Source : Member States notifications

European Commission

Latest World Quotations of Dairy Products

In US$/t	Latest Quotations 19/03/2017			Week - 2 05/03/2017			% change (previous quotation)			Year - 1 March 2016			% change (1 year)		
	EU	Oceania	USA	EU	Oceania	USA	EU	Oceania	USA	EU	Oceania	USA	EU	Oceania	USA
Butter	4 387	4 738	4 732	4 376	4 675	4 805	+ 0.3%	+ 1.3%	- 1.5%	2 932	2 750	4 275	+ 50%	+ 72%	+ 11%
SMP	1 983	2 188	1 767	2 052	2 550	1 782	- 3.4%	- 14.2%	- 0.9%	1 818	1 738	1 621	+ 9%	+ 26%	+ 9%
WMP	3 094	2 963	3 252	3 175	3 288	3 252	- 2.6%	- 9.9%	nc	2 199	2 063	2 863	+ 41%	+ 44%	+ 14%
Cheddar	3 536	3 613	3 024	3 490	3 838	3 321	+ 1.3%	- 5.9%	- 9.0%	3 011	2 550	3 280	+ 17%	+ 42%	- 8%

Source : Member States Notifications, USDA

ANNEX 2

EU dairy products monthly stock estimates at the end of January 2017

EDA

EU dairy products monthly stock estimations

at the end of January 2017

Milk Market Observatory

Economic Board

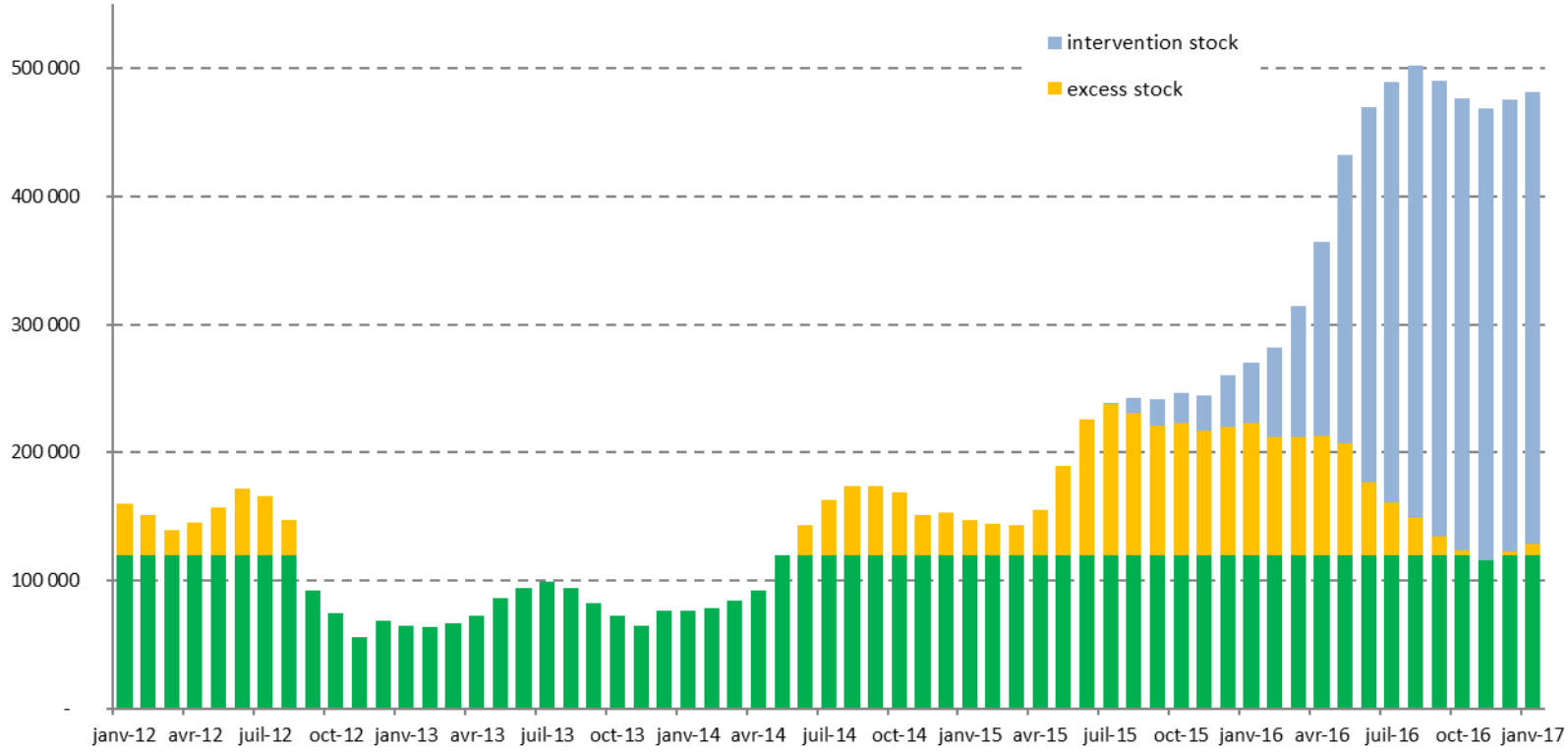
March 28th, 2017

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 estimates - SMP

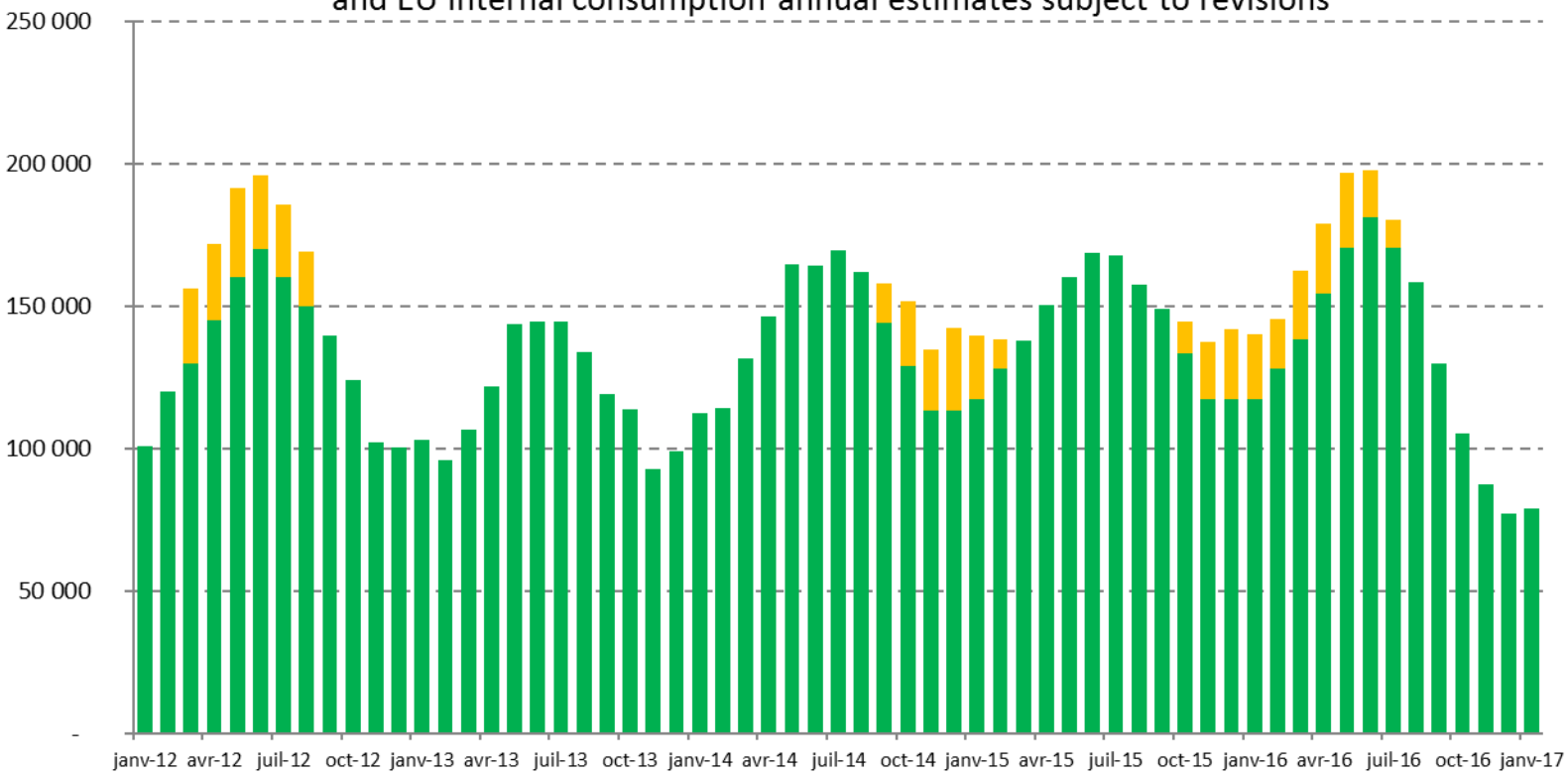
Calculations based on Eurostat production, export and import statistics and EU internal consumption annual estimates subject to revisions



European stock level estimates - Butter

Calculations based on Eurostat production, export and import statistics

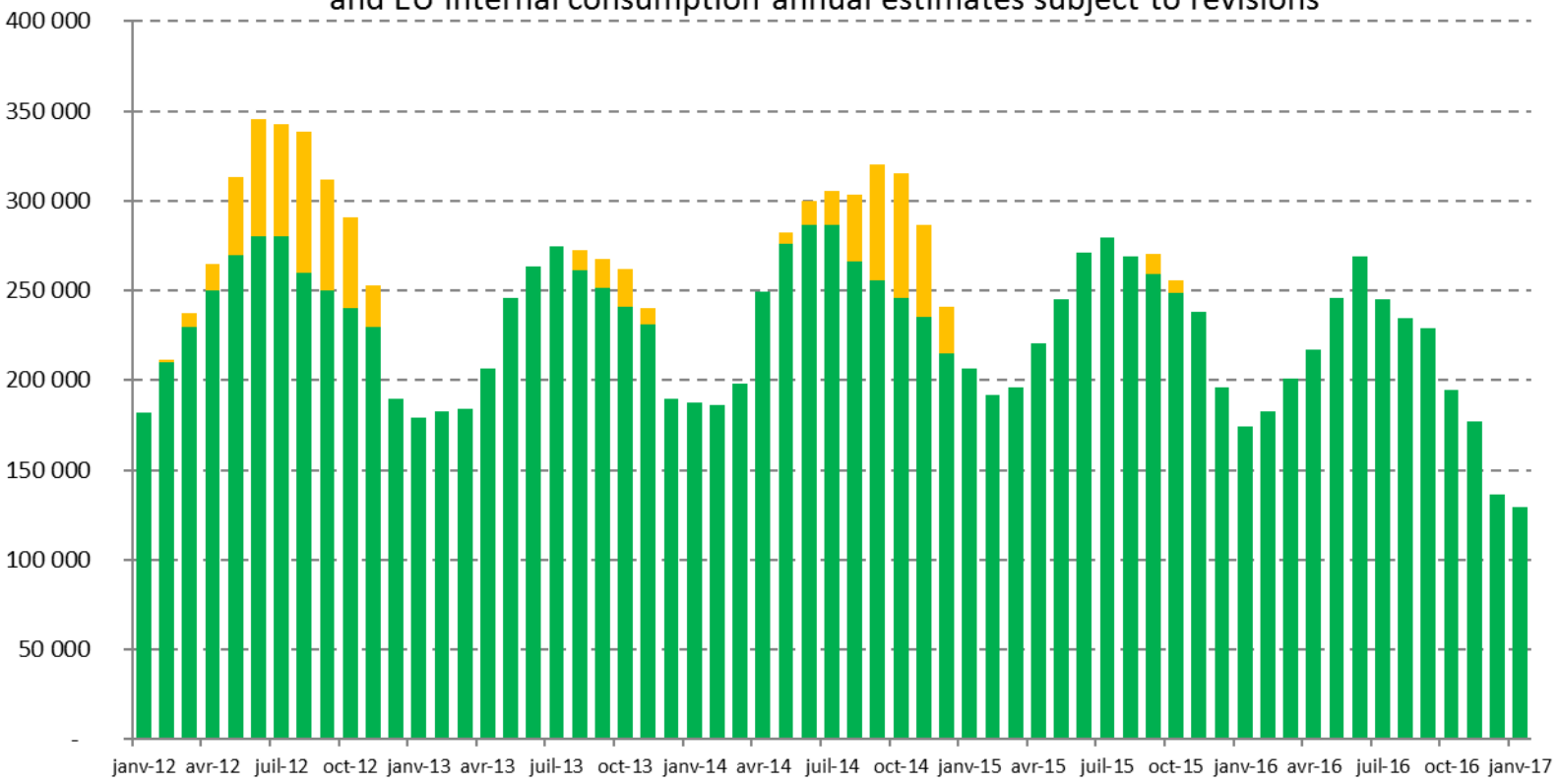
and EU internal consumption annual estimates subject to revisions



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

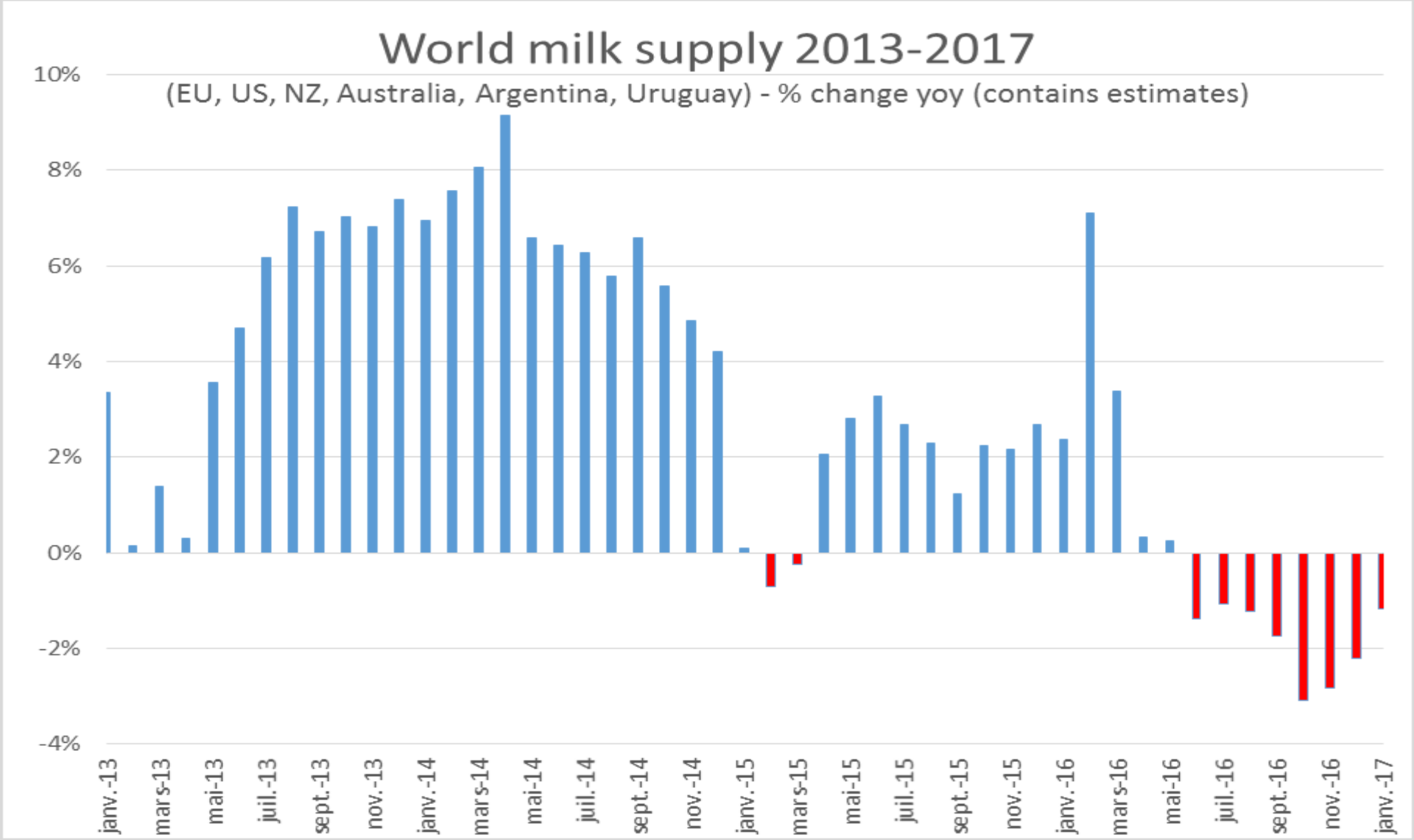
MMO Economic Board

28 March 2017

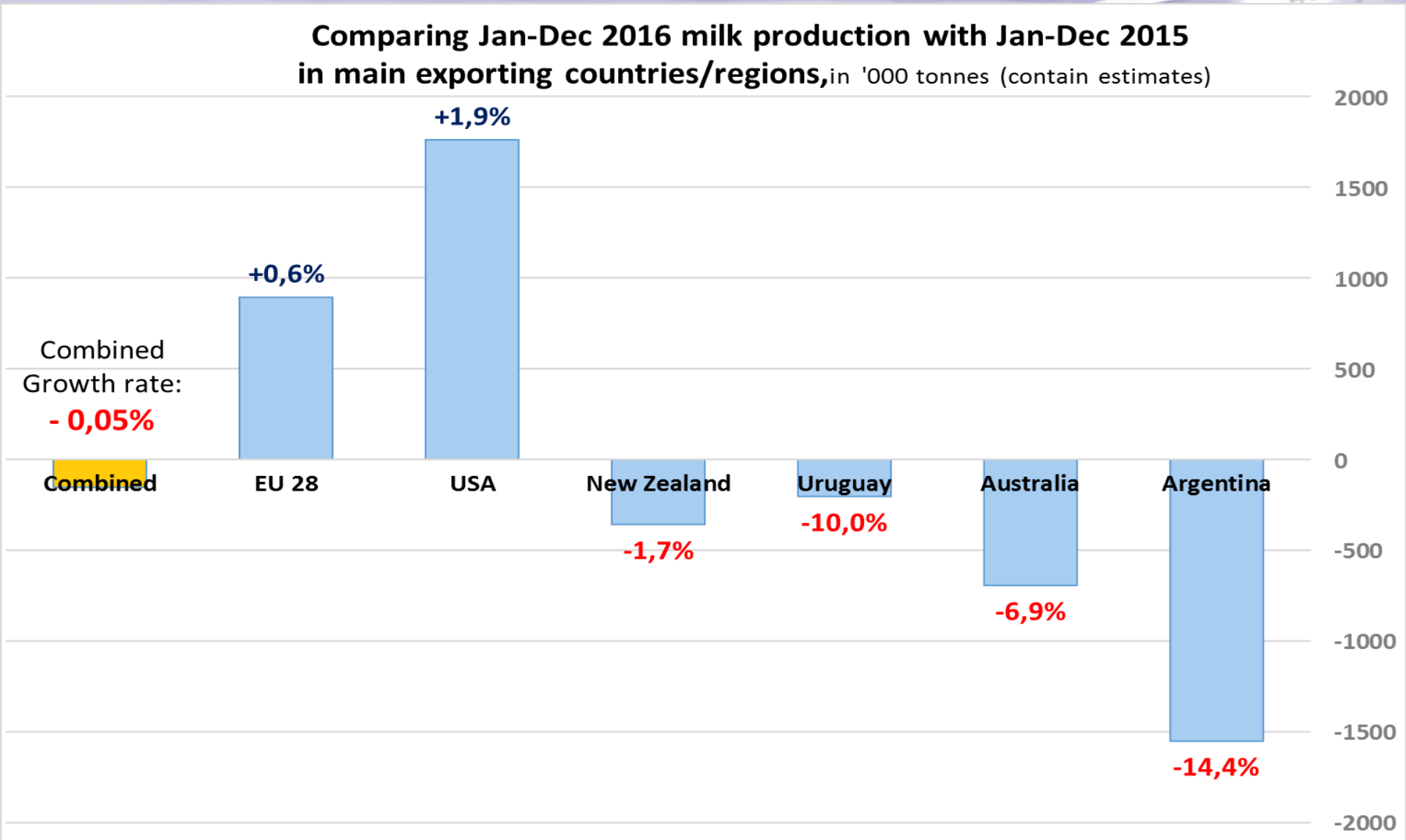
Outline

- Global Supply
- Global exports & demand
- Development in key import markets
- Conclusions

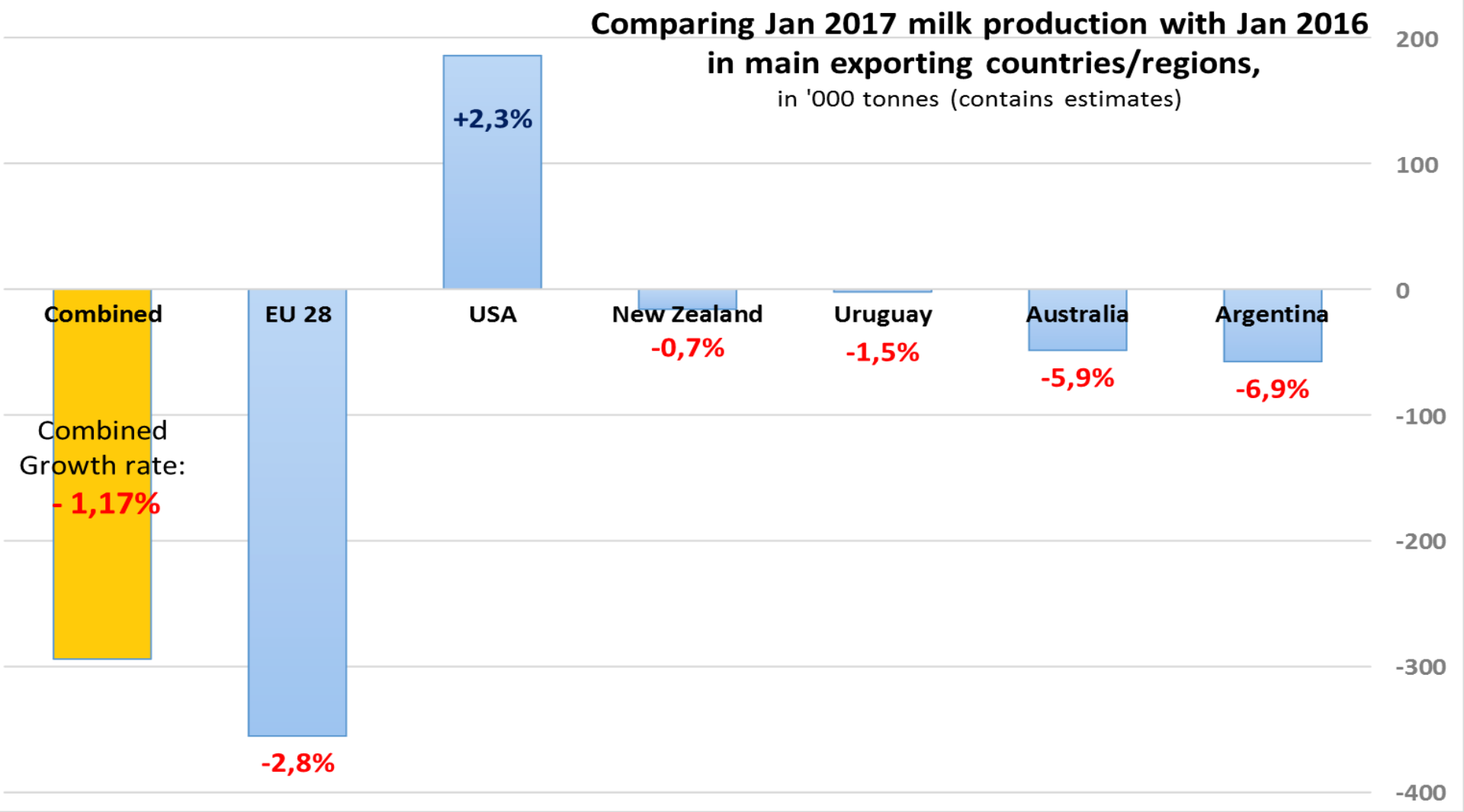
Milk production in key export regions 2013-2016 (% change yoy)



Milk production in 2016 in key export regions



Milk production in key export regions in January 2017



Production outlook

- **EU volumes** have fallen for 7 months in a row (largest declines in volumes in FR, DE, UK; NL +1% in Jan). Rising farm-gate milk prices is putting milk production decrease to an end. EU milk deliveries could recover already in Q2**. Outlook for 2017: +0,6%.**

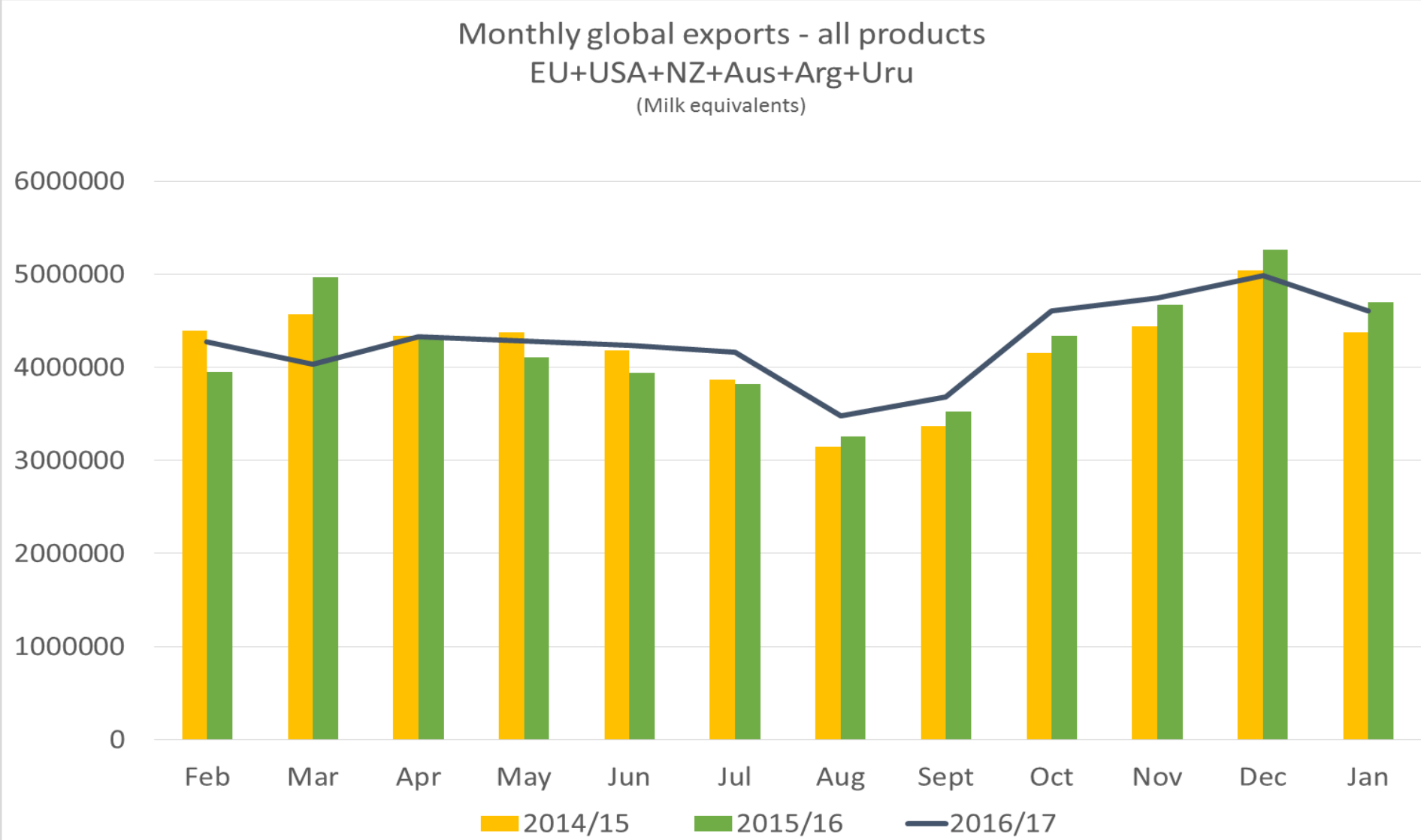
- **NZ milk production down -0,7% in January**. Season do date -2,61% (Jun-Jan). Higher farm-gate prices might have encouraged production to make up for early season losses. **Outlook: between -1% and -2% for the season** (instead of the earlier announced -7%).

- **Australia milk production continues to struggle in February, down -6,8% yoy**. **Season to date -8,4%** (Jul-Feb). Full season milk supply Jul 16 – Jun 17 is likely to be down by -6,8% and will continue to limit export capacity.

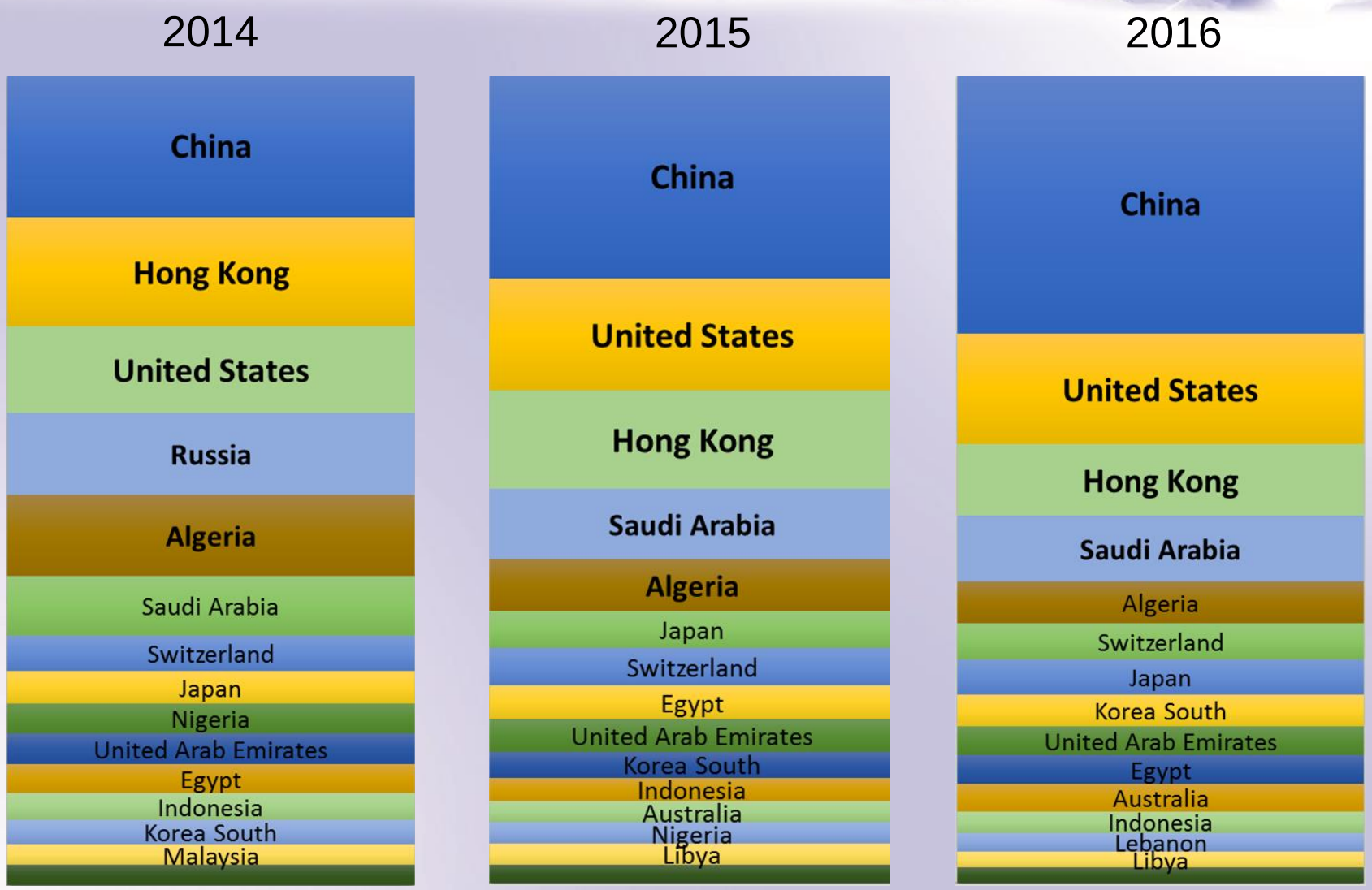
- **US production for February stayed ahead of last year with +2,3%** (down in California & Pacific Northwest, Southwest leads with +14,4%). US herd is at its highest since 1980s & yield-per-cow continues to grow (+1,8% in Jan). **USDA raised total output for 2017 slightly to +2,4%** (98,7 mio tonnes)

- **Others:** Slow recovery in Brazil, further declines likely in Argentina (-20,1% in Q4), China milk production in 2016 (-4,1% yoy) according to government statistics

Dairy exports of main market players in ME



Main EU export markets for all dairy products **(in value - €)**



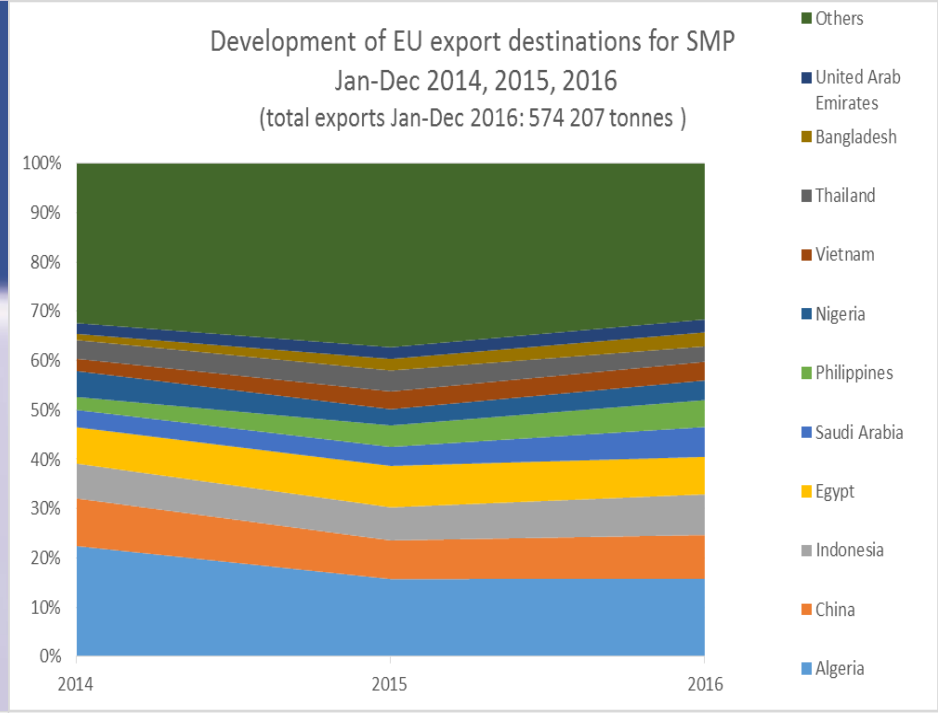
SMP trade

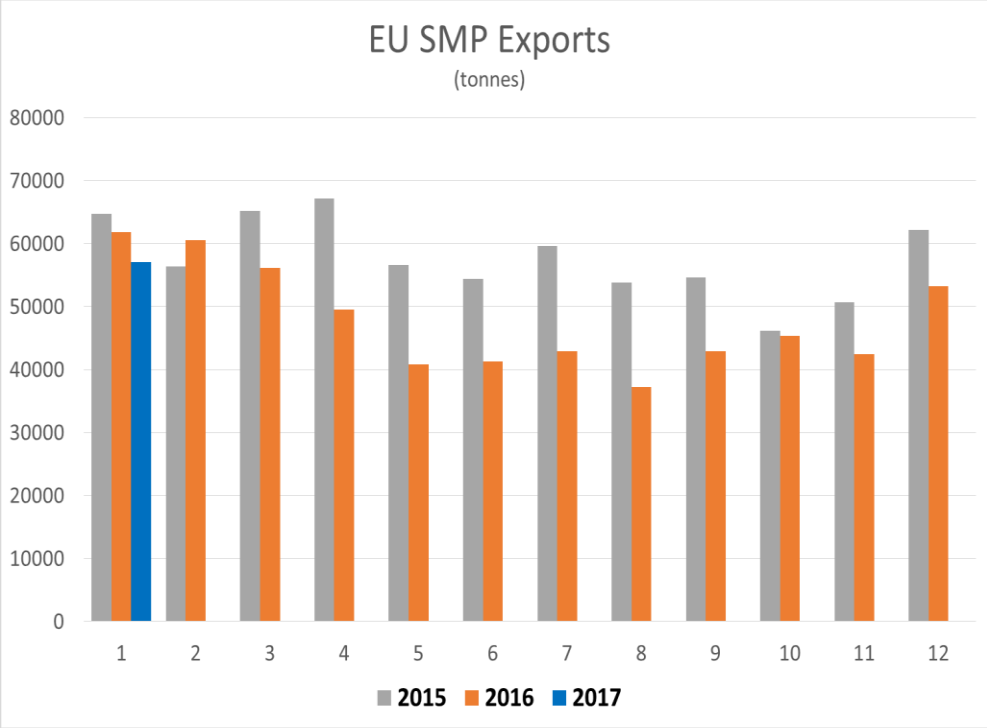
EU SMP exports:

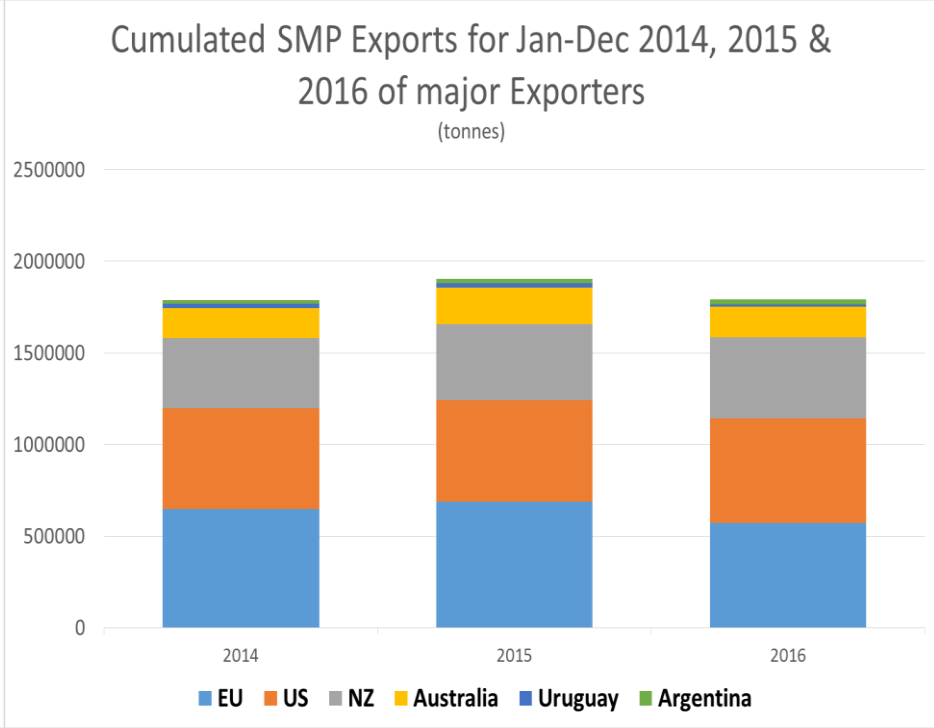
- Growth rate Jan-Dec 16/15: -16,7% (-7,8% for Jan 17 yoy)

Combined SMP exports:

- Growth rate Jan-Dec 16/15: -6,0%



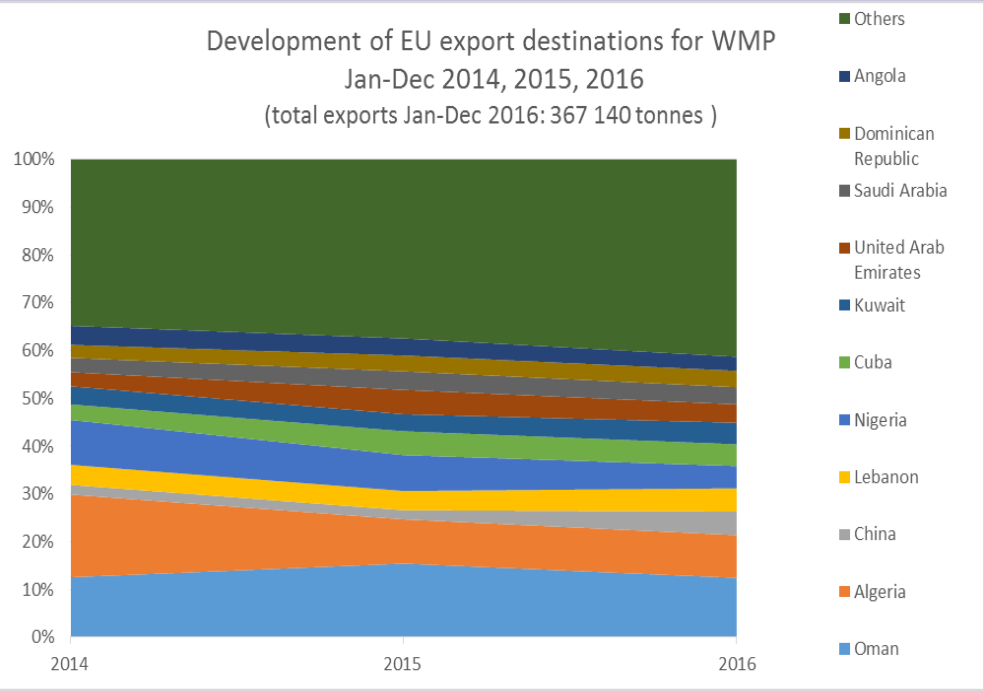


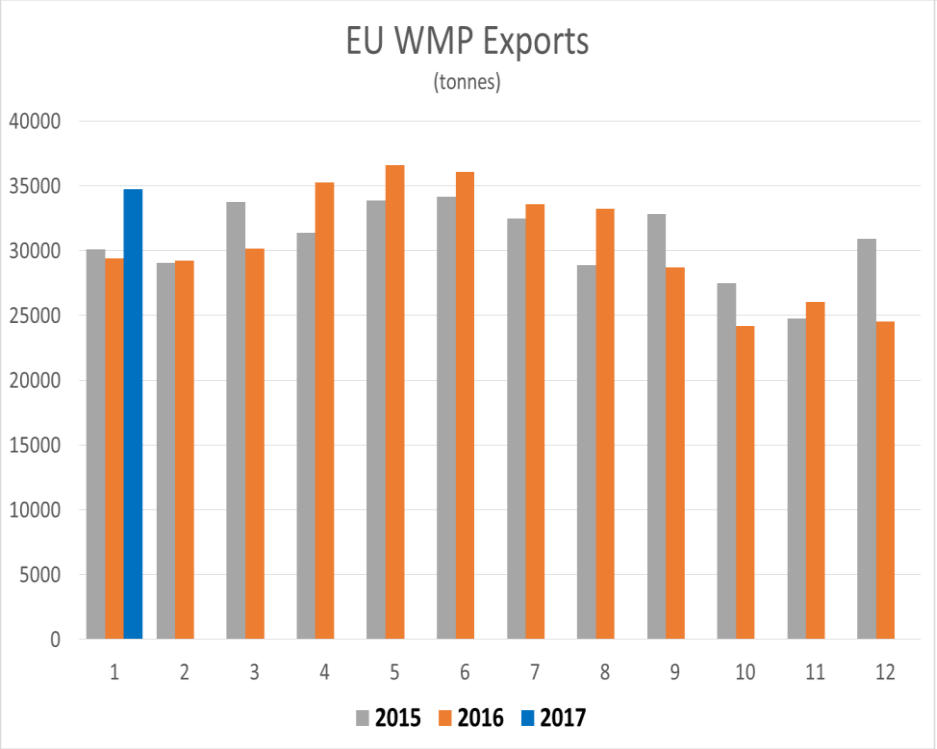


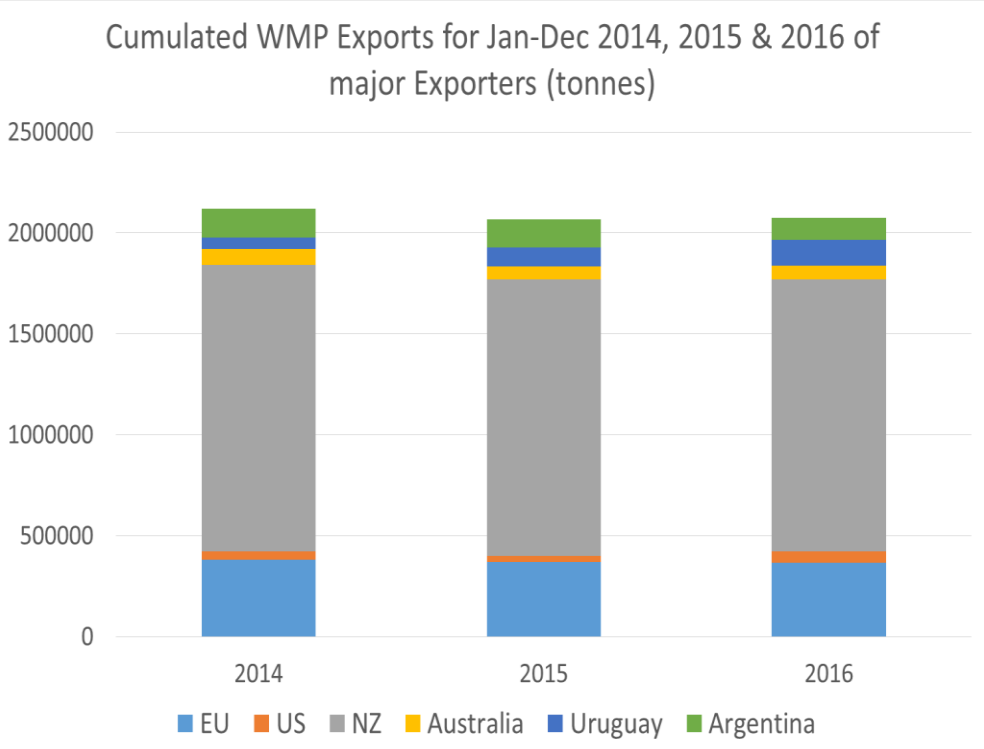
WMP trade

EU WMP exports:
- Growth rate Jan-Dec 16/15: -0,7% (+18,1% for Jan 17 yoy)

Combined WMP exports:
- Growth rate Jan-Dec 16/15: +0,4%



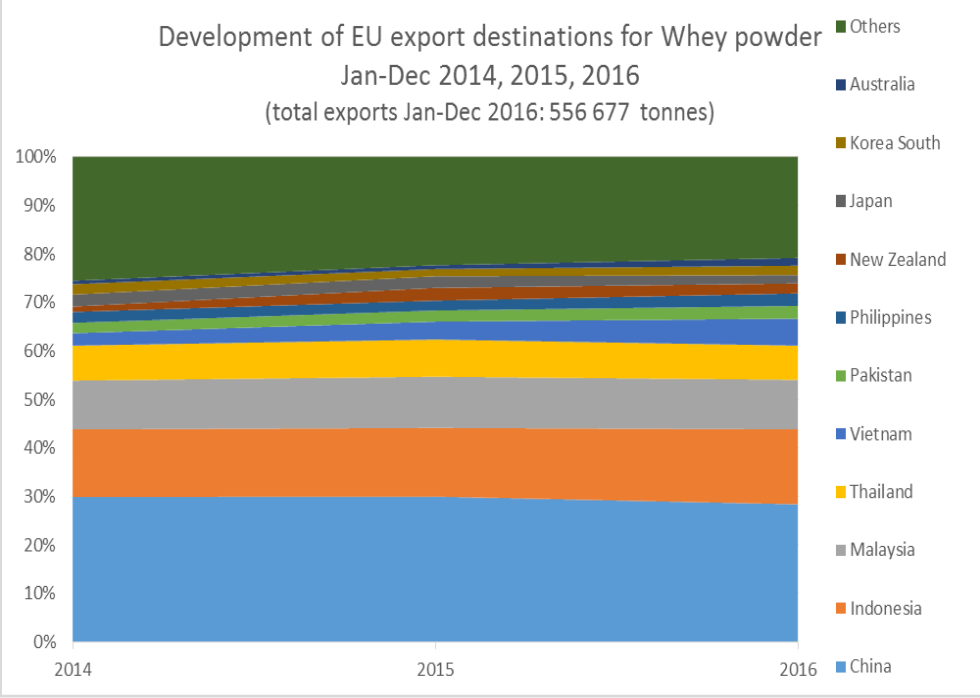


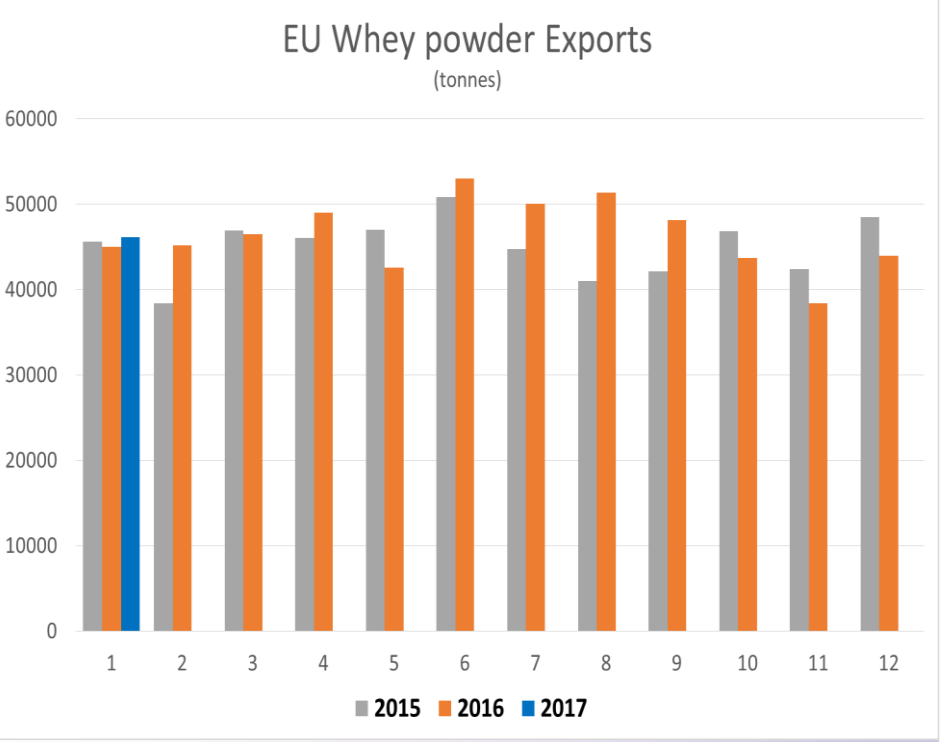


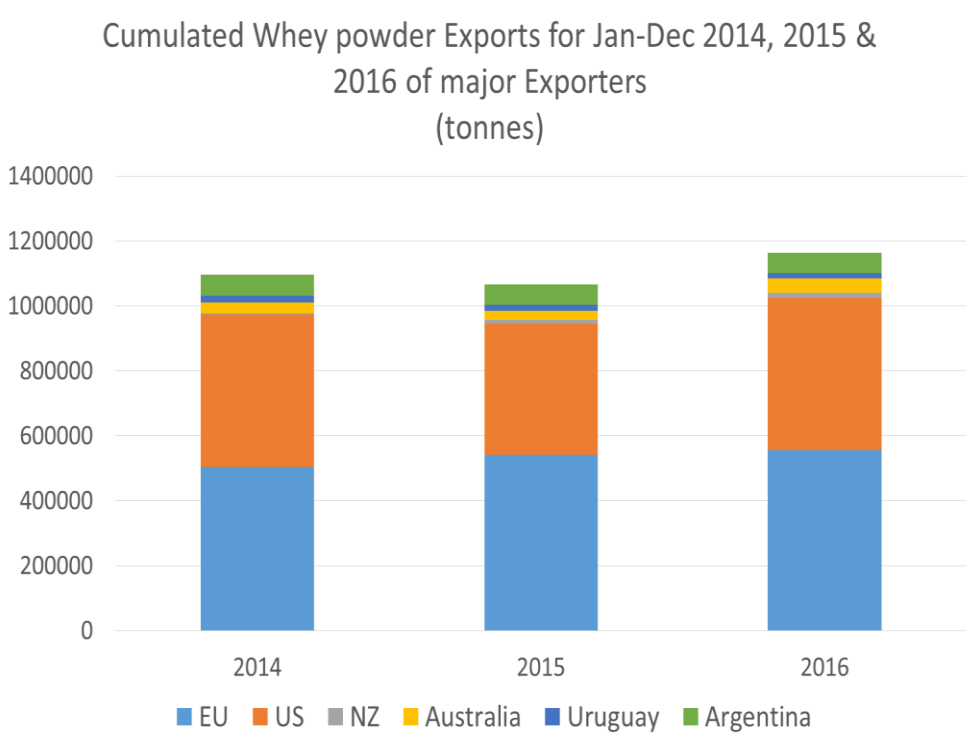
Whey powder trade

EU whey powder exports:
- Growth rate Jan-Dec 16/15: +3% (+2,4% for Jan 17 yoy)

Combined whey powder exports:
- Growth rate Jan-Dec 16/15: +9,3%



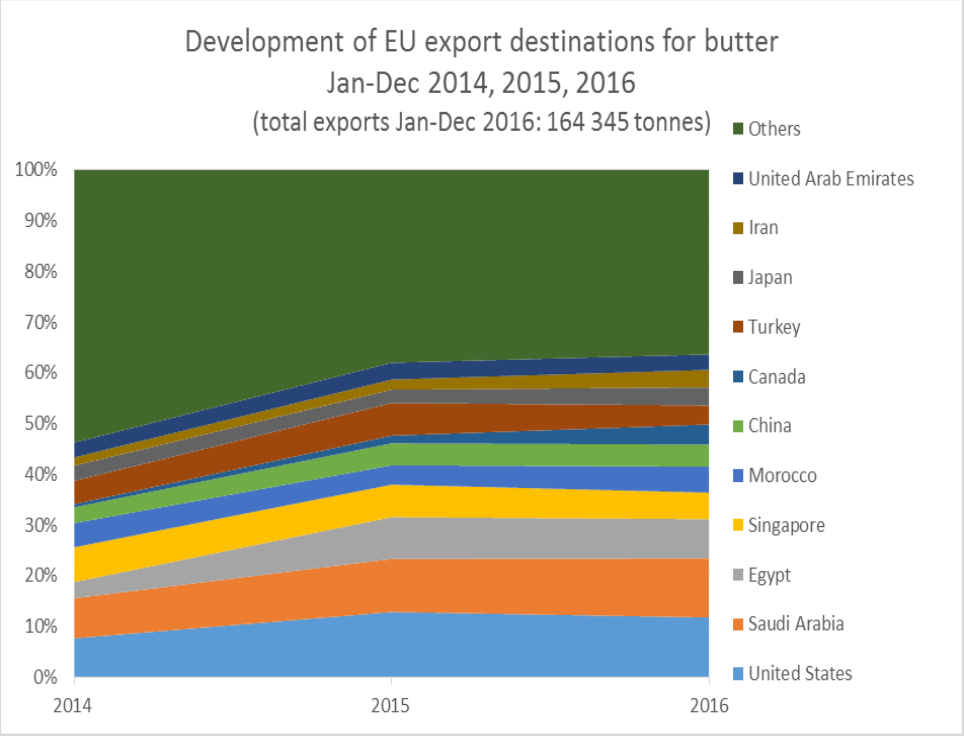


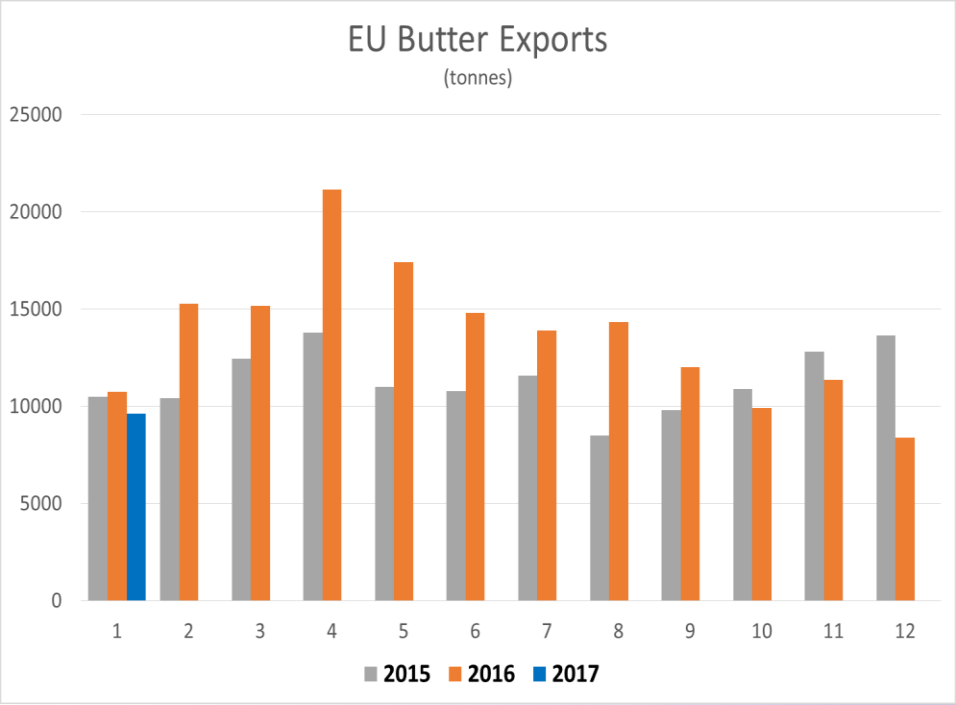


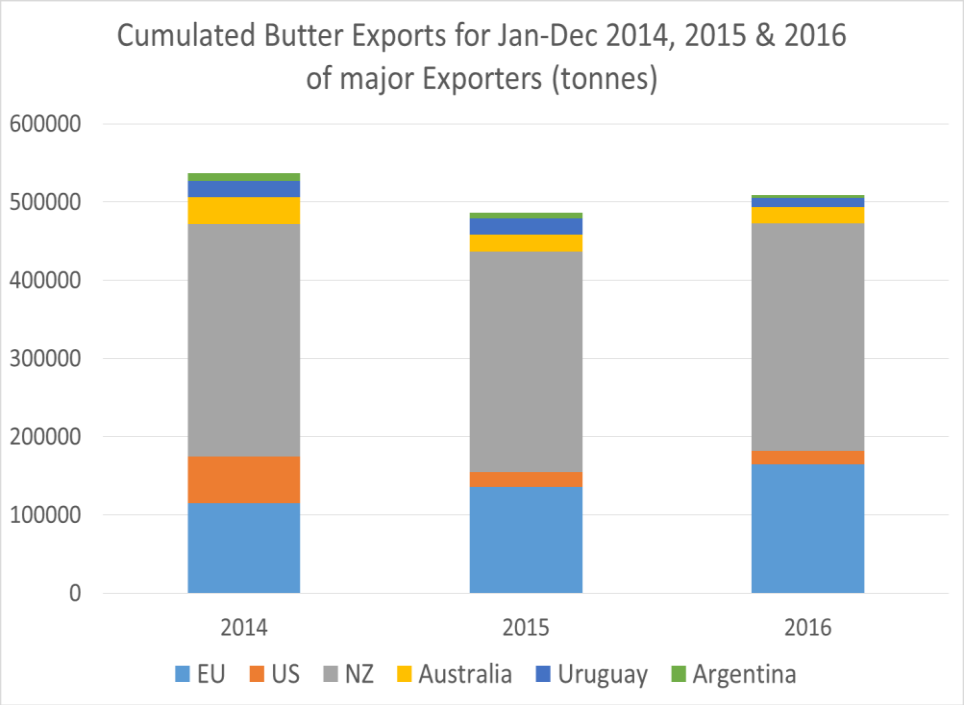
Butter trade

EU butter exports:
- Growth rate Jan-Dec 16/15: +20,8%
(-10,5% for Jan 17 yoy)

Combined butter exports:
- Growth rate Jan-Dec 16/15: +4,7%



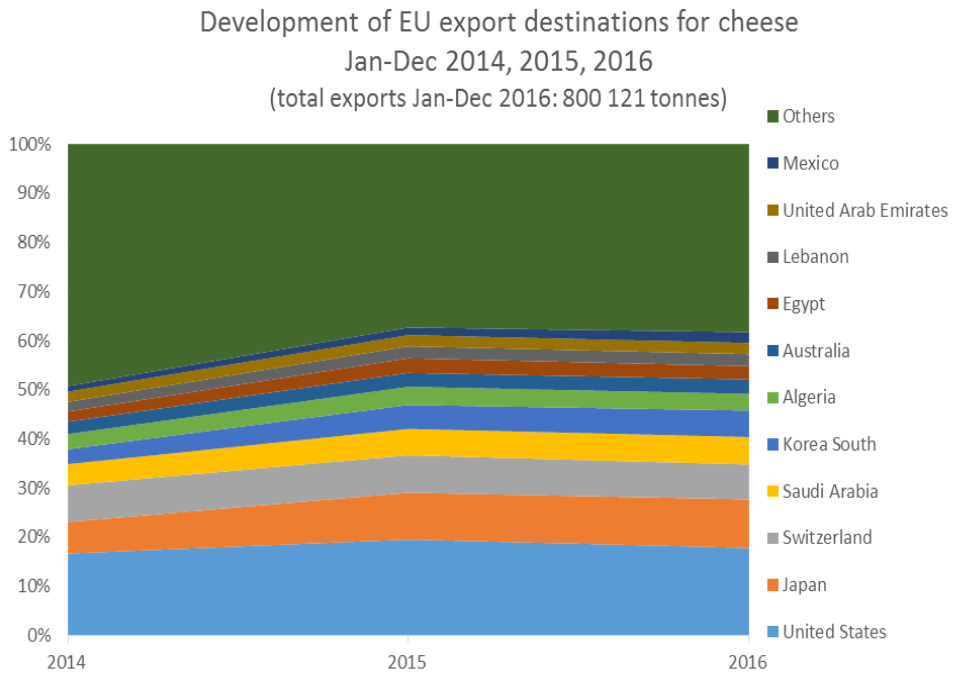


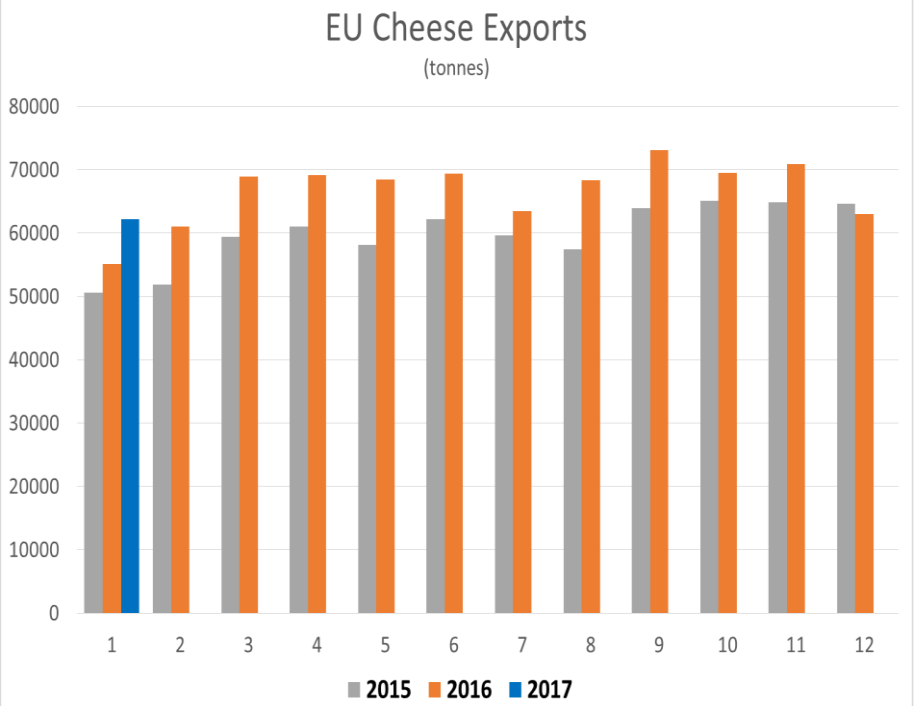


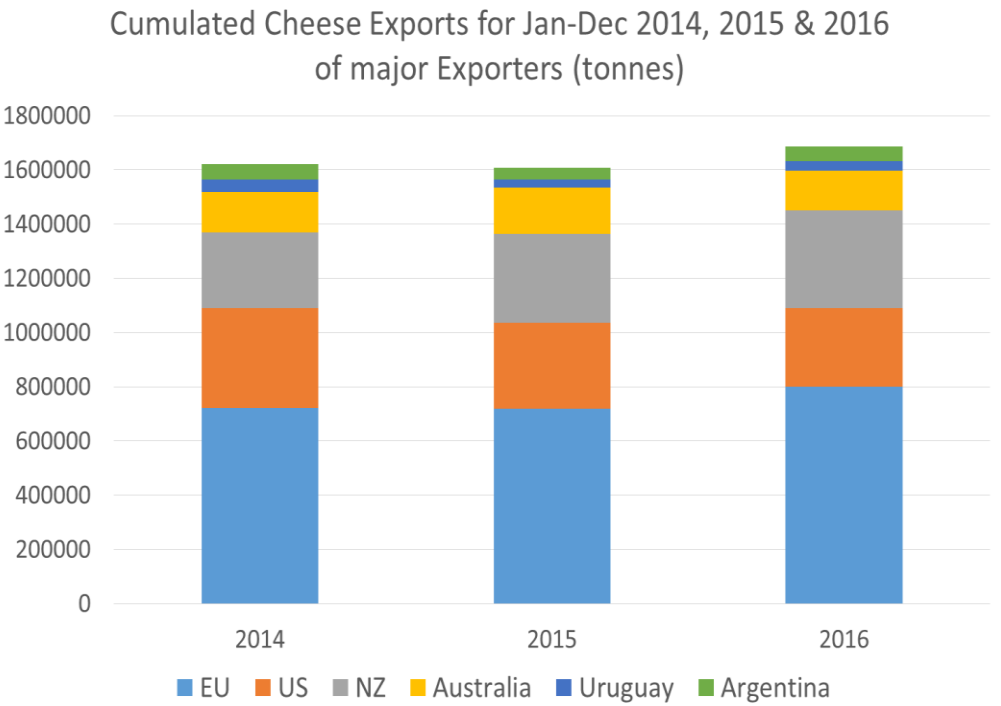
Cheese trade

EU cheese exports:
- Growth rate Jan-Dec 16/15: +11,4%
(+13% for Jan 17 yoy)

Combined cheese exports:
- Growth rate Jan-Dec 16/15: +4,8%



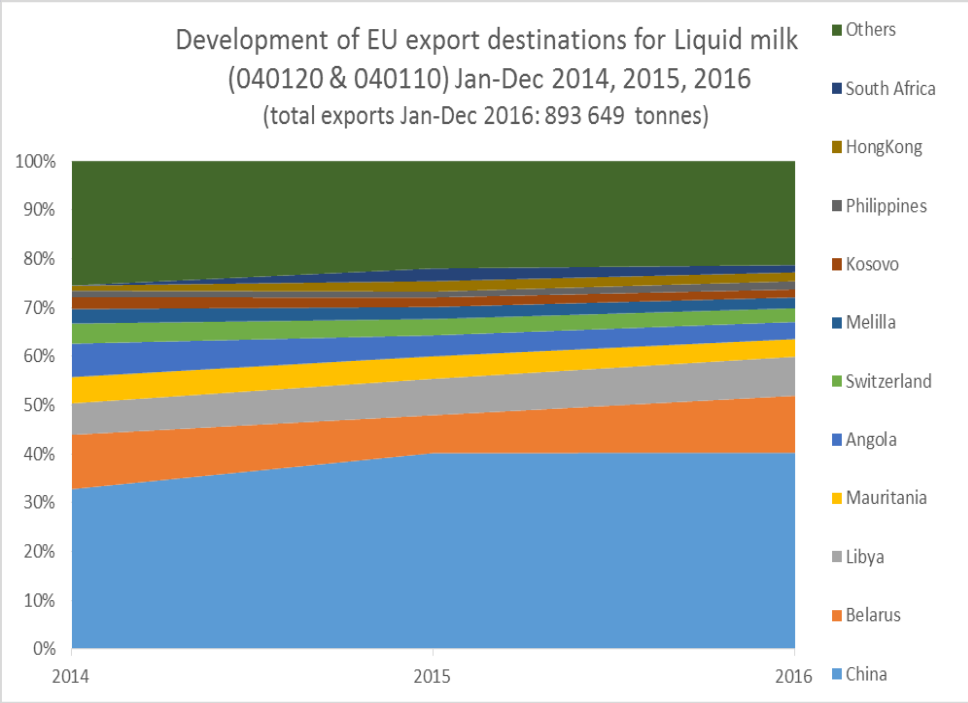


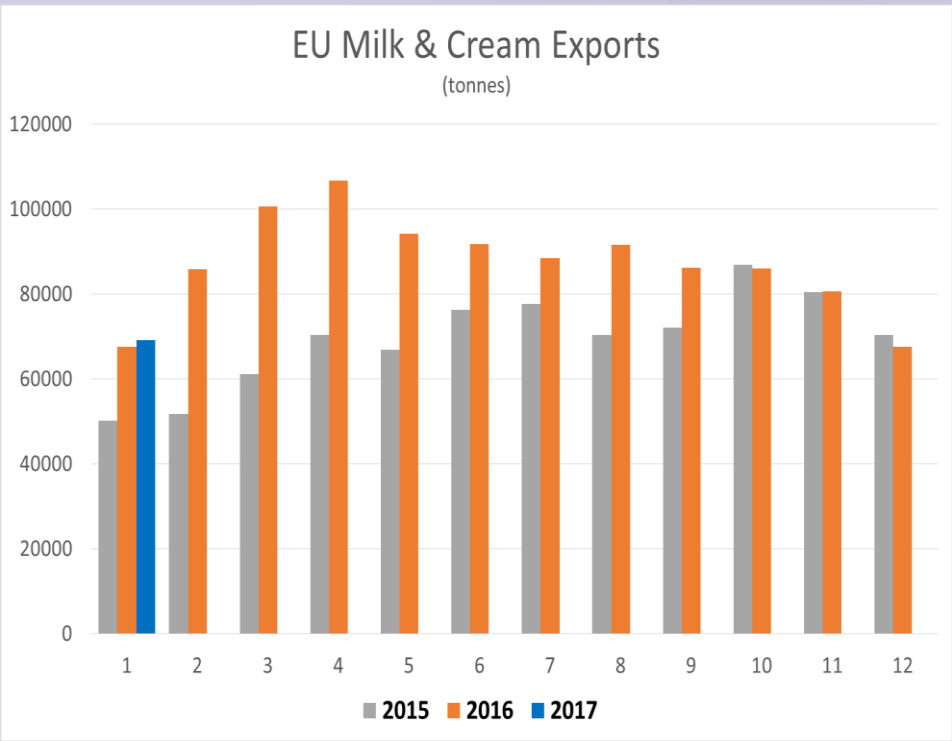


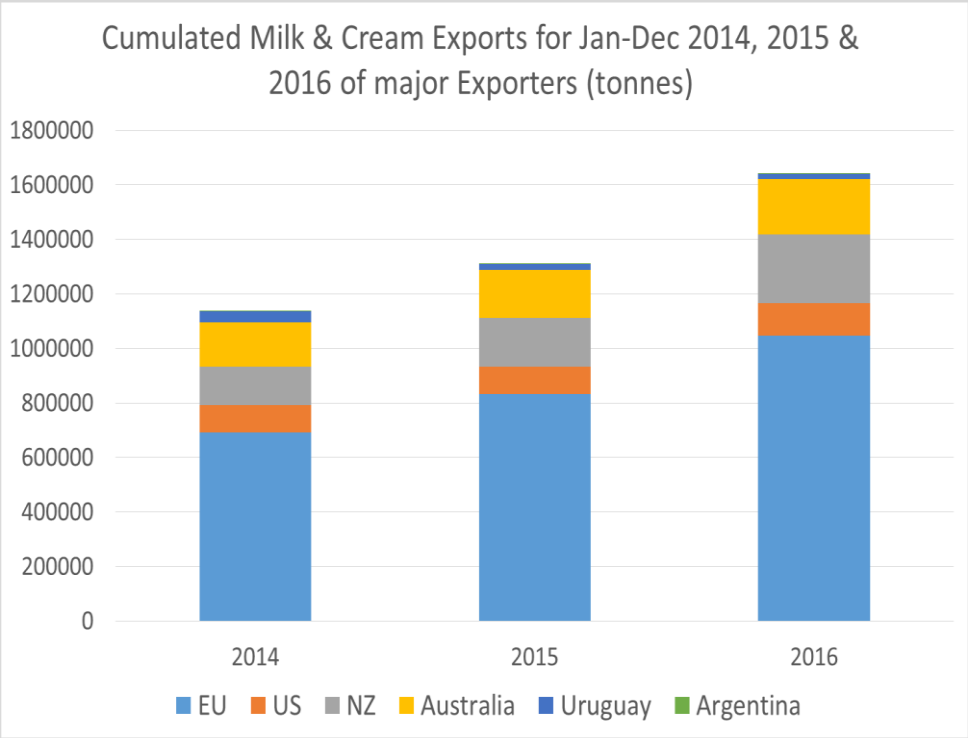
Trade of milk & cream

EU milk & cream exports
- Growth rate Jan-Dec 16/15: +25,6% (+2,3% for Jan 17 yoy)

Combined milk & cream exports
- Growth rate Jan-Dec 16/15: +24,9%



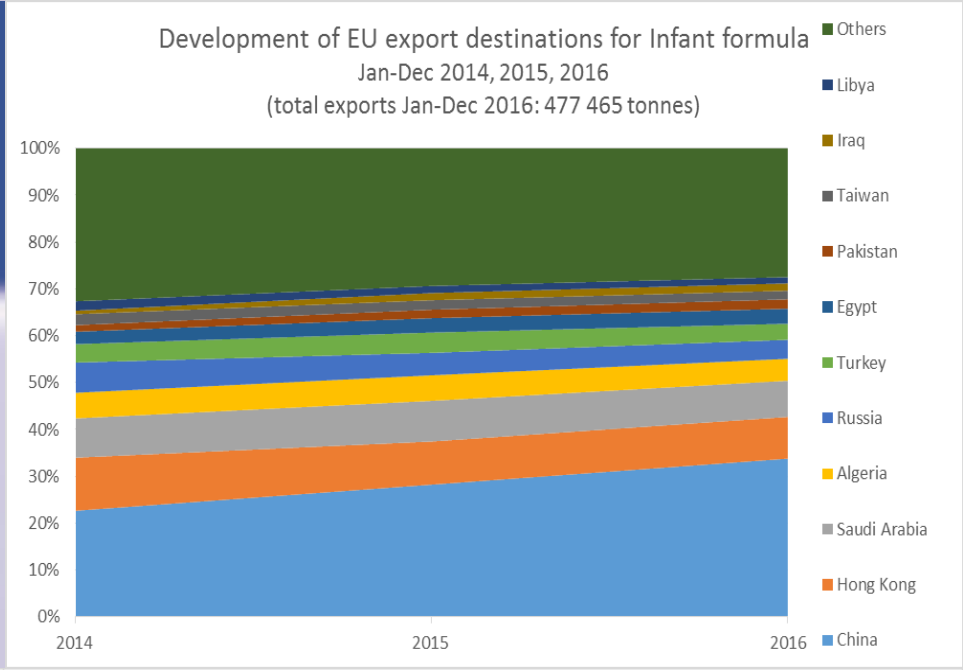


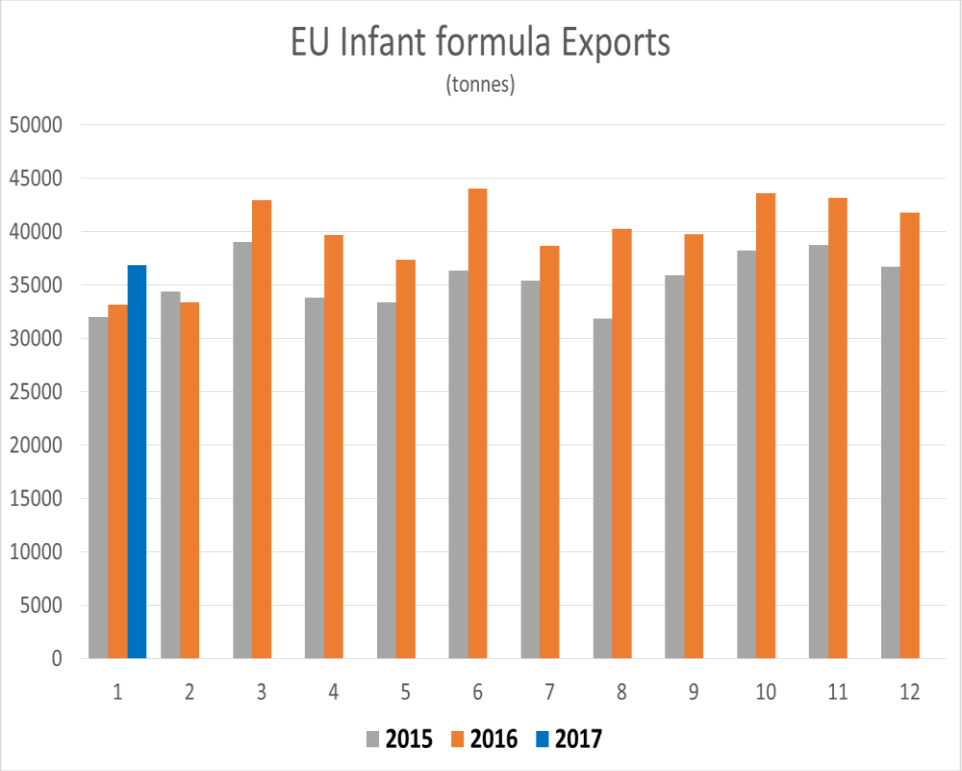


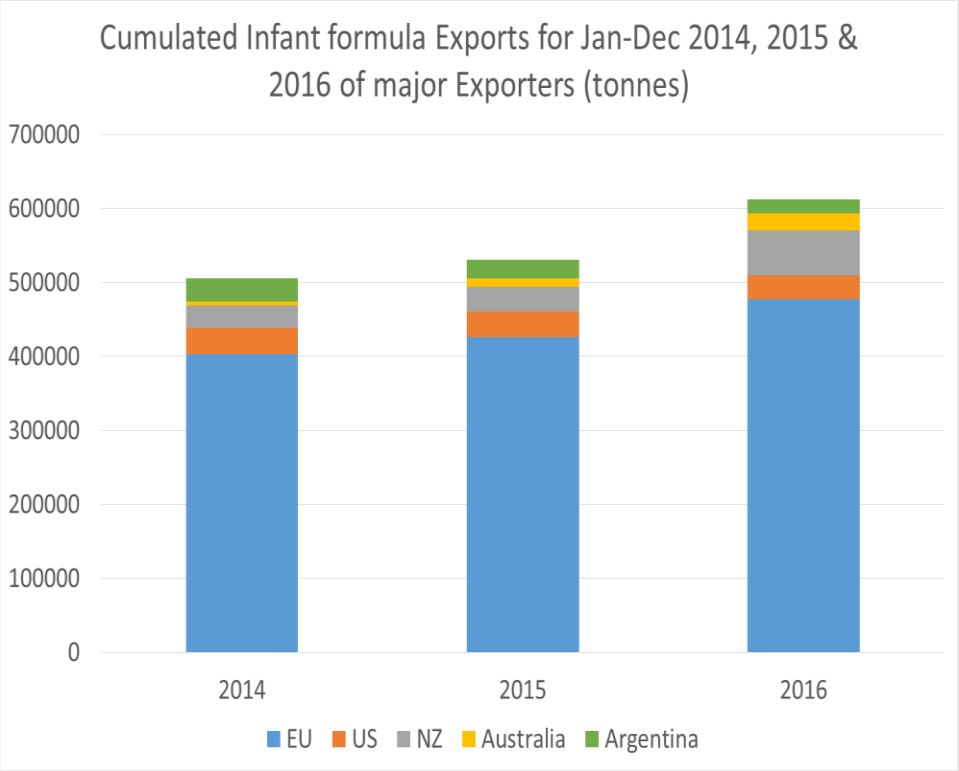
Infant formula trade

EU infant formula exports:
- Growth rate Jan-Dec 16/15: +12,2% (+11,1% for Jan 17 yoy)

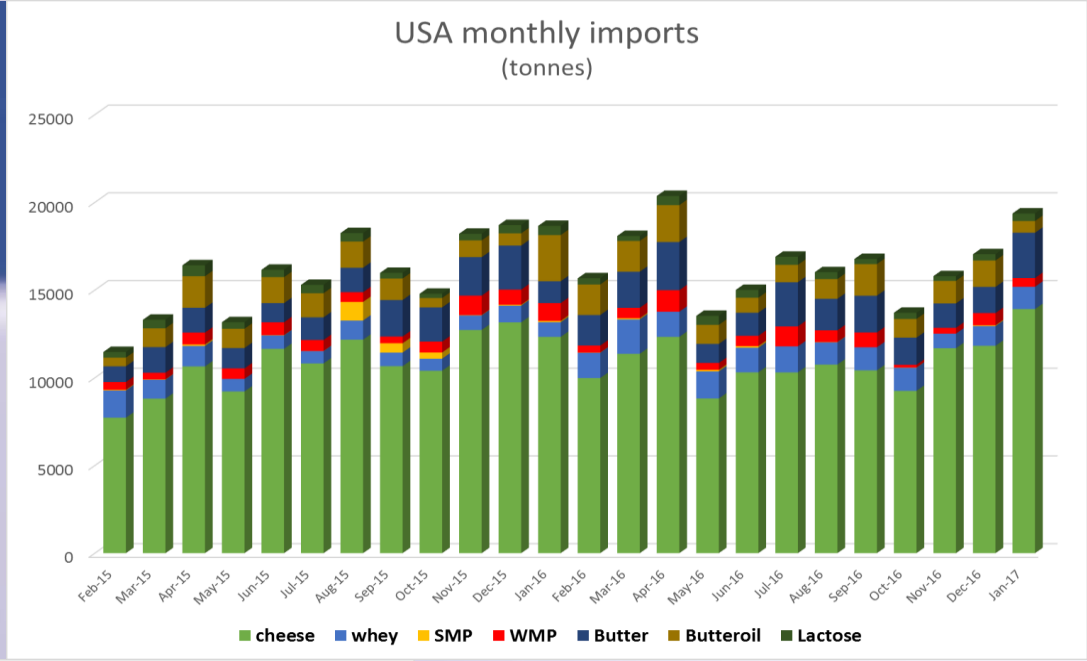
Combined infant formula exports:
- Growth rate Jan-Dec 16/15: +15,5%

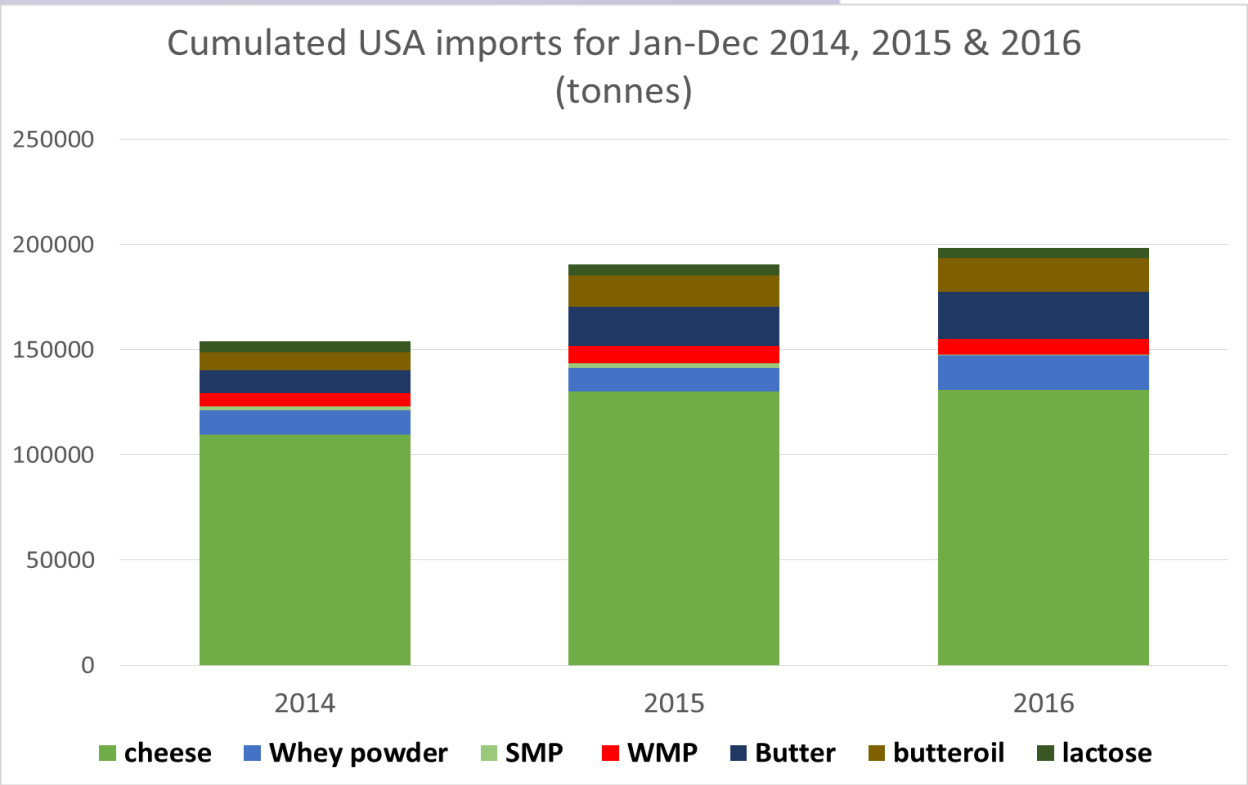




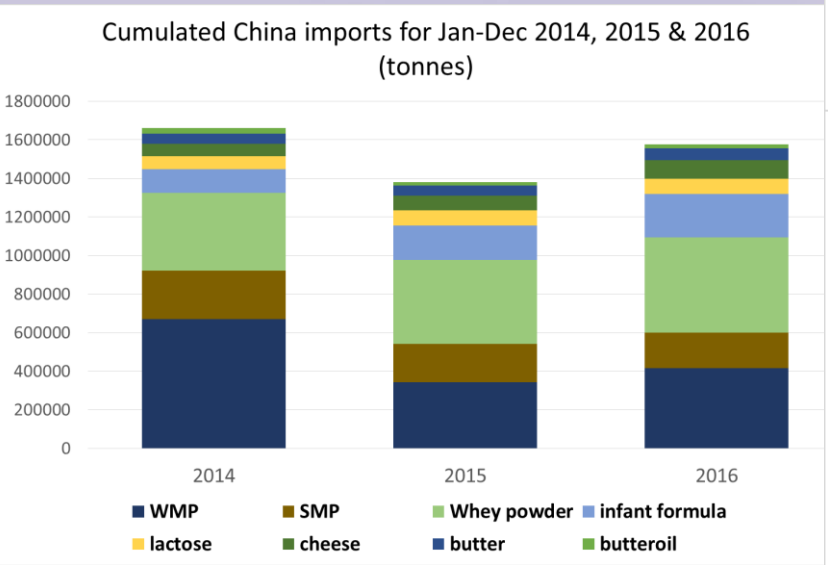


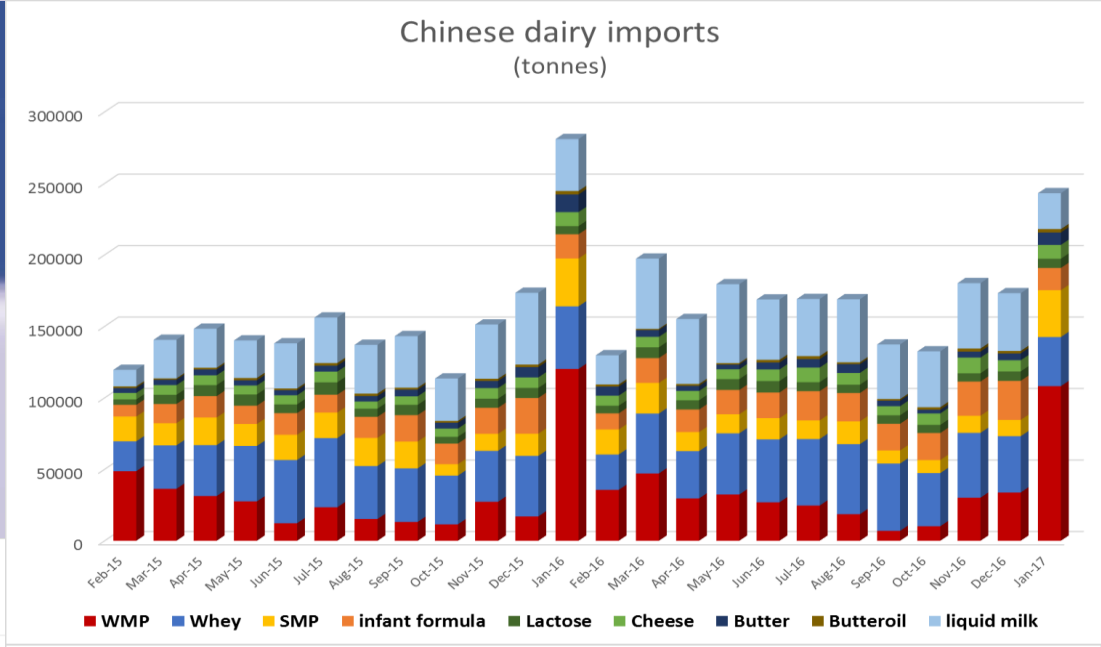
USA Imports

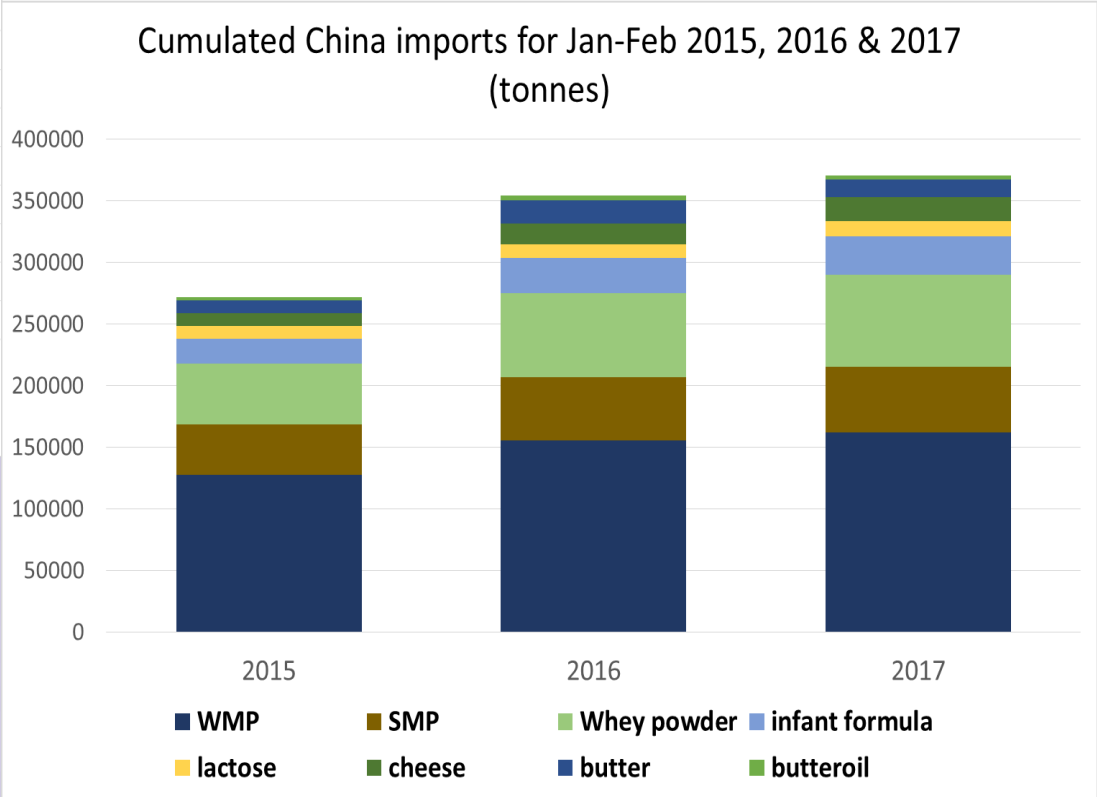

USA monthly imports
(tonnes)
25000
20000
15000
10000
5000
0
Feb-15
Mar-15
Apr-15
May-15
Jun-15
Jul-15
Aug-15
Sep-15
Oct-15
Nov-15
Dec-15
Jan-16
Feb-16
Mar-16
Apr-16
May-16
Jun-16
Jul-16
Aug-16
Sep-16
Oct-16
Nov-16
Dec-16
Jan-17
cheese
whey
SMP
WMP
Butter
Butteroil
Lactose


Cumulated USA imports for Jan-Dec 2014, 2015 & 2016
(tonnes)
250000
200000
150000
100000
50000
0
2014
2015
2016
cheese
Whey powder
SMP
WMP
Butter
butteroil
lactose

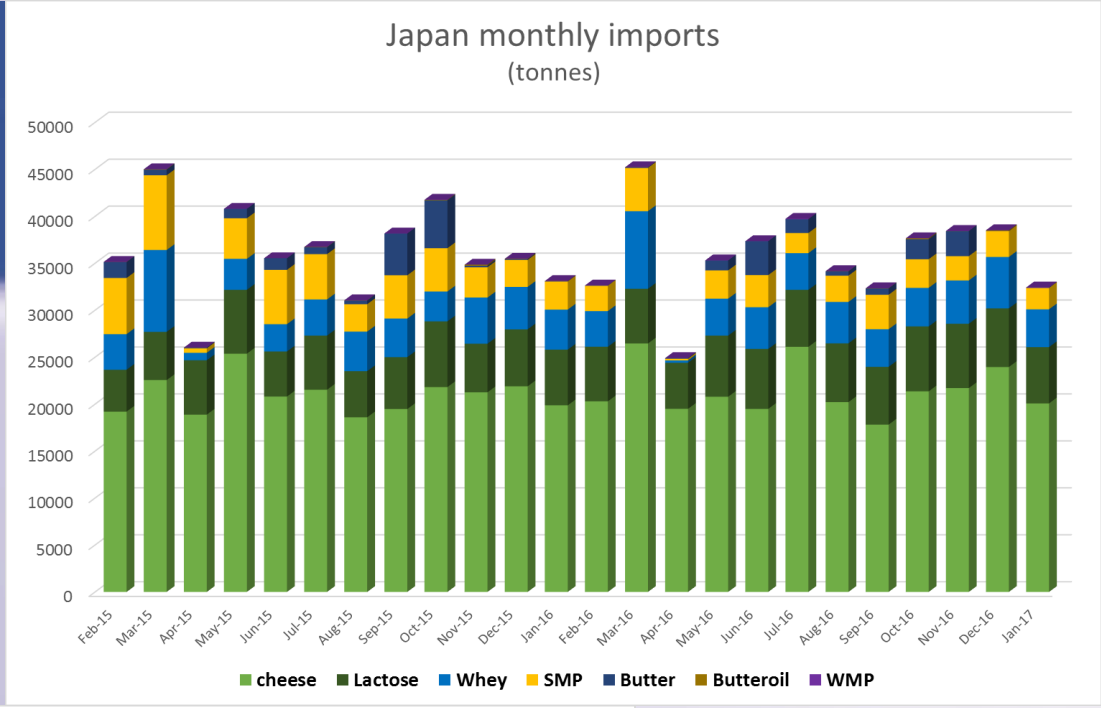
China Imports

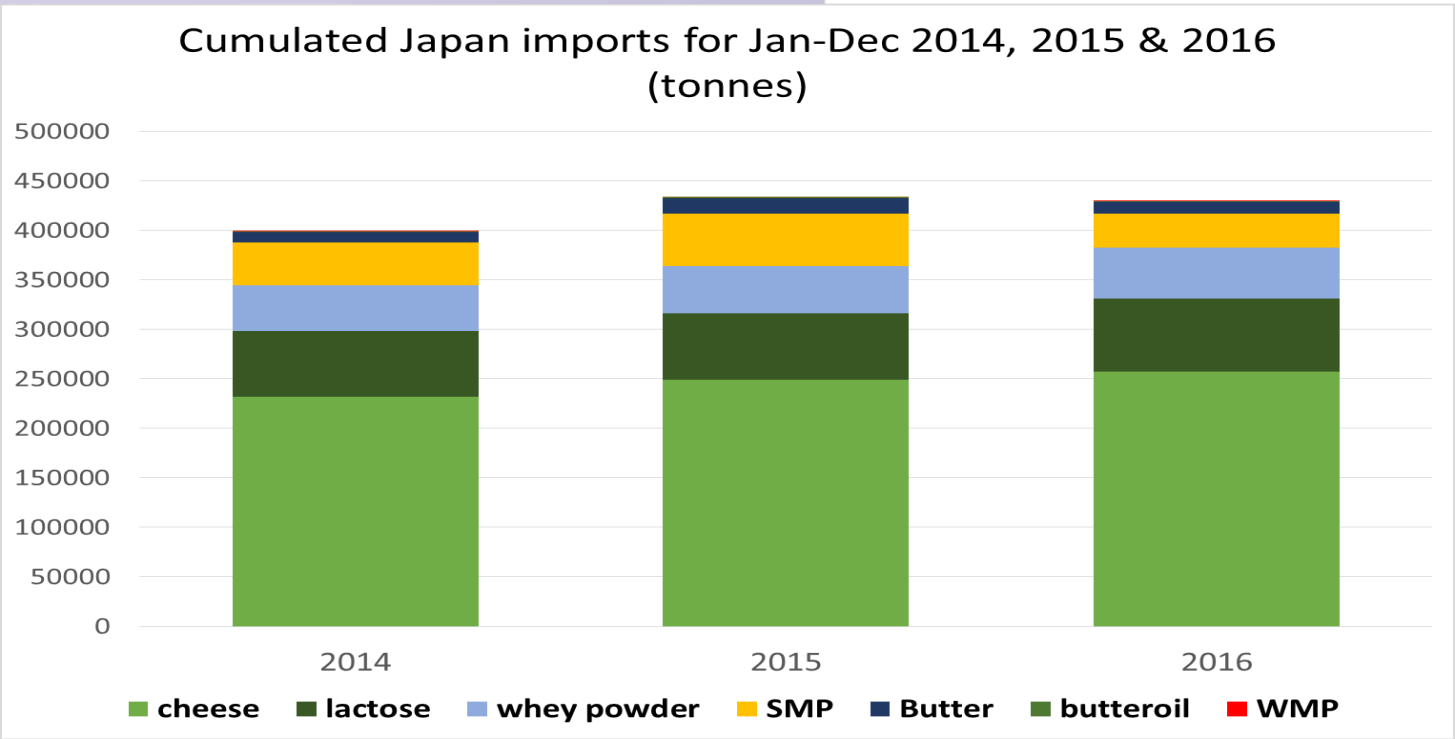




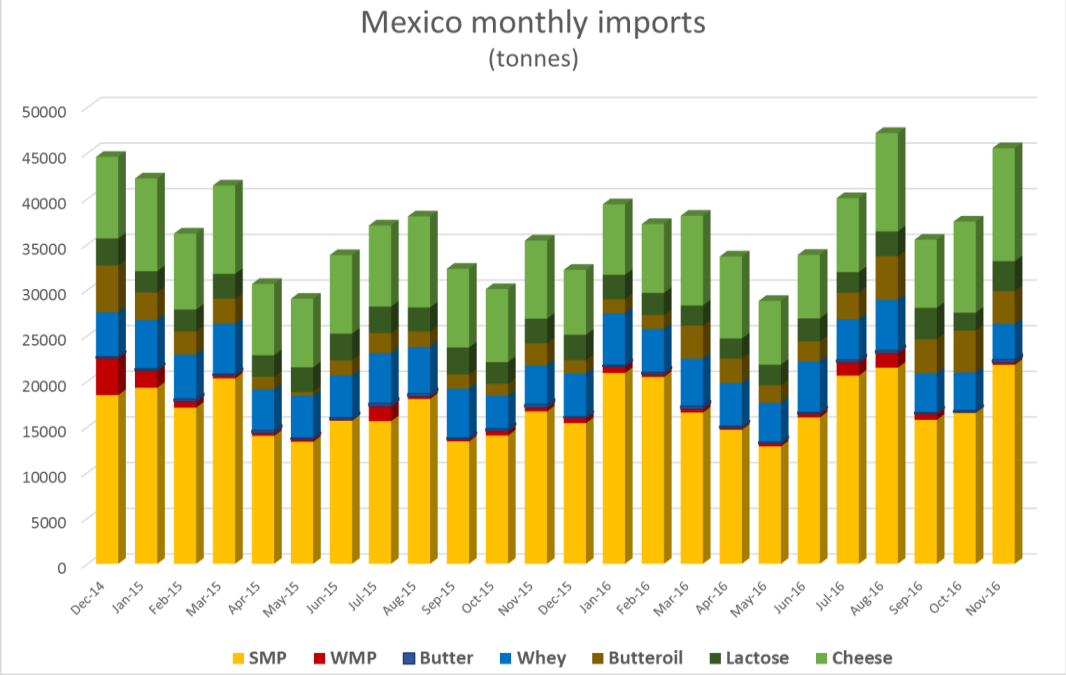


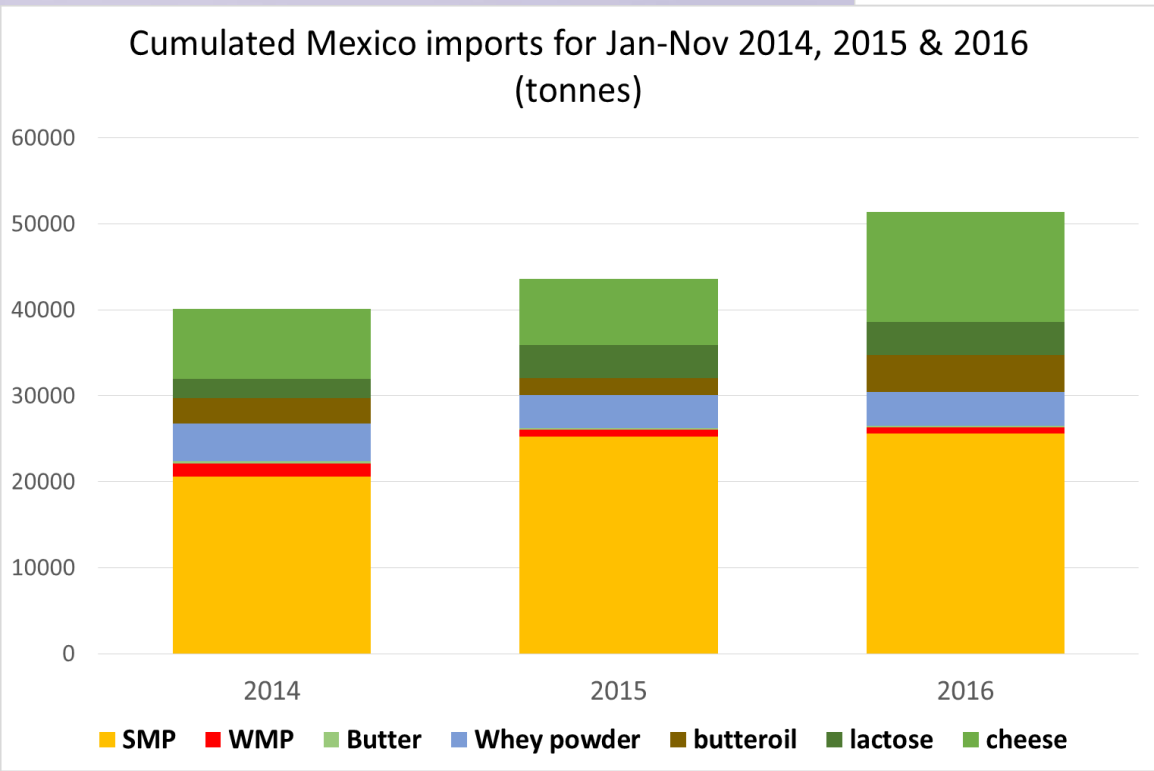
Japan Imports



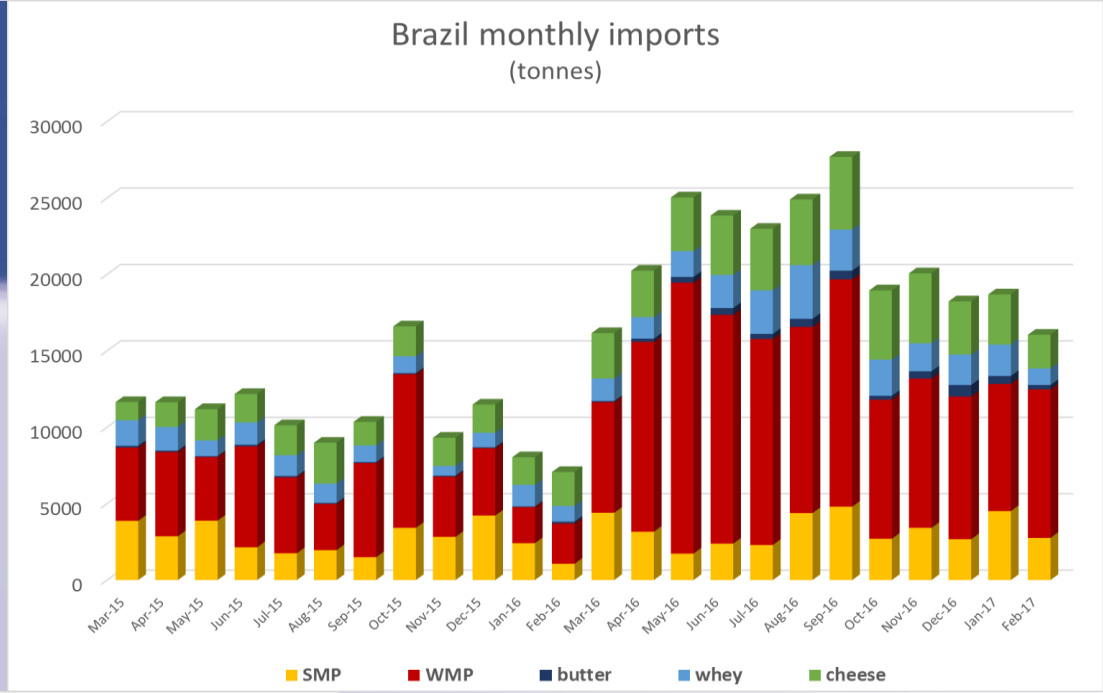


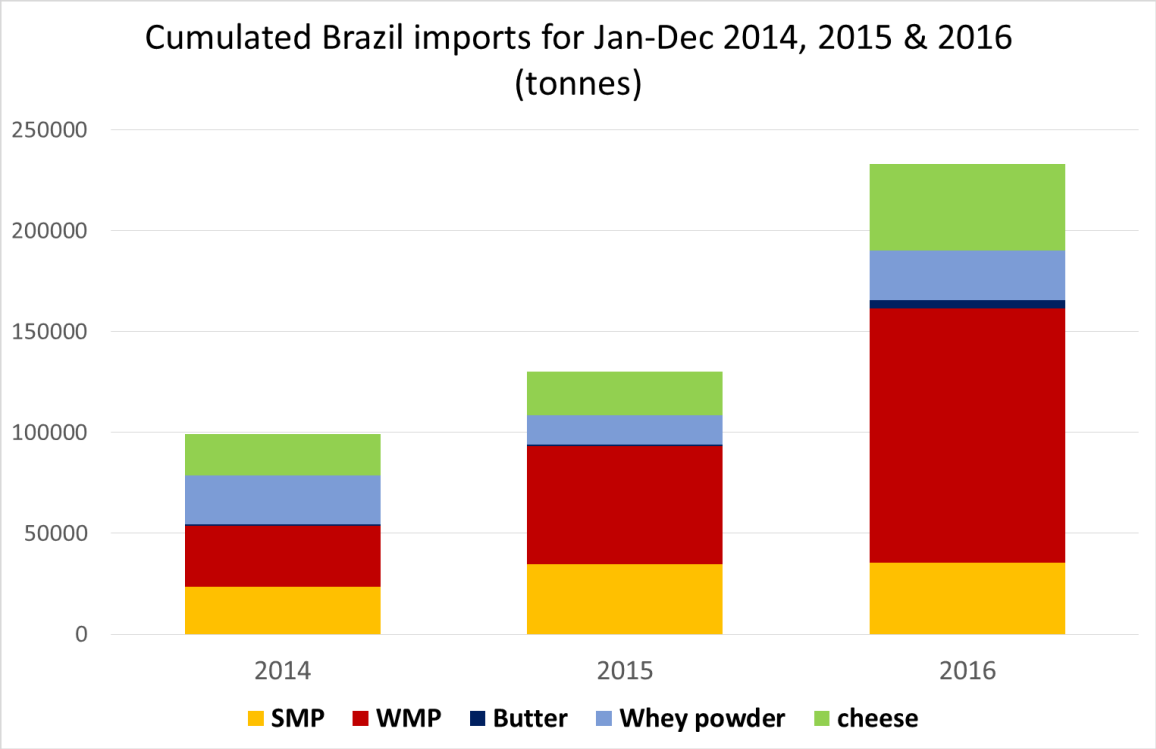
Mexico imports





Brazil imports





Conclusions

- **Reduction of global milk production since June brought markets close to an equilibrium, but outlook very uncertain** as US production continues strong, NZ recovers sooner than anticipated and EU production gradually increasing

- **Record gap between fat and protein**
  - Protein: huge SMP stocks, subdued demand, low prices and new SMP will enter intervention very soon.
  - **Fat:** demand for butterfat solid but suffering from the high prices

- **Global demand quite sluggish** with relatively low oil price keeping demand of Middle East, Africa, Russia & Venezuela muted. Chinese buying expected to grow at a slower rate

Conclusions

- **EU as an exporter is benefitting from the weakening of the Euro** but continued strong US Dollar creates more expensive imports for emerging markets
- **A lot of political uncertainty** also in advanced economies (US politics, Brexit, EU elections)
- **Boost for EU cheese exports if CETA enters into provisional application in May or June**
- Further downward pressure on SMP and increasing milk flows could depress the cheese and butter markets as well

Thank You

Sources used in presentation: Global Trade Atlas, Eurostat, USDA, Dairy Australia, DCANZ, CLAL

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ANNEX 4

Trends in sales of Milk & Dairy products – a retail perspective

EuroCommerce

TRENDS IN SALES OF MILK & DAIRY PRODUCTS – A RETAIL PERSPECTIVE

Milk Market Observatory

28 March 2017

EuroCommerce
for retail & wholesale

Belgium

Product	February 2017 vs. February 2016 Consumer Price Index
Whole milk	-9,15%
Semi-skimmed milk	-7,97%
Concentrated and powdered milk	+3,72%
Yoghurt	-0,15%
Butter	+11,13%

	% change in volume	% change in value	% change in price
Dairy products	-1,1%	-0,9%	+0,2%

Source: SPF Economie

France

Period ending February 2017

Product category	Volume (% change) 4 weeks period (P2'16/P2 '17)	Volume (% change) Year on year (P2 '15-P2 '16 / P2 '16 –P2 '17)	Price (% change) 4 weeks period (P2'16/P2 '17)	Price (% change) Year on year (P2 '15-P2 '16 / P2 '16 –P2 '17)
Total liquid milk	-4,2%	-3,4%	-1,1%	+1,8%
Of which UHT semi-skimmed milk	-5,7%	-6,1%	-1,7%	+2,0%
Yoghurt & fresh cheese	-0,3%	-1,0%	-0,3%	-0,8%
Butter	-0,4%	+0,1%	-0,3%	+1,2%
Cream	-1,8%	-1,7%	-0,2%	+0,4%
Cheese	+0,6%	+1,4%	-0,4%	-0,6%

Source: Kantar World Panel via FranceAgriMer (Min. de l'Agriculture)

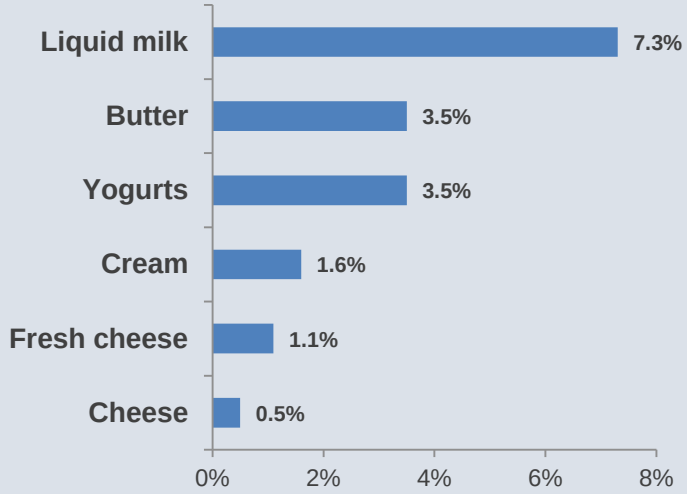
France

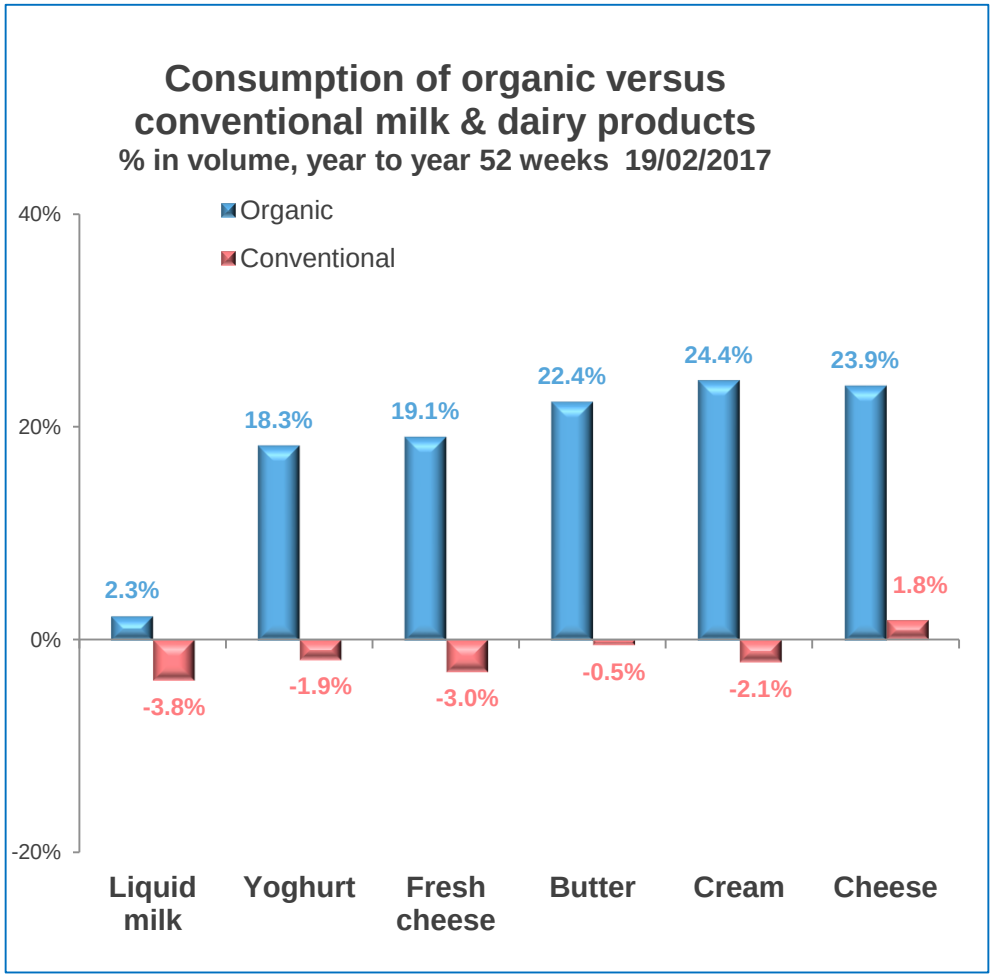
Sales of organic versus conventional milk & dairy products

Organic milk & dairy products

- Organic dairy products sales have continued to increase. The increase is registered on every product.

Organic market shares (% vol. 19/02/2017)





Source: Kantar World Panel via FranceAgriMer (Min. de l'Agriculture)

Germany

Product category	% change in volume (year to date, December 2016)	% change in value (year to date, December 2016)	Product category	% change in volume (year to date, December 2016)	% change in value (year to date, December 2016)
Butter	-0,3%	+3%	Half hard cheese	+1,1%	-2,2%
UHT Milk	-2,5%	-7,2%	Soft cheese	-0,6%	-1,6%
Fresh Milk	-0,5%	-2%	Fresh cheese	+2,2%	-0,2%
Quark	-0,3%	-3,5%	Grated cheese	+9,4%	+2,6%
Natural yoghurt	+2,1%	+0,4%	Cheese spread	-0,7%	-3,5%
Fruit yoghurt	-4,7%	-4,7%	Low-fat cheese	-2,6%	-4,5%
Desserts	-2,3%	-3,8%	Feta cheese	+1,9%	+3,3%
Milkshakes	+9,1%	+9%	**Total**	**+1,8%**	**-1,3%**
Total	**-1,1%**	**-2,4%**			

Source: GfK

Hungary

Product category	Value February 2017 vs February 2016	Value February 2017-March 2016 vs February 2016 – March 2015
Fresh and UHT milk	+8%	-0,5%
Milk products and cream	0,0%	-2,1%
Milk desserts and puddings	+9%	+4,5%
Cheese	+9%	+4,5%
Butter, margarine	+1%	-0,7%

Source: Nielsen

Portugal

Period ending February 2017

Product category	Volume (% change, year-to-date)	Volume (% change, year-on-year)	Value (% change, year-to-date)	Value (% change, year-on-year)
Fresh milk	-12,8%	-11,3%	-12,1%	-10,8%
UHT milk	-6,8%	-7,3%	-0,4%	-7,6%
Yoghurt	-7,5%	-3,7%	-5,9%	-1,1%
Fresh cheese	-5,4%	0,0%	-3,0%	-0,2%
Butter	-4,1%	-1,7%	-0,2%	-2,4%
UHT cream	+0,2%	+1,2%	+0,9%	+0,1%
Fresh dessert	+8,5%	+12,1%	+12%	+15,4%
Cheese	+3,1%	+4,0%	+2,9%	+1,9%

Source: Nielsen

Spain

Period ending January 2017

Product category	Volumes (% change January 2017 January 2016)	Volumes (% change February 2016- January 2017 vs February 2015 vs January 2016)	Value (% change January 2017 vs January 2016)	Value (% change February 2016- January 2017 vs February 2015 vs January 2016)	Price (% change January 2017 vs January 2016)	Price (% change February 2016- January 2017 vs February 2015 vs January 2016)
Standard liquid milk	-4,5%	-4,6%	-5,9%	-6,0%	-1,5%	-1,5%
Other types of milk	+5,3%	+4,0%	-0,7%	0,0%	-5,8%	-3,8%
Milkshakes	-0,7%	+5,8%	+1,5%	+5,0%	+2,1%	-0,8%
Yoghurts and fermented milk	-5,2%	-1,0%	-6,8%	-2,0%	-1,6%	-1,0%
Fresh desserts	-4,1%	-0,7%	-3,6%	-0,8%	+0,5%	-0,2%
Fresh cheese	-6,9%	-1,3%	-6,1%	+0,1%	+0,9%	+1,4%
Local, traditional cheese	+1,2%	+7,0%	-0,8%	+2,6%	-1,9%	-4,1%
Processed cheese	-6,8%	-2,7%	-6,1%	-2,1%	+0,8%	+0,7%
Imported cheese specialties	+0,3%	+2,8%	-0,8%	+0,1%	-1,1%	-2,6%

Spain

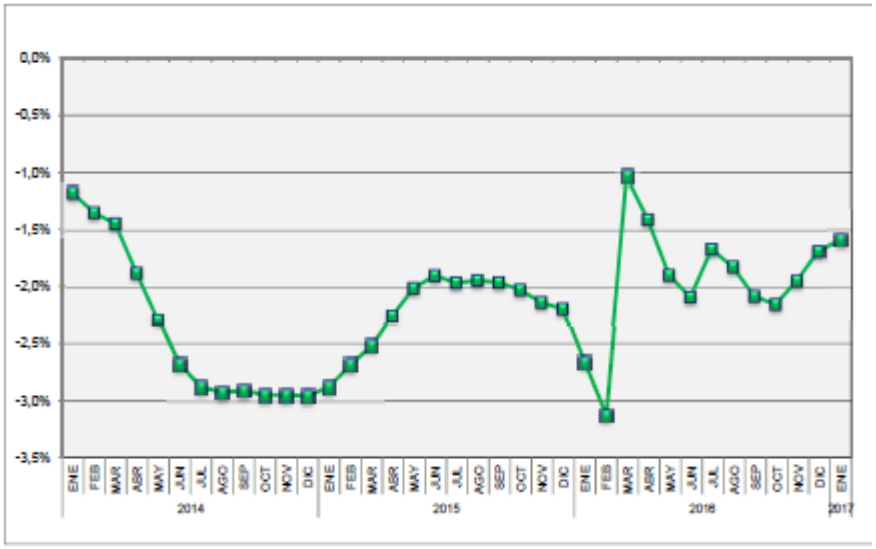
Period ending January 2017

Product category	Volume (% change January 2017 vs January 2016)	Volumes (% change February 2016-January 2017 vs February 2015 vs January 2016)	Value (% change January 2017 vs January 2016)	Value (% change February 2016-January 2017 vs February 2015 vs January 2016)	Price (% change January 2017 vs January 2016)	Price (% change February 2016-January 2017 vs February 2015 vs January 2016)
Grated cheese	-3,3%	+2,6%	-1,9%	+2,8%	+1,5%	+0,2%
Other types of cheese	-2,0%	-0,1%	-2,9%	-1,4%	-0,9%	-1,2%
Cream	-5,7%	+0,2%	-7,9%	-1,7%	-2,3%	-1,8%
Butter	+8,6%	+5,7%	+8,5%	+4,4%	-0,1%	-1,2%
Desserts and yoghurt with long conservation	-9,5%	-21,7%	-1,6%	-35,5%	+8,8%	-17,7%
Non-liquid milk	-1,7%	+2,6%	-6,3%	+0,6%	-4,7%	-2,0%
Total dairy products	-2,8%	-1,6%	-4,2%	-1,4%	-1,4%	+0,2%

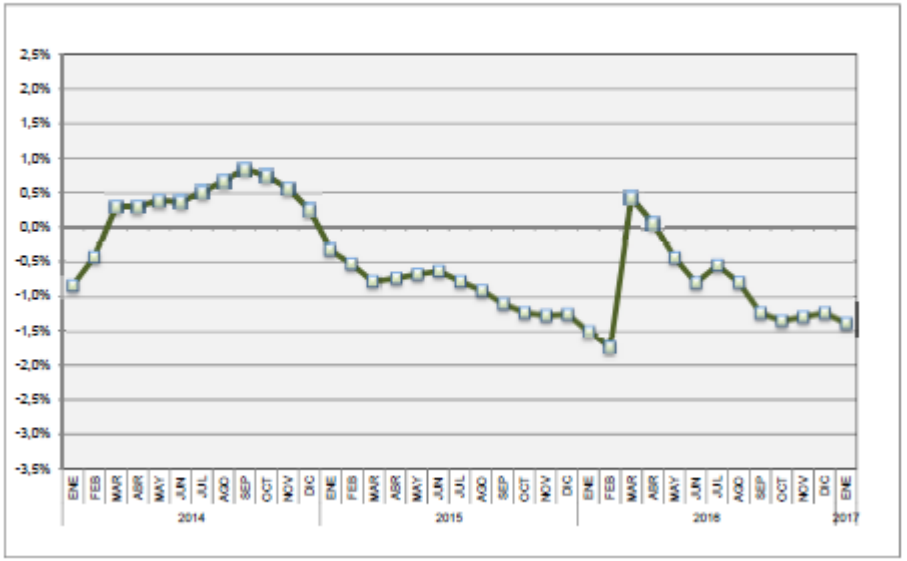
Source: Nielsen and FeNIL

Spain

1. Evolución de la variación del VOLUMEN DE VENTAS TAM. Total productos lácteos.



2. Evolución de la variación del VALOR DE VENTAS TAM. Total productos lácteos.



Source: Nielsen and FeNIL

Sweden

Period ending February 2017

Product category	Volume (% change in the last 4 weeks)	Volume (% change last 52 weeks)	Value (% change in the last 4 weeks)	Value (% change last 52 weeks)
Milk	-2,9%	-1,5%	-1,0%	+0,7%
Hard cheese	-2,3%	+0,2%	+3,5%	-1,3%
Cream	-1,8%	+0,8%	+1,1%	+0,6%
Yoghurt	-0,9%	-0,4%	-1,2%	-0,7%
Cottage cheese/curd	-6,0%	+0,4%	-7,3%	-1,9%
Cold desserts	+18,2%	+12,8%	+18,8%	+19,3%
Butter	-3,5%	+6,5%	-3,1%	+4,2%

Source: Nielsen

United Kingdom

UK Dairy Product Retail Price Indices

In February 2017, the RPI increased by 1,09% compared with January and is 3,23% higher than the same month last year. The fresh milk price index increased 0,99% on the month and was also up 1,54% on the year. The butter index decreased on the month by 0,89% but increased on the year by 4,94%. Cheese saw an increase on the month of 0,64% and a fall of 1,45% on the year.

PRODUCT PRICE INDICES			
		compared with	
	Feb-17	1 month before	12 months before
RPI price index	268.4	1.09%	3.23%
Fresh Milk	224.7	0.99%	1.54%
Butter	322.7	-0.89%	4.94%
Cheese	237.2	0.64%	-1.45%

Source: Office for National Statistics (ONS)

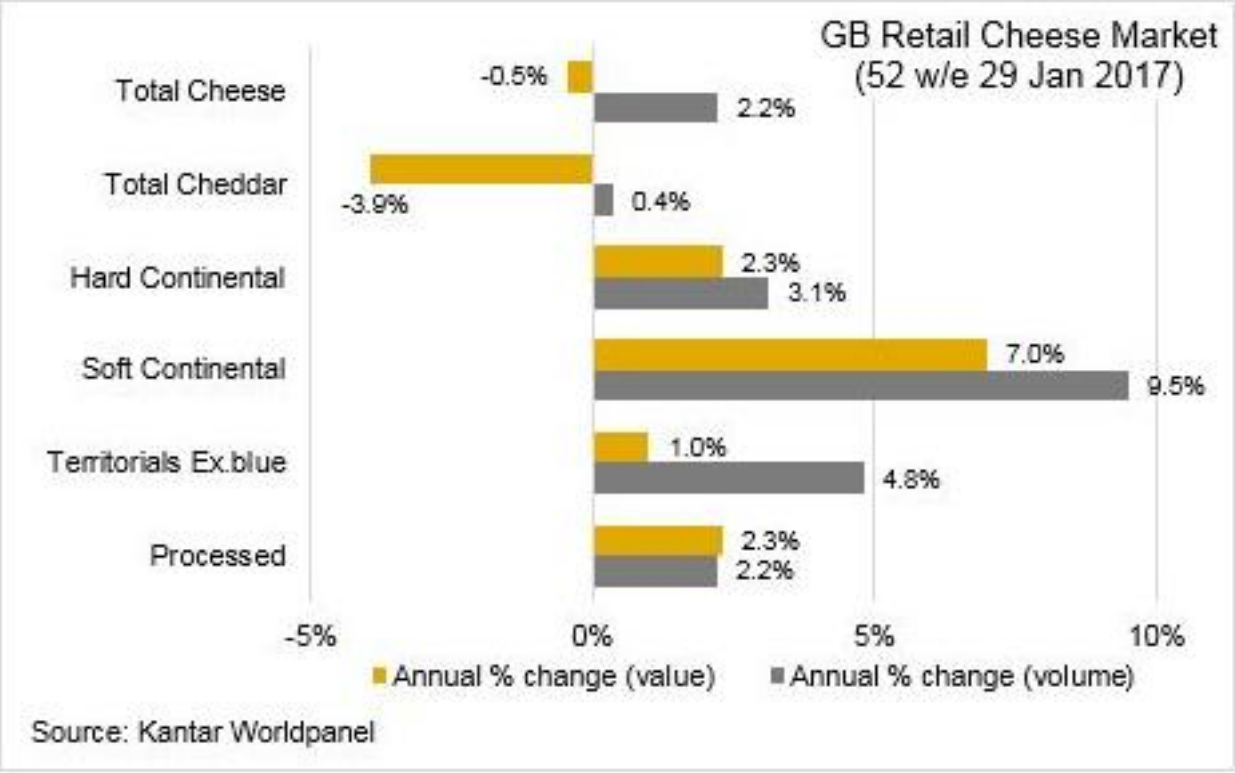
Please note: the reference base is January 1987.

Source:Ahdb

United Kingdom

52 weeks ending 01 January 2017						
	Volume (000 Litres)	YOY diff	Spend (£000s)	YOY diff	Average price (£/Litre)	YOY diff
Total milk market	5,481,303	-0.3%	3,136,408	0.8%	0.57	1.1%
Pasteurised*	4,758,946	-0.6%	2,524,978	0.3%	0.53	0.9%
Filtered	283,419	-0.1%	220,204	-0.5%	0.78	-0.3%
UHT	233,714	-3.8%	153,091	-5.6%	0.66	-1.9%
Sterilised	7,156	-6.5%	7,362	-7.2%	1.03	-0.8%
Other milk substitutes	*111,985*	*25.0%*	*151,712*	*22.6%*	*1.35*	*-1.9%*
Milk substitute - Soya	*86,084*	*3.1%*	*79,062*	*1.2%*	*0.92*	*-1.8%*
Source: Kantar Worldpanel						

United Kingdom



United Kingdom: contract league table

MILK PRICES - AHDB Dairy League table for January 2017

League Table	Monthly Price	Annual Price
Aligned Liquid Milk		
Arla Foods - Sainsburys 4	27,16	26,96
Müller Direct Milk - M&S (Profile) 2	30,03	29,59
Müller Direct Milk - M&S (Seasonal) 2	30,03	29,51
Müller Direct Milk - Sainsbury (Profile) 2	27,74	27,30
Müller Direct Milk - Sainsbury (Seasonal) 2	27,74	27,23
Müller Direct Milk - Waitrose (Profile)	30,75	30,31
Müller Direct Milk - Waitrose (Seasonal)	30,75	30,23
Müller Milk Group - Booths	30,56	30,42
Müller Milk Group - Co-operative	25,59	25,44
Müller Milk Group - M&S	28,72	28,56
Müller Milk Group - Sainsbury	27,40	27,25
Müller Milk Group - Tesco	28,55	28,47
Standard Liquid Milk		
Crediton Dairy	27,19	26,76
Müller Direct Milk - Core Formula (Profile)	31,53	31,09
Müller Direct Milk - Core Formula (Seasonal)	31,53	31,01
Müller Direct Milk - Liquid (Profile)	26,87	26,44
Müller Direct Milk - Liquid (Seasonal)	26,87	26,36
Müller Milk Group - Partnership	26,48	26,33
Pensworth	25,10	25,06
UK Arla Farmers Liquid 3	25,11	24,74

https://dairy.ahdb.org.uk/resources-library/market-information/milk-prices-contracts/league-table-new-profile/#.WNk7Xm994dV

United Kingdom

unit price (p)		Feb-17	Jan-17	Month Diff.	Feb-16	Annual Diff.
Liquid milk†	Retail (4 pints)*	103	103	n/c	100	+3
	Doorstep (1 pint)**	81	81	n/c	81	n/c

ppl		Feb-17	Jan-17	Month Diff.	Feb-16	Annual Diff.
Cream††	Total Cream	252	251	1	241	+11
	Double Cream	226	226	1	213	+13
	Single Cream	215	211	4	191	+24

p/kg		29-Jan-17	1-Jan-16	Month Diff	31-Jan-16	Annual Diff.
Cheddar††	Total market	575	598	-23	596	-21
	Mature	571	577	-6	598	-27
	Mild	530	532	-2	543	-13

*† updated monthly ; †† updated quarterly ; *pasteurised (private label)*
***milkandmore monthly spot price - semi-skimmed glass bottle*
Source: Kantar Worldpanel Online

ANNEX 5

Dairy production Short-term Outlook

European Commission

European Commission

Dairy production
Short-term Outlook

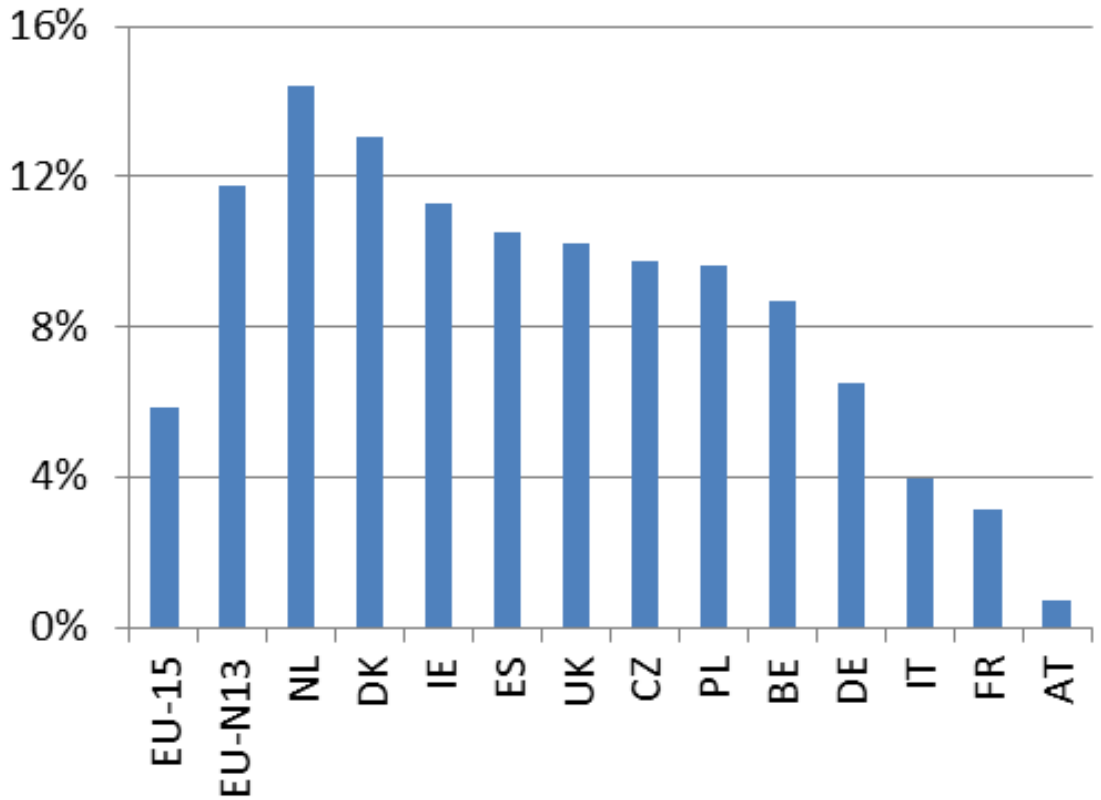
MMO 28 March 2017

Sophie Hélaine

DG Agriculture and Rural Development
European Commission

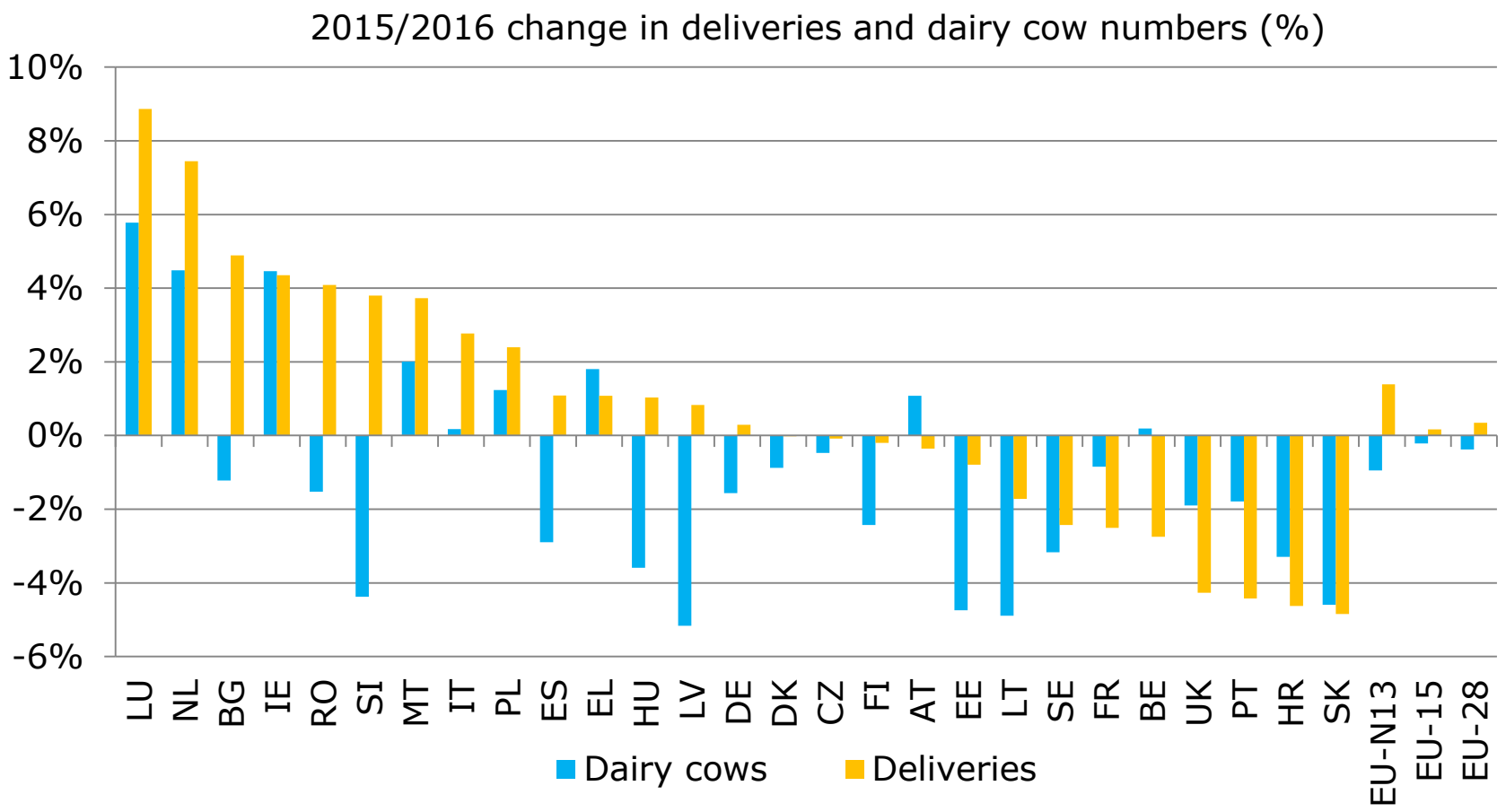
Agriculture and Rural Development

High cow slaughterings in 2016/2015



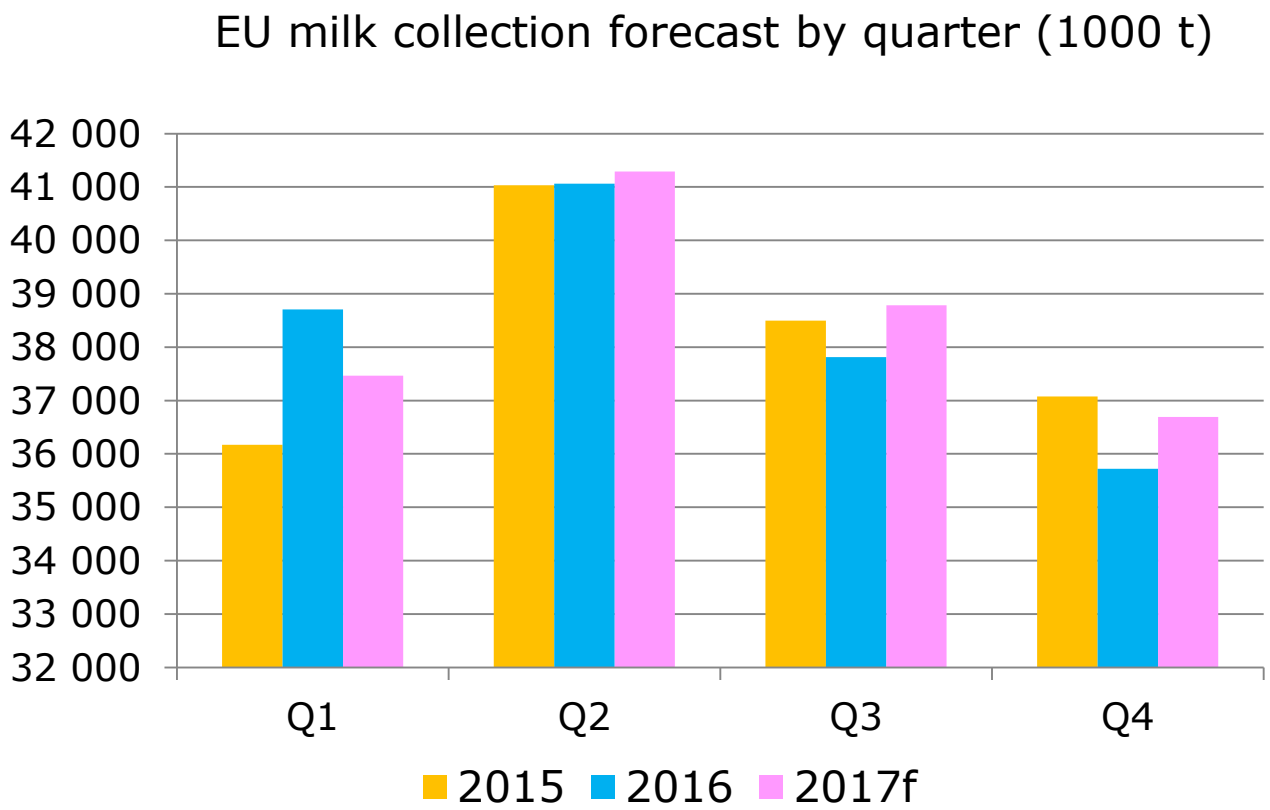
Note: Dairy and beef cows
Feb. corrected
Source: Eurostat

A sizeable EU dairy herd = more milk to come



Source: DG AGRI based on Eurostat

2017 EU milk collection +0.6%



EU prospects report and data available in December at:
http://ec.europa.eu/agriculture/markets-and-prices/medium-term-outlook/index_en.htm

OECD-FAO Outlook at:
http://www.agri-outlook.org/

Short term outlook at:
http://ec.europa.eu/agriculture/markets-and-prices/short-term-outlook/index_en.htm

Thanks

Sophie.helaine@ec.europa.eu

ANNEX 6

Managing risk in the dairy sector: How futures markets could help

European Commission

European Commission

Managing risk in the dairy sector: how futures markets could help

MMO
Brussels, 28 March 2017

Sophie Helaine and Adamo Uboldi

Analysis and Outlook
DG Agriculture and Rural Development
European Commission

Agriculture and Rural Development

Outline

1. Price volatility vs price levels

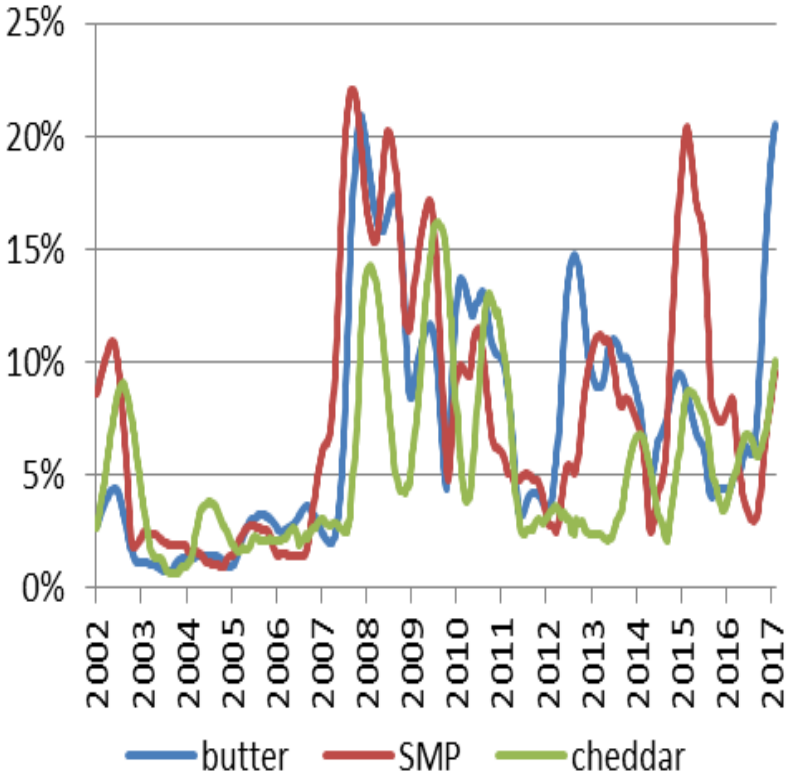
2. Financial instruments

3. Use of dairy futures in EU, US and NZ

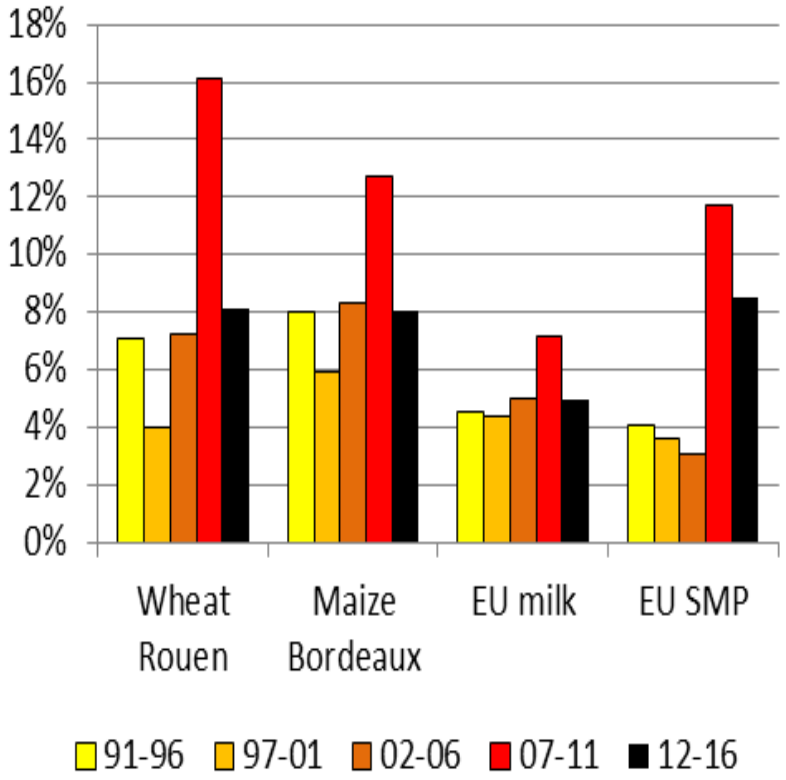
4. Obstacles to the growth of future markets

EU dairy volatility (1-y CoV): products comparison

Dairy products…



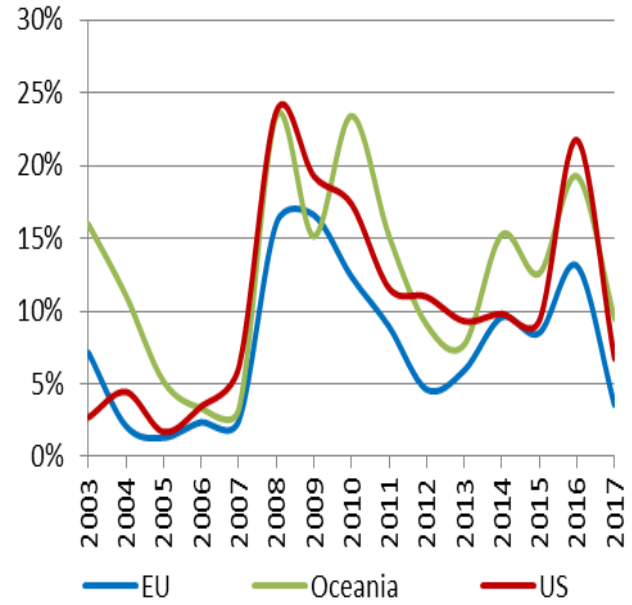
…and crops



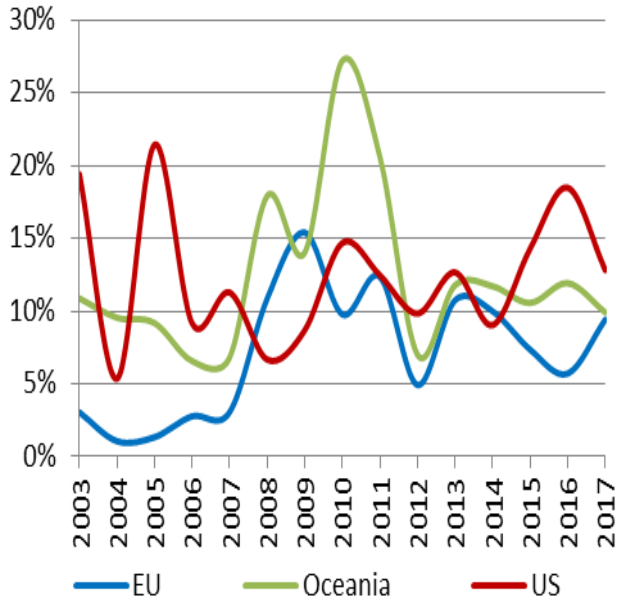
Source: DG Agriculture and Rural Development calculations

Dairy volatility: geo comparison

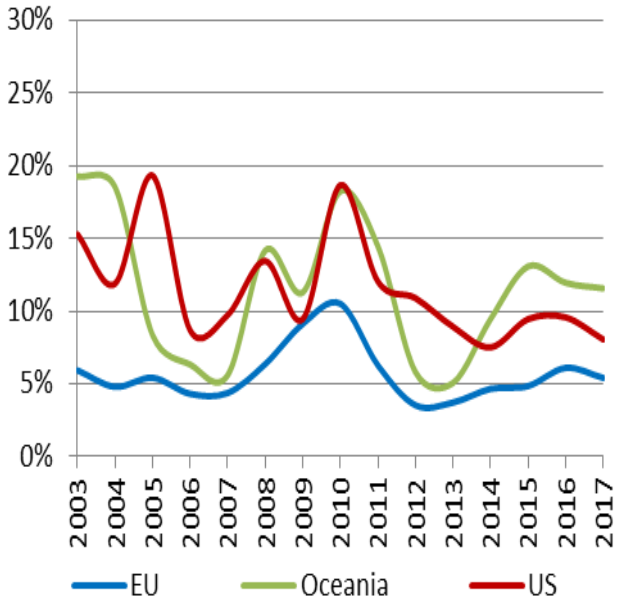
SMP



Butter



Raw milk



Source: DG Agriculture and Rural Development calculations

Financial instruments

Forward contract

A forward contract is a contract between two parties to buy (or sell) an asset at a specified future time at a price agreed upon today, typically traded Over-The-Counter (OTC).

Future contract

Futures are standardised (by quality, quantity, delivery date etc…) forward contracts centralized/negotiated at Exchanges. Futures can be based on physical delivery of the underlying asset or on cash-settlement, i.e. by only making a payment in cash when the contract expires, without physical exchange of goods.

Option contract

An option gives the buyer the right, but not the obligation, to buy or sell an underlying asset: the purchase, if the option is exercised, happens at a pre-specified strike price on a pre-specified maturity date. Important asymmetry: the seller of the option has the corresponding obligation to fulfil the transaction (to sell or buy) if the buyer exercises the option.

Financial dairy products available, worldwide

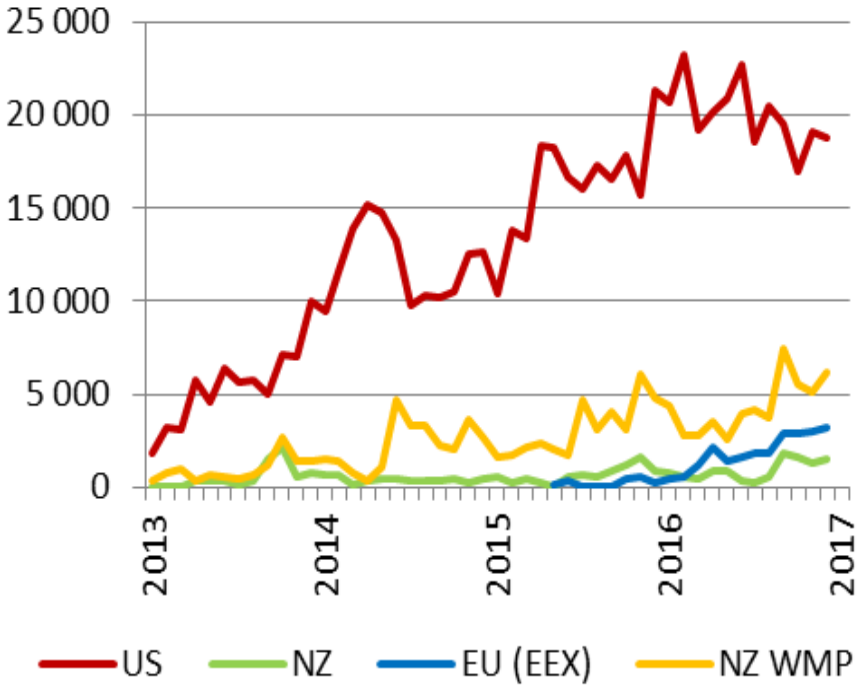
Colour code: orange means physical delivery, light-blue is cash-settled, dark-blue is cash-settled with options available.

	Milk Class III	Milk Class IV	Milk MKP	Butter	Butter oil, AMF, Anhydrous Milk Fat	SMP	WMP	Standard Whey Powder	Cheddar Cheese
New Zealand (USD)			6 000 kg milk solid, yearly (5y) 2016	1 t 18 months 2014	1 t 18 months 2011	1 t 18 months 2011	1 t 18 months 2010		
US (USD)	90 t 24 months 2000	90 t 24 months 2000		9 t 24 months 2005		20 t 24 months 1993		20 t 24 months 2007	9 t 24 months 2010
EU EEX (EUR)				5 t 18 months 2015		5 t 18 months 2015		5 t 18 months 2015	
EU Euronext (EUR)				6 t 18 months 2015		6 t 18 months 2015		6 t 24 months 2015	

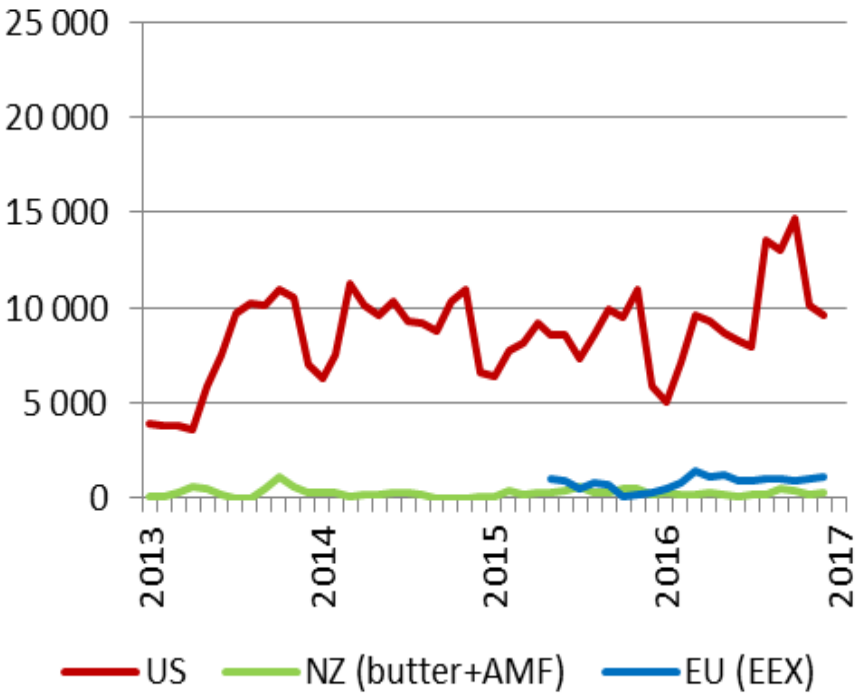
Source: Euronext, EEX, CME, NZX.

Open interest (nearby future, converted into tonnes)

SMP



Butter



Source: DG Agriculture and Rural Development based on Thompson Reuters

Use of dairy futures: larger in the US than in the EU

Share of open interest over production

	2012	2013	2014	2015	2016
EU SMP				0.2%	0.9%
US SMP	3.0%	3.8%	8.0%	11.6%	12.1%
NZ SMP	0.1%	0.7%	0.2%	0.7%	1.1%
NZ WMP	0.3%	0.3%	0.5%	1.1%	1.5%
EU butter				0.1%	0.2%
US butter	4.6%	5.1%	6.3%	6.6%	6.4%
NZ butter	1.7%	0.7%	0.3%	0.7%	0.7%
US milk	2.8%	2.6%	3.8%	3.5%	3.4%
US cheese	1.3%	1.2%	2.8%	4.9%	4.6%

Source: DG Agriculture and Rural Development based on Thompson Reuters and USDA PSD

Use of futures for crops: another planet…

Share of open interest over production

	2012	2013	2014	2015	2016
EU wheat	11%	8%	8%	9%	10%
US wheat	100%	95%	96%	97%	95%
US maize	56%	43%	45%	48%	44%
US soybeans	111%	85%	82%	87%	83%
EU rapeseed	21%	14%	13%	17%	19%

Source: DG Agriculture and Rural Development based on Thompson Reuters and USDA PSD

How hedging works in practice

- ***FOR THE BUYER:*** *a hedging strategy on a* ***long position*** *is rather easy. The owner of a contract will buy in the future (precisely at maturity) the underlying asset at a price known today.*

- ***FOR THE SELLER:*** *viceversa, a hedging strategy on a* ***short position*** *could be slightly more complicated...*
In growing order of complexity, we go through a series of

- ***WORKED EXAMPLES:*** *'today' is the negotiation day, explicitly stated, around Aug-Sep 2016. Maturities have been selected for particular intrinsic interest: May 2017 for the next seasonal peak in production, and December 2016 for a complete ex-post evaluation.*

- ***REAL MARKET DATA:*** *figures quoted are rounded to make them more readable*.

Example 1, "the locker"

- ***TARGET:*** *a dairy processor wants to secure his revenue for selling 5 t of SMP by fixing the selling price of his dairy commodity in advance.*

- ***MARKET DATA:*** *on the* ***9th of September 2016*** *the EU market price for SMP is 1 900 EUR/t. On the same day, these are the prices of SMP contracts:*

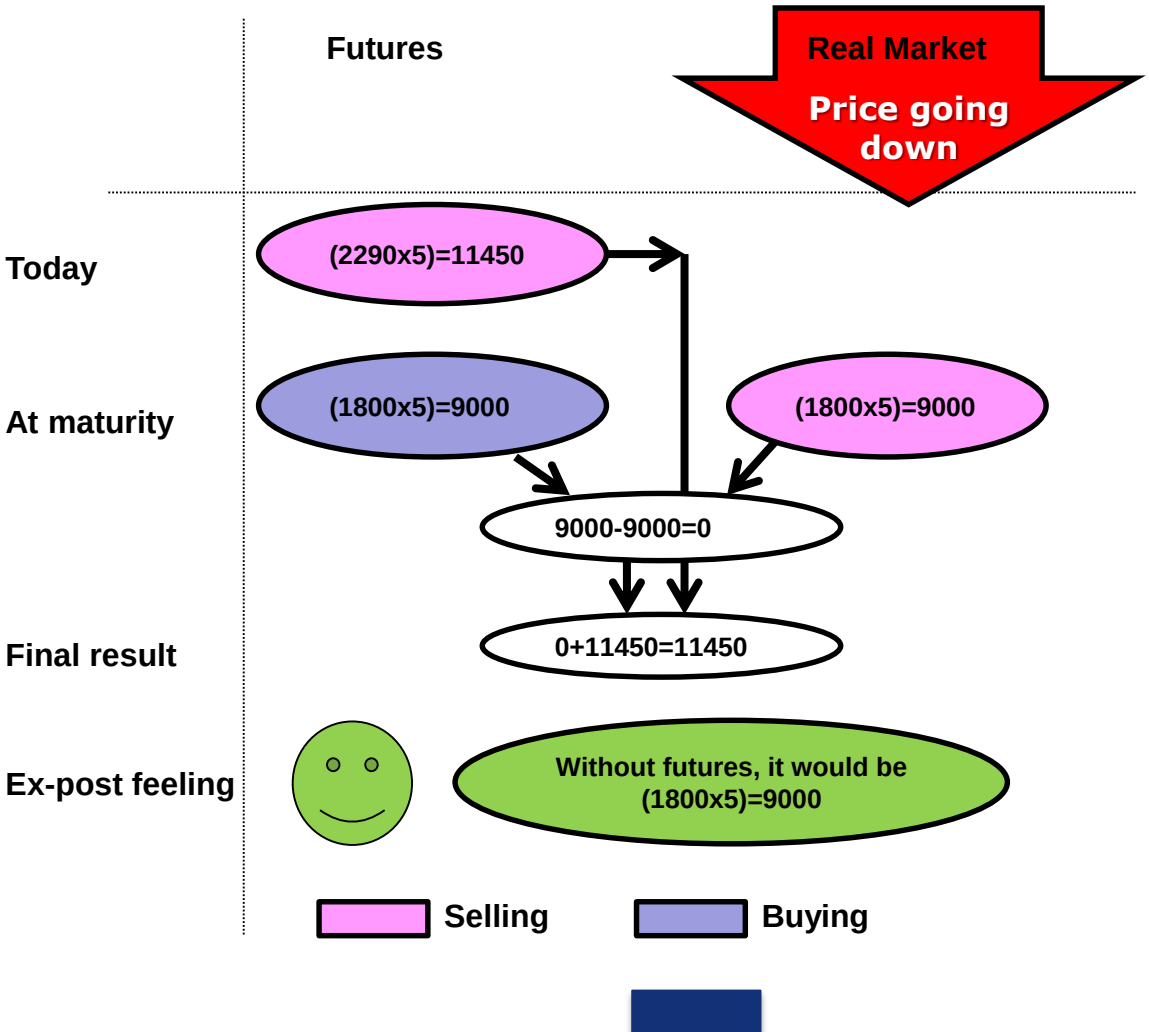
Maturity	Sept 2016	Oct 2016	Nov 2016	May 2017
SMP (EUR/t)	2 090	2 140	2 130	**2 290**

Source: EEX.

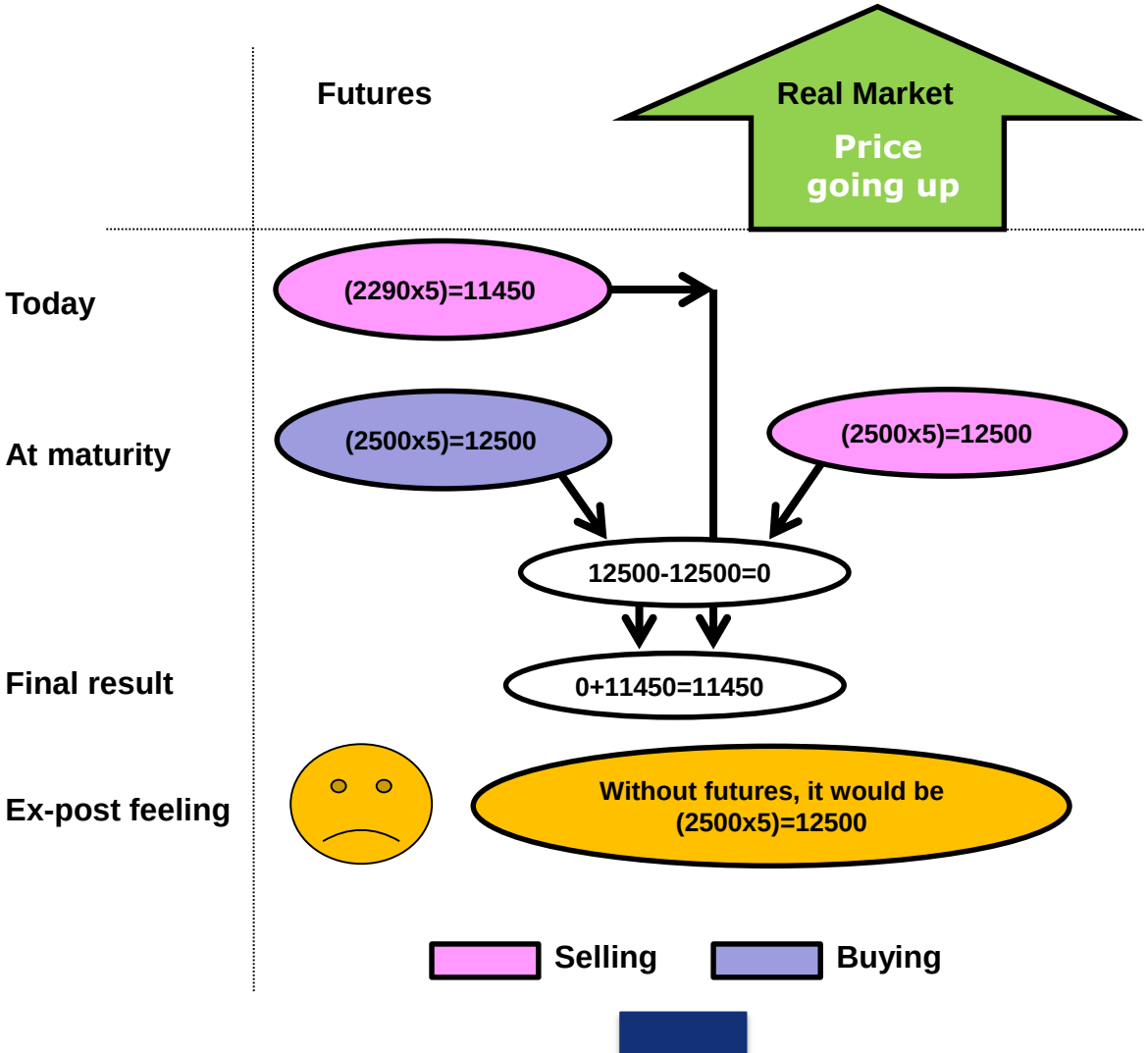
- ***HEDGING STRATEGY:*** *regardless of the physical price today, the processor* ***sells today a contract of SMP*** *with expiry date May 2017.* ***At maturity, the processor physically sells his SMP*** *on the physical market,* ***AND buys back the SMP contract*** *at market price, thus cancelling the previous commitment (i.e. netting his 'financial' position).*

- ***2 SCENARIOS:*** *"up" from 1 900 EUR/t today to 2 500 EUR/t* ***(+600 EUR/t****), and "down" from 1 900 EUR/t today to 1 800 EUR/t* ***(-100 EUR/t****).*

Example 1, "the locker": scenario "down"



Example 1, "the locker": scenario "up"



Wrap up: Example 1, "the locker"

Whatever the future outcome on the market *(scenario 1 assumes an increasing price while scenario 2 assumes a decreasing one),* ***the net final result in both cases is exactly the initial value of the futures contract****, an amount already known since the beginning (EUR 11 450).*

This is exactly what ***'securing revenues'*** *means: the original target of the processor was exactly to have a known and* ***market-evolution-unrelated guaranteed price****.*

The hedging strategy works perfectly, provided that:

- *at maturity futures contract price and spot price* ***converge****;*
- *the underlying price of the futures contract is a* ***'representative price'****, really reflecting the specific spot market's conditions.*

Example 2, the "shock absorber"

- ***TARGET:*** *a cooperative is selling raw milk but since there is no milk futures contract in Europe it has to hedge on dairy products such as butter and SMP.*

- ***MARKET DATA:*** *on the* ***14th of August 2016*** *the EU market price for SMP and butter is respectively 1 780 EUR/t and 3 290 EUR/t. On the same day, these are the prices of SMP and butter contracts:*

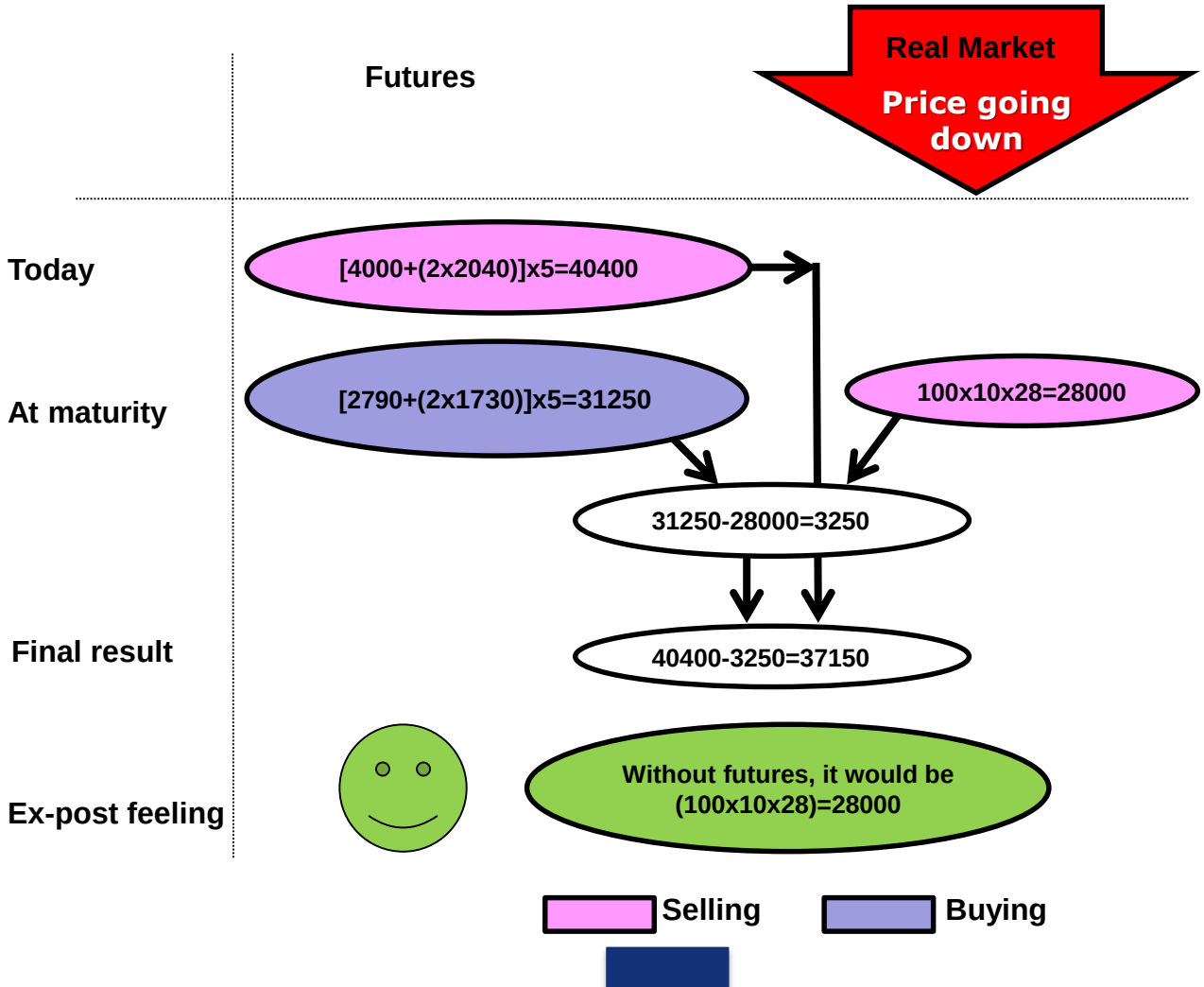
Maturity	Sept 2016	Oct 2016	Nov 2016	Dec 2016
SMP (EUR/t)	1 940	2 000	2 020	**2 040**
Butter (EUR/t)	4 100	3 990	3 960	**4 000**

Source: EEX.

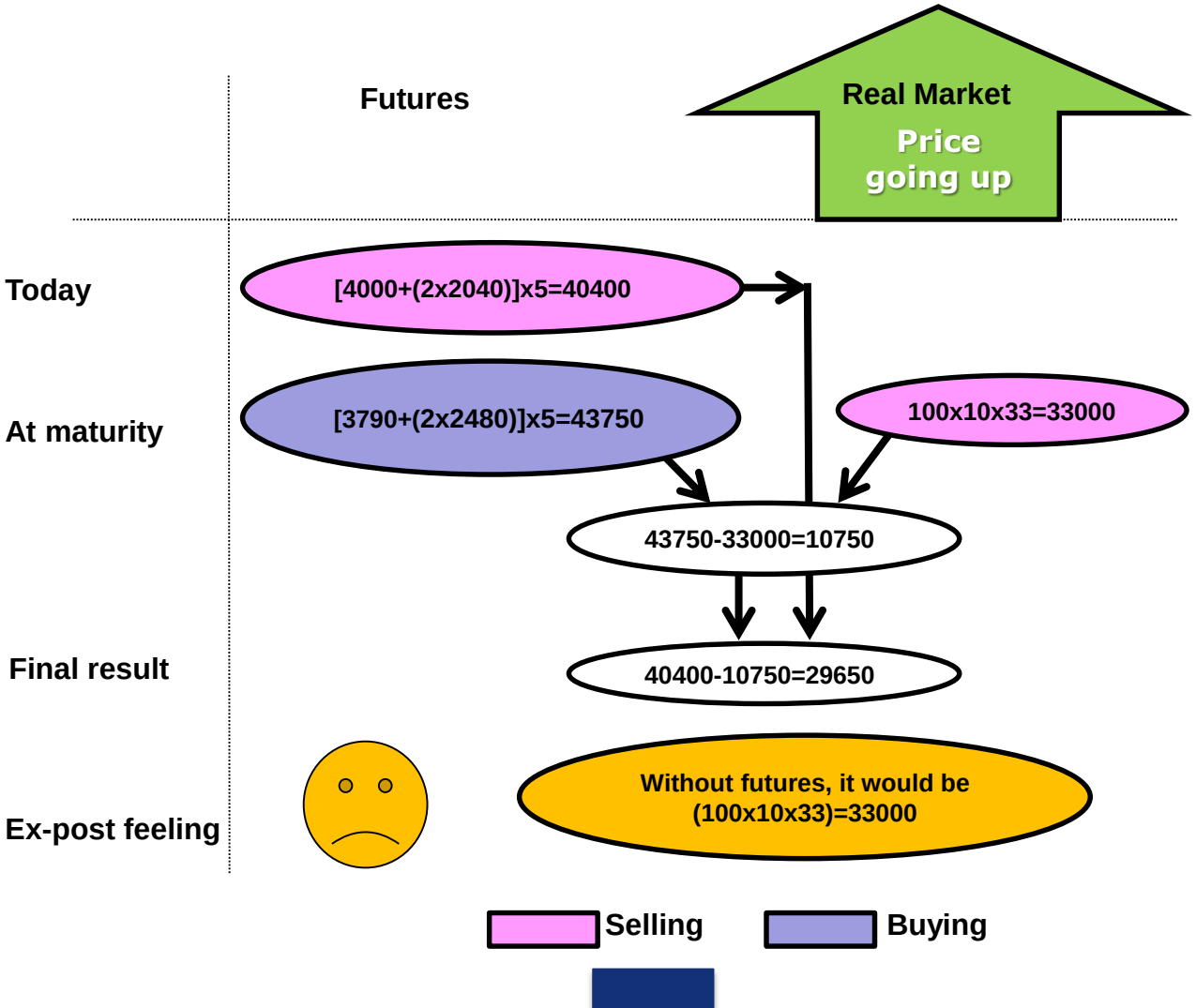
- ***HEDGING STRATEGY:*** *regardless of the physical price today, the cooperative* ***sells today a portfolio made of 1 contract of butter and 2 contracts of SMP*** *at December prices.* ***At maturity****, the cooperative* ***sells its milk production*** *according to prevalent market condition* ***and buys back the portfolio*** *(1 contract of butter and 2 of SMP) at market prices, thus cancelling the previous commitment.*

- ***2 SCENARIOS:*** *"up" and "down" for both SMP and butter.*

Example 2, "shock absorber": scenario "down



Example 2, "shock absorber": scenario "up"



Wrap up: Example 2, the "shock absorber"

Whatever the future outcome on the market *(scenario 1 has increasing prices while scenario 2 has decreasing ones),* ***the net final result*** *in both cases* ***is not too far from 33 EUR/100 kg*** *(i.e. the expected future milk value implied by the December contracts on SMP and butter), an amount already known today.*

This is exactly what ***'protect revenues'*** *means: the original target of the processor was exactly to have a known and* ***market-evolution-softened guaranteed price****.*

The hedging strategy works perfectly, provided that:

- *at maturity futures contract price and spot price* ***converge****;*
- *the underlying price of the futures contract is a* ***'representative price'****, really reflecting the specific spot market's conditions.*

Conclusions

- *Volatility of dairy products prices is significantly higher than the historical level of the early 2000s (though lower than in 2007).*
- *Financial tools, such as futures and options could really contribute to reduce risks for dairy farmers/processors, especially in times characterized by relatively high volatility and low prices.*
- *Specific futures for dairy markets have recently been introduced in the EU. The volumes traded are still low but a growing interest for these contracts is observed, especially by the end of 2016.*
- *In the dairy sector, cash-settled contracts may be more suited rather than physical delivery contracts.*
- *In the US, where dairy futures have been available for a longer period, the open interest (number of open contracts) for SMP represents 12% of the domestic production. The open interest for SMP in EU futures is significantly increasing but only close to 1% of the EU production.*

Main obstacles

Several obstacles are reported to affect the expansion and the use of futures and options in the dairy sector:

- *dairy products are not as homogenous as grains/crops;*
- *liquidity is still low;*
- *the amount of knowledge required to handle these instruments is high, and lacking in the sector.*

Other obstacles to the growth of future markets

- *High transaction/intermediation/brokerage cost, plus margin calls*
- *Public support policies providing alternative methods of risk reduction*
- *Local prices are not strongly correlated with world or EU futures prices*
- *Convergence of spot and futures prices*

More specifically on dairy

- *Size of contracts, too large for a single farmer*
- *Physical delivery vs cash-settled contracts*
- *Lack of a "Representative Price"*
- *Still perceived as speculative tools…*

Final key message

Many of the issues are already (on the way to be) solved or clearly reduced in impact. On the production side, cooperatives and producer organisations could play a crucial role, centralizing hedging thus reducing the burden for individual farmers.