

## Dairy Market Blog

Dairy, Dairy Markets, FMP, Liquid Milk

### Global milk flows fall, underpinning price recovery

We have already documented the fact that the EU production trends, especially in May and June, were either for slowing growth (Netherlands, Poland, Denmark) or for out and out reductions (France, Germany, UK, Spain) – see more details on this below.

But we now see that most of our international competitors are also pulling back, in some cases quite dramatically.

According to NZ Farmers, Kiwi June milk supplies were down 10%. May output had increased by 3.5%, finishing the 15/16 season on a stronger note, though the whole year closed 1.6% down on the previous season. Whatever factors allowed for strong growth in May were well and truly gone in June, the first month of the new season. Supplies in the South Island fell by a massive 22%, with the North Island output declining 6%. The forecast for the full year 16/17 output remains at -3%.

Another positive supply-side piece of news from New Zealand is that Fonterra is reporting that their stocks are down 11% on the same period last year.

In the US, latest USDA/WASDE forecast for 2016 is that production will increase by a total of 1.8 % – revised downwards from 1.9% a month earlier.

According to Quatterra Consulting and Advisory, a Buenos Aires based consultancy firm, In South America, poor weather and low milk prices have also led to major production decreases. Argentina and Uruguay experienced torrential rain in April, causing infrastructural failure so that milk tankers could not reach farms and collect milk in some cases. This was compounded by unseasonably low temperatures.

In Argentina, Jan-May milk production was down 11.9%, it was down 12.5% in Uruguay for the same period, while Brazilian output was down 4.5% for the Jan-Mar period. All three countries are relatively significant milk producers and exporters. Due to poor economic conditions in Brazil, a big customer for its neighbour's dairy products, payment defaults have been reported.

### EU supplies easing in recent weeks, even without EU production control measures

Poor prices over a longer period than was ever sustainable, a cool spring, and major increases in cow culls, all combined to see a dramatic change of trend in EU supplies over the last couple of months especially.

### In some EU member states, production is falling:

– In **France**, for the period from April to June 19<sup>th</sup>, output was down 1.62%. For the month of April itself, it was -1.1%, with the fall speeding up for May to -3.2%, and again for the week ending June 19<sup>th</sup> to -3.27%

- In **Spain**, production for the year to end May was down 3.7%, with May itself -1.3%
- Supplies in the **UK** are practically collapsing: while the year to the end of May was 1.2% easier, the month of May itself was down 7.8%, while the 2 weeks ending 02/07 were down a whopping 9.2%
- **Germany**, for the week ended 26<sup>th</sup> June, was down 1.9%, a steepening rate of decrease over the last number of weeks (see graph below for German weekly milk deliveries for the year to 26<sup>th</sup> June).

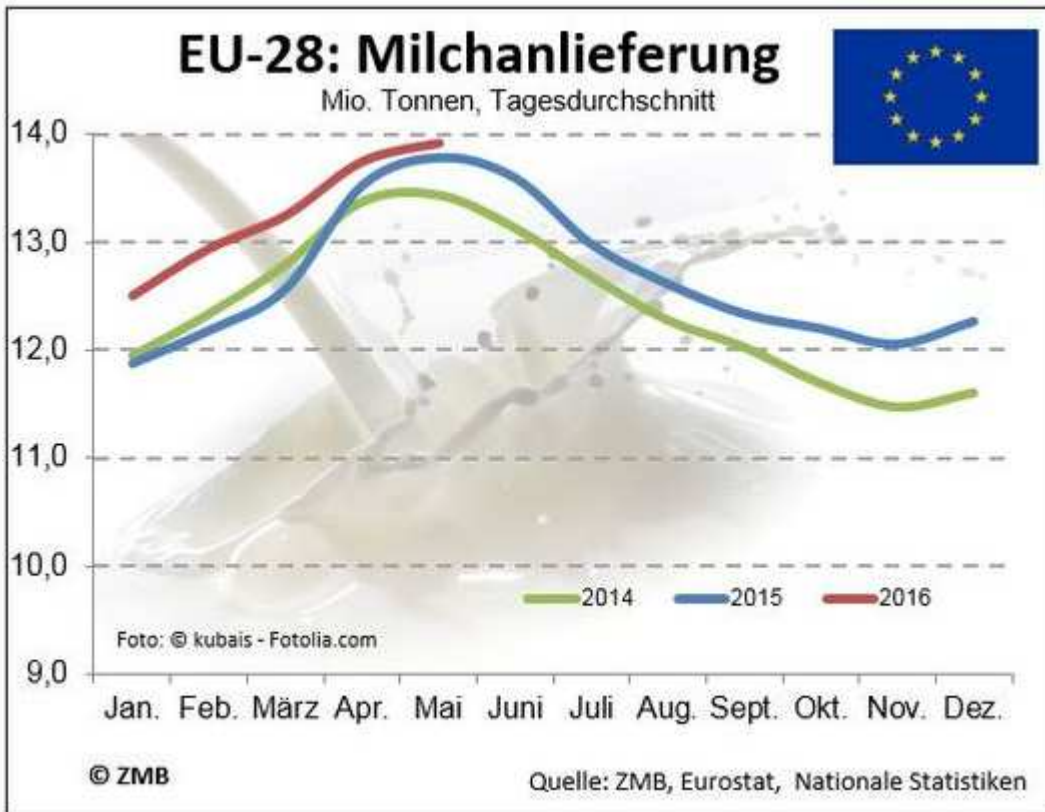


Source: ZMB

**In other EU member states, production continues to grow, but at a slower pace:**

- The **Netherlands** have been the most dynamic EU milk producer. Supplies for the month of April were up 10.8%, slowing down in May to a still significant +8.3%
- **Polish** milk production also grew strongly for the year to end May, by +6.7%, but for May itself growth has eased to +2.1%
- For **Denmark**, output for March was +8.9%, slowing rapidly in April to +1.9%, and moving into negative territory in May, at -0.2%
- Finally, for us in **Ireland**, March production was +28.6%, April was -4.1%, with improved weather in May leading to an increase much more moderate than in the first quarter, at +4.9%

The graph below outlines the milk deliveries in the EU 28 to May 2016, as estimated by ZMB, and clearly show much more overall modest growth of 1.1% for May compared to 3.9% for the first 5 months.

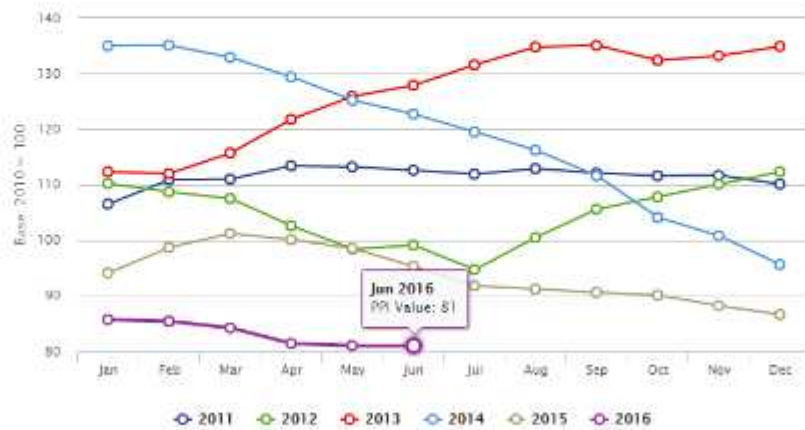


Source: ZMB

#### Ornua PPI stabilises

The Ornua PPI for dairy products traded in June 2016 was stable at the same level as May – 81 points. This, according to Ornua, is equivalent to a farmgate milk price of 21.39c/l + VAT or 22.5 c/l incl. VAT. This is lower than the average EU dairy market returns, in particular because Irish butter and SMP prices are somewhat lower than EU averages.

The following graph shows how the PPI has varied since 2010 and it is updated monthly. Hover over points to view the PPI value for a specific month and to see how global factors may have influenced the value of the PPI for that particular month.



The PPI can provide a reference as to how the general dairy market is performing, and may help to guide expectations around likely returns for dairy products and the milk used in their manufacture.

Source: Ornua

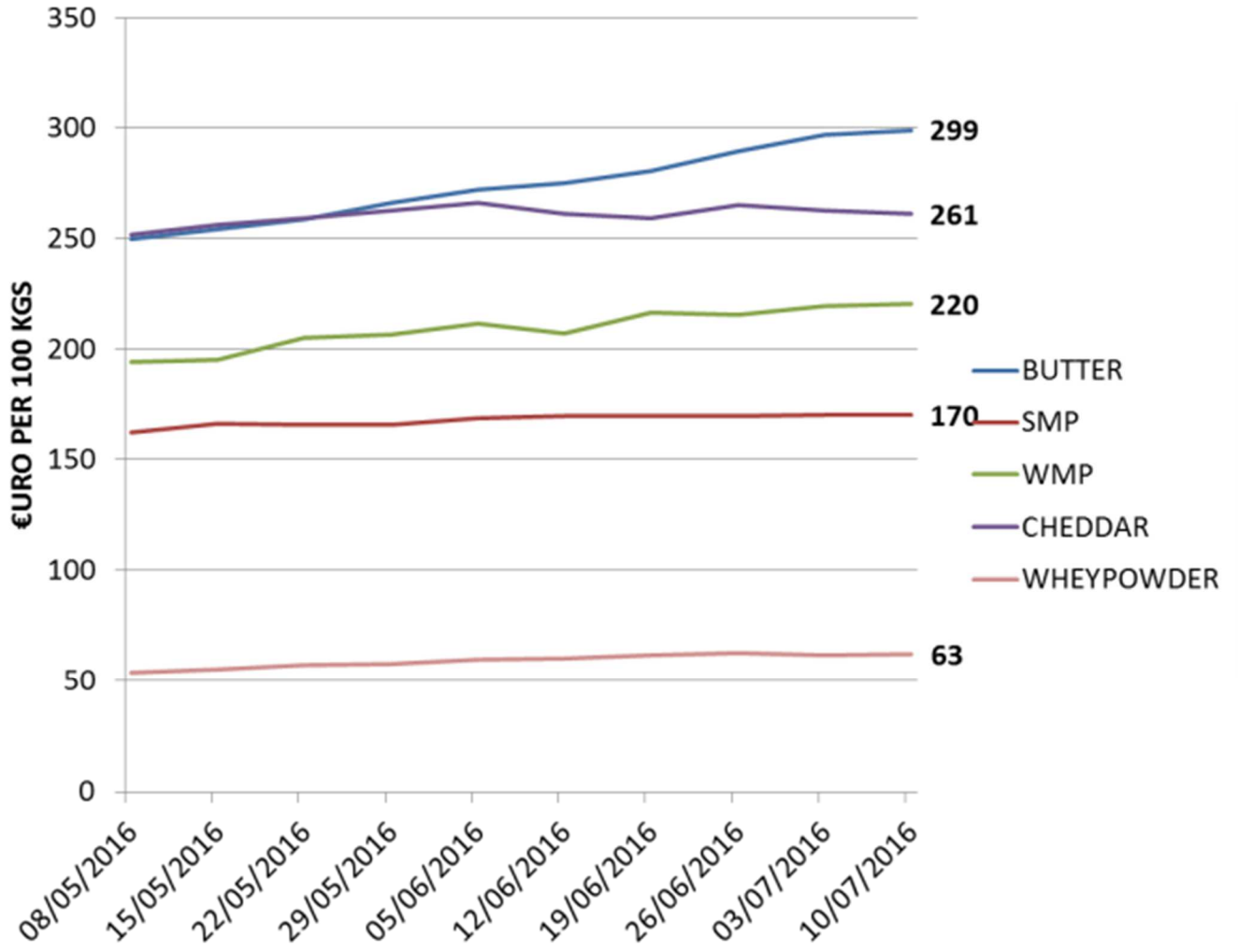
### EU and global dairy prices in recovery

EU dairy product prices have increased steadily for the last 9 weeks, increasing by nearly 20% for butter, 5% for SMP, 13% for WMO, 4% for Cheddar and 16% for whey powder.

The upshot of those increases over that period is that the gross returns for dairy products, assuming a relatively representative Irish product mix including all the products in the graph, have risen by 3.5c/l to 28.6c/l. Deducting 5c/l processing costs and adding 5.2% VAT would leave a farm gate milk price of around 23.6c/l +VAT or 24.83c/l incl VAT. Assuming a continuation of this trend, co-ops should be able to recoup some of the supports they have given farmers in recent months, and should be in a position over the coming months to entertain milk price improvements.

# EU AVERAGE PRICES OF DAIRY PRODUCTS

## LAST TWO MONTH



Based on: EU MMO data

**Source : Regulations (EC) No 562/2005 Article 6(1) and 479/2010 Article 2**

	BUTTER	SMP	WMP	CHEDDAR	EDAM	GOUDA
<b>Average EU market prices at 10/07/2016</b>	2,990	1,699	2,205	2,610	2,401	2,331
<b>Increase since 08/05/2016</b>	493	79	260	90	263	154
<b>Increase in %</b>	19.60%	4.90%	13.30%	3.60%	12.30%	7.06%

Based on: EU MMO data

On the world market, commodity prices have also been firming in recent weeks, as shown in the graphs below.

SMP recovery has been modest so far, as this has been the most problematic product both in the EU and internationally over the last couple of years.

However, WMP, butter and Cheddar prices in the US and Oceania have started a much more decisive recovery. Milk volumes are going down globally, and we are starting to see the beginnings of a pickup in demand as buyers fill their needs for the end of 2016 and the first quarter of 2017 with the fear of shortages and/or rising prices in the back of their minds. There are reports of buyers attempting to lock in volumes for lengthy periods of time at current prices, but lower volumes should help sellers negotiate more bullishly.