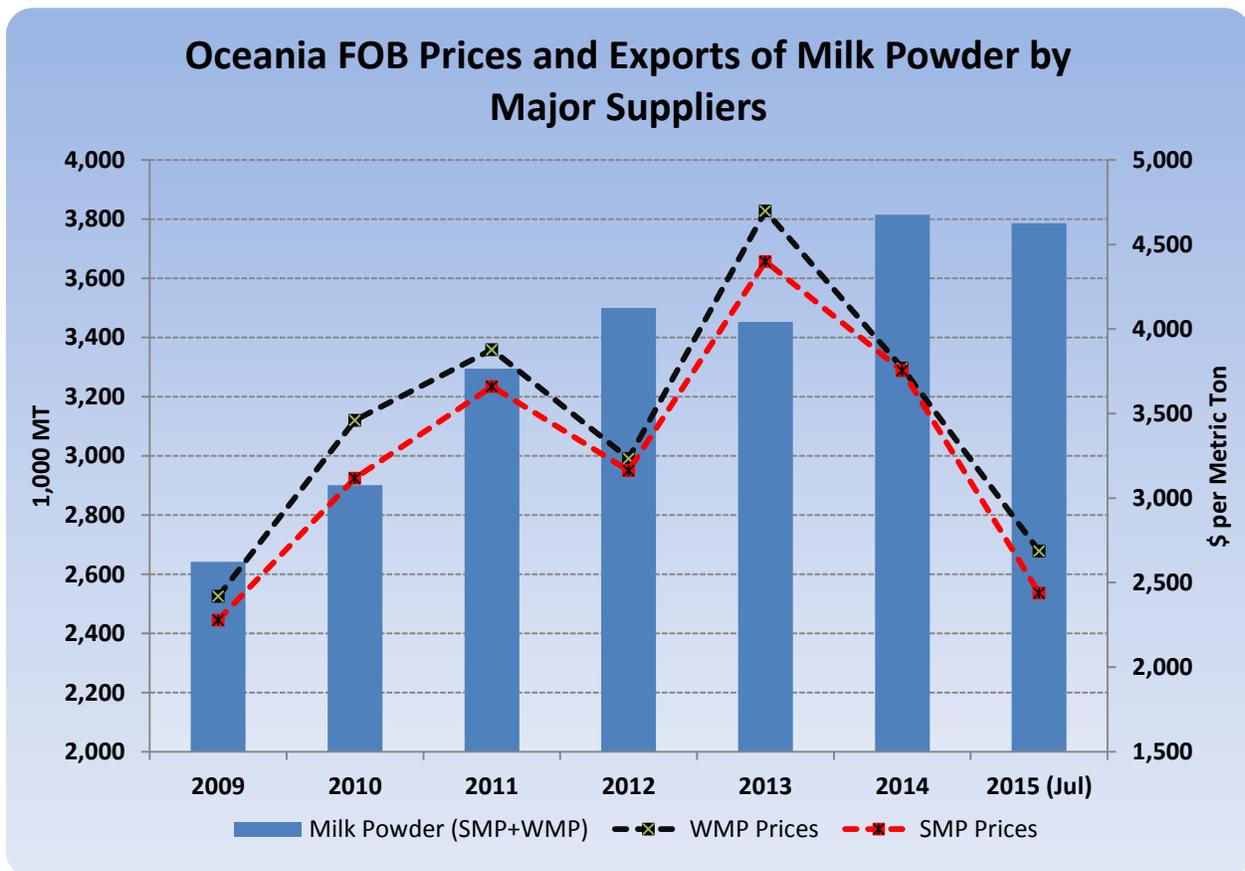


Dairy: World Markets and Trade

July 2015

Shipments of whole milk powder (WMP) by major exporters are expected to decrease by 8 percent in 2015 while skim milk powder (SMP) exports are forecast to register a 5 percent increase in comparison to last year. Global demand for WMP remains weak and prices have plunged to levels not witnessed since 2009. This was reflected at the most recent (July 15, 2015) Global Trade Auction. The winning price for regular WMP offered by Fonterra for deferred delivery (5 months) fell to \$1,820/MT FOB. Prices for SMP (low heat) appear to be dropping rapidly with a one winning bid indicating a price of \$1,595/MT for shipment starting in three months. The factors that initially precipitated the decline in prices remain present; Chinese import for demand for WMP remains anemic, the Russian import ban on dairy products from major producers has been extended to August 2016, and the dollar remains relatively strong. Nevertheless, markets are adjusting as the low product prices are being transmitted to farmers as lower milk prices. Consequently, milk production forecasts for a number of countries have been scaled back. This is particularly evident for New Zealand where milk production for 2015 is now forecast to decline by 1 percent from 2014.



Note: Major suppliers includes, Argentina, Australia, EU-28, and the United States

Source: AMS mid-point Oceania FOB prices

Dairy Production and Trade Developments

Milk Production: Forecast Summary

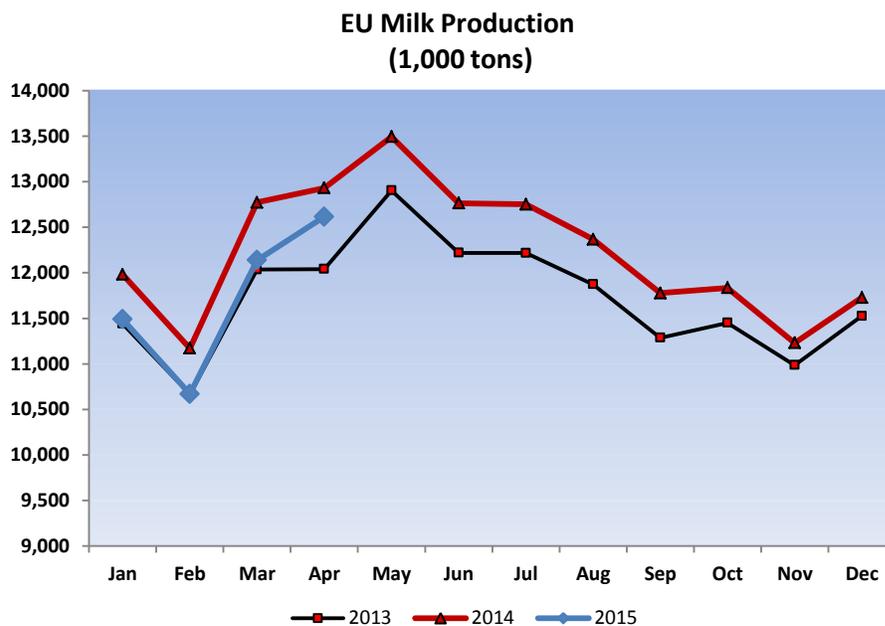
Milk Production Summary for Major Exporters

(Million Metric Tons)

	2014	2015 Dec. 2014 For.	2015 July 2015 For.	Forecast Change %
Argentina	11.1	11.7	10.7	-9%
Australia	9.7	9.8	9.8	0%
EU-28	146.5	147.0	147.0	0%
New Zealand	21.9	22.1	21.7	-2%
United States	93.5	96.3	94.7	-2%
Total	282.7	286.9	283.4	-1%

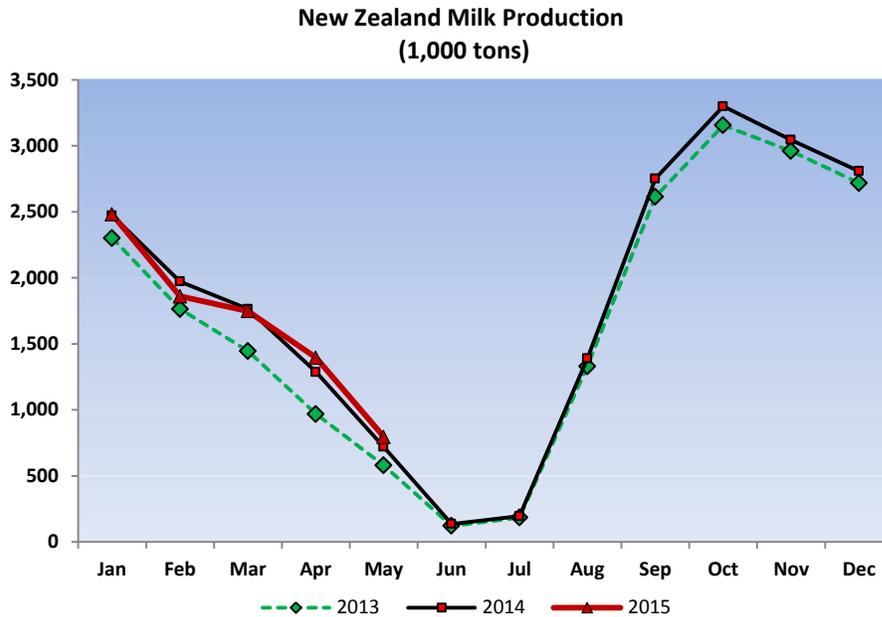
- The milk production 2015 forecast for **Argentina** is revised down 9 percent due to unfavorable weather early in the year and ongoing adverse economic conditions. High inflation continues to be a problem which is compounded by limited access to credit. In addition, dairy farmers face import controls which limit key inputs such as farm equipment, export restrictions on shipments of dairy products, and a sharp drop in global prices of WMP. Argentina dairy exports comprise primarily WMP and the recent drop in global WMP prices plus the dim price outlook will likely increase the pressure on dairy farmer margins. Dairy herd numbers which peaked in 2012 are expected to shrink by 6 percent for the third consecutive year. On a positive note, as the dairy sector shrinks leaving the more efficient farmers, milk yields per cow are expected to rise.
- Milk output in **Australia** for this year through May is currently running 3 percent ahead in comparison to the same period last year. However, the bulk of seasonal production starts ramping-up in August and peaks in October. Weather conditions have so far been favorable for milk production but the forecast for an El Nino event is injecting a degree of uncertainty for future milk production. Assuming normal conditions, the milk forecast remains unchanged and represents a 1 percent increase over last year. Milk cow numbers are expected to hold steady over last year so the rise in milk output is largely attributed to higher milk per cow yields
- Although **EU** milk production in the first four months has been lagging last year's pace by 1 percent, milk output is expected to increase slightly for the balance of the year. Consequently, the 2015 forecast is unchanged from December but 2015 milk output is expected to be fractionally higher than in 2014. Despite the end of milk production quotas,

the extension of the Russian import ban, weak global demand and corresponding low dairy prices are expected to squeeze dairy farmer margins. The EU weighted milk price has dropped this year through June by 4 percent (to €30.47/100kg or approximately \$15/cwt) to levels estimated to be below operating costs. Although EU exports of dairy products have benefited from the added competitiveness of a weakening Euro (versus the U.S. dollar), the outlook for international dairy prices for the remainder of the year is dim. Consequently, the financial pressure on EU dairy farmers is likely to grow. The EU has introduced some temporary support measures primarily by extending the Private Storage Scheme (PSA) for SMP and butter until September 30, 2015. In addition, the EU has an on-going intervention scheme to support market prices by buying surplus product; the intervention price for SMP and butter is €1,698/ton (\$1,851/ton) and €2,217/ton (\$2,417/ton), respectively.



Source: Eurostat

- New Zealand** milk production through May 2015 is slightly ahead (1 percent) of last year despite a dry spell in the January through March period and the early herd liquidation. Nevertheless, dairy producers are facing the lowest farm-gate prices in seven years for the production year ending May 31, 2015, and given the expectation of low export sales for the balance of the year, are likely to face tight margins in the upcoming months. The forecast for the size of the herd has been revised up by 1 percent from the previous forecast but it still represents a decline 64,000 head from 2014. The milk production forecast has also by revised down by 2 percent to 21.7 million tons which is 1 percent lower than 2014.



Source: DCANZ

Cheese:

- The **EU** cheese output forecast for 2015 is cut marginally as cheese output through April is lagging slightly behind the same period last year. Consequently; cheese production in 2015 is expected to remain virtually unchanged from 2014. EU shipments of cheese through April were 12 percent behind last year's pace; consequently, the export forecast was revised down by 11 percent to 700,000 tons – a decrease of 3 percent over 2014. The recent extension of the Russian ban on imports of dairy products from a number of major producers is undoubtedly having an impact but EU exporters have been partially offsetting the impact by successfully expanding into other markets such as the United States, Switzerland, Japan, and Algeria. U.S. imports of cheese from the EU through May 2015 are up 24 percent in comparison to the same period last year. The EU started the year with 32,000 tons of cheese under the PSA; however, they are expected to be used by the end of the year. The PSA for cheese was opened in Sep 4, 2014 but was quickly closed by September 22, 2014 when stocks reached 101,000 tons.
- The **U.S.** cheese export forecast is revised up by 6 percent to 368,000 tons as shipments to such markets as Mexico and South Korea have been stronger than anticipated. Despite this revision, cheese shipments in 2015 will be slightly – 1,000 tons - below 2014 levels as U.S. exporters face stiff competition from the EU and Oceania. Continued strengthening of the dollar will hamper the competitiveness of U.S. cheese exporters.
- **New Zealand** exports of cheese through May 2015 on a monthly year-on-year basis are up an impressive 22 percent supported by particularly strong sales to such Asian markets as Japan, Australia, and China. It appears that New Zealand cheese output is shifting towards production of fresh (mozzarella, cottage, and cream types) and prepared (grated and

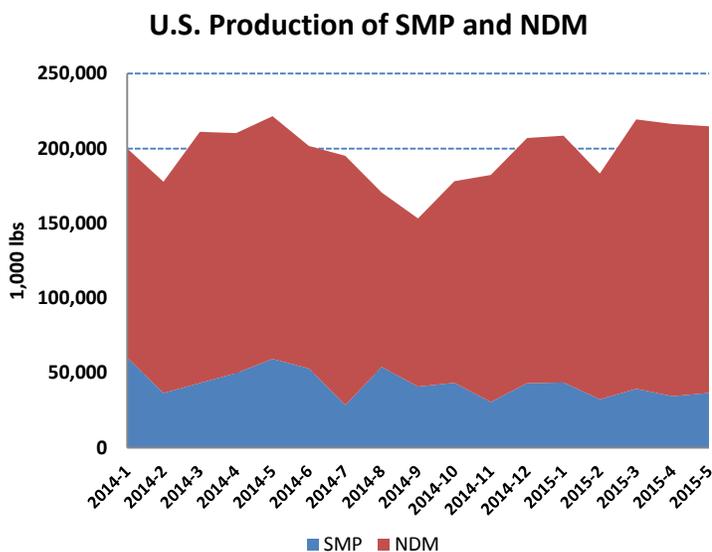
powdered) cheeses. The export forecast is raised 10 percent or an additional 30,000 tons to 320,000 tons – an increase of 15 percent over the previous year. The cheese production forecast was revised up 6 percent as the strength in demand is expected to support increased production.

Butter:

- **U.S.** exports of butter have dropped off sharply this year trailing last year's pace by 74 percent when comparing January-May shipment periods. A major part of this is due to the strength of the domestic market that has kept the average monthly Chicago Mercantile Exchange butter prices at above \$1.72/lb (\$3,790/ton) since February 2015. In contrast, the Oceania mid-point FOB price has averaged \$1.55/lb (\$3,434/ton) through June trading most recently at \$1.35/lb (\$2,975/ton). The EU FOB butter export price was also about \$400/ton lower at the end of June. The export forecast is lowered by 35 percent to 36,000 tons – a decline of 51% from the volume exported in 2014 as U.S. prices are not expected to regain competitiveness.
- In contrast to the relatively slow pace of New Zealand and U.S. butter exports, shipments of EU butter have been surprisingly strong despite the loss of the Russian market. In the first 4 months of the year, EU butter exports were up 16 percent over the same period in 2014. The EU appears to be successfully competing and exporting additional volumes to such markets as Saudi Arabia, Egypt, and even the United States. It is likely that the EU will continue to be competitive and the export forecast is revised up by an additional 7 percent to 160,000 tons.

SMP:

- **EU SMP** production during the first four months was reported to be up 1.5 percent over the same period in 2014 and the forecast for the year was raised by 20,000 tons to 1.62 million tons – a 5 percent increase over 2014. This is attributed to increased drying capacity especially in France and Germany, increased available supplies of skim milk, and strong demand from export markets. Shipments of SMP during January-April 2015 registered a gain of 17 percent over the comparable period in 2014. Although SMP exports to such key destinations as China and Algeria are down this year they have been offset by increased sales to Egypt and other Asian destinations such as Thailand, Philippines, and Vietnam. Based on the strong pace of exports in the first four months of 2015, the export forecast is revised up by 8 percent to 710,000 tons. If realized, EU shipments of SMP since 2013 will have increased by 74 percent in a 3-year time span.
- The import forecast for **China** is cut by 35 percent to 200,000 tons which reflects the slow pace of imports in early 2015. SMP imports through May are lagging last year's pace over the same period by 31 percent and exports for the year are forecast 21 percent lower. It appears that China's economic slowdown may be impacting on consumption of milk beverages and infant formula.



- **U.S.** production of SMP (including nonfat dry milk) has been surprisingly strong primarily in the form of nonfat dry milk which has more available options for use either in the export or domestic market. As a result, the SMP production forecast is raised by 7 percent (65,000 tons) to 1.06 million tons. Exports of SMP were weak early in the year but have since ramped-up and total shipments through May of this year are up 2 percent over the comparable period last

year. Mexico has been the leading destination for U.S. SMP and this year is no different with exports through May up 20 percent over the comparable period in 2014. It appears that U.S. producers are in a position to match global prices as lower SMP prices may be partly offset by higher returns from domestic sales of the butterfat component when producing skim milk. The current strong pace of SMP shipments are anticipated to continue and the export forecast is revised-up 14 percent to a record 586,000 tons.

- The import forecast for **Mexico** is raised by 10 percent to 230,000 tons as imports during the first four months of this year are up 20 percent over the monthly year-over-year pace of 2014. It is likely that the significant drop in international dairy prices is spurring a pick-up in purchases of SMP.

WMP:

- The import forecast for **China** is lowered by one-third to 400,000 tons as carry-over stocks from 2014 are estimated to total over 300,000 tons. These stocks are anticipated to be drawn down significantly throughout the year and will thus reduce the need for imports. This lower import estimate is a sharp reversal from 2014 when China imported a record 671,000 tons. Consequently, WMP prices are being pressured as major suppliers such as New Zealand seek alternative markets.
- Although **New Zealand**'s shipments of WMP to China in the first 5 months of this year are down 65 percent on a monthly year-to-year basis, total WMP exports are down only 7 percent. New Zealand has been able to some extent offset the volume losses of the Chinese market by increased sales to destinations such as Algeria, Malaysia, and the United Arab Emirates. Since Chinese imports of WMP are not expected to recover this year, New Zealand's export forecast is cut by 5 percent to 1.425 million tons.

- The export forecast for the **EU** is lowered by 23 percent to 345,000 tons reflecting the current slow pace of shipments during the first five months of this year relative to 2014. Shipments to Algeria are down 59 percent likely due to strong competition from New Zealand. Shipments of New Zealand WMP to Algeria in 2015 through May have more than doubled (to 49,000 tons) in comparison to 2014.

Additional Resources:

For additional information, please contact Paul Kiendl at 202-720-8870 or Paul.Kiendl@fas.usda.gov

Subscription services for FAS circulars can be obtained at:
<https://public.govdelivery.com/accounts/USDAFAS/subscriber/new>

Individual FAS country reports covering dairy are available at:
<http://gain.fas.usda.gov/Pages/Default.aspx>

The USDA Production, Supply and Demand database is available at:
<http://www.fas.usda.gov/psdonline>

A monthly “Livestock, Dairy, and Poultry Outlook” for the United States published by the Economic Research Service is available at: <http://www.ers.usda.gov/publications/ldpm-livestock,-dairy,-and-poultry-outlook/>

U.S. trade data is available on the Global Agricultural Trade System (GATS):
<http://apps.fas.usda.gov/gats/default.aspx>

The next publication of this circular will be in December 2015