

## QUARTERLY REPORT ON THE DAIRY MARKET

Agricultural Council, 16 December 2009

### 1. SUMMARY

The overall situation of the dairy market has been continuously improving since July. Following a low point late Spring/early Summer, the prices for dairy products increased strongly in the third quarter of the year in the EU and on the international markets, with expectations of more stability for butter and SMP and growth for cheese as economic forecasts are more positive. Farmgate milk prices are also strengthening since May. Butter and SMP prices in the EU are well above intervention levels.

### 2. SUPPLY AND DEMAND

Overall, milk production in the first three quarters of 2009 remained slightly below the level of last year, while the quota level was increased by 1% in the quota year 2009/2010 and some Member States could benefit from the modified fat agreement factor, following the CAP Health Check. The increased production between April and July, compared to the same period in 2008, which was partly due to very good grazing conditions, has been offset by a contraction in the third quarter. January-September 2009 deliveries by Member State are indicated below<sup>1</sup>. (percentages against same period in 2008)

Countries with higher production			Countries with lower production		
	Jan-Sep%	Sep %		Jan-Sep%	Sep %
BE	+5,1%	-0,3%	IT	-0,6%	-1,8%
DK	+3,7%	+2,8%	PT	-0,6%	+0,3%
DE	+3,6%	+1,0%	ES	-0,7%	-0,7%
LU	+3,5%	-0,2%	GR	-1,0%	-5,8%
NL	+2,0%	+0,6%	SI	-1,6%	-0,4%
PL	+1,7%	-2,7%	CY	-2,6%	+4,6%
FI	+1,1%	+2,0%	IE	-3,0%	-5,4%
SE	+0,6%	-3,1%	CZ	-3,2%	-3,1%
AT	+0,5%	-1,9%	EE	-3,5%	-1,4%
			HU	-4,0%	-11,8%
			FR	-4,6%	-6,3%
			LV	-5,8%	-5,9%
			RO	-6,7%	-11,1%
			LT	-7,0%	-7,2%
			SK	-8,9%	-11,5%
			BG	-16,8%	-17,6%

	Jan-Sep %	September
Total EU	-0,12%	-2,08%

<sup>1</sup> No data for MT

More recent, unofficial, reports on milk production suggest that production in 2009/10 could remain around or slightly below the 2008/09 level. The effects of the low prices have eventually led to production decrease in many MS which increased their production in the first half of the year. With raw milk prices recovering only gradually a major increase in deliveries is not likely.

The production season is in peak in New Zealand and Australia, major dairy exporters on the Southern Hemisphere; however, due to weather conditions production is behind schedule. In New Zealand, the production this season is likely to only slightly exceed the previous one, against earlier forecast of 3-4% increases, while in Australia a decrease of 4% is expected. Also US milk production has been below last year's levels since July, with production in October 1.1% below the 2008 level.

### 3. PRICES

The EU and world prices of the main commodities have experienced a fast growth between September and November. While butter and milk powder prices now seem to be stabilising, especially in the EU, there is an indication of continued increases in cheese prices as EU and world demand recovers.

The table below shows the current situation regarding dairy commodity prices in EU and in the world (December 2009). The short term evolution of EU prices is tabled in Annex 1 while the longer term development is shown in Annex 2.

€t	Intervention price/ equivalent price (a)	Market price from previous report (October 2009)	Current market price <sup>2</sup> (b)	Current price as percentage of intervention price (b/a)%	World market price from previous report (October 2009)	Current world market price <sup>3</sup>
Butter	2 218	2 623	2 913	128 %	1 783	2 485
SMP	1 698	1 896	2 104	124 %	1 727	2 054
WMP	2 066	2 323	2 532	123 %	1 917	2 352
Cheddar	2 484	2 288	2 304	93 %	2 136	2 882
Edam	2 167	2 464	2 673	123 %	-	-

With regard to milk prices, we note a gradual increase of farm gate prices, reflecting a sustainable demand for fresh products and improved market prices for the dairy commodities. The virtual average price for milk, based on the value of butter and SMP, is slightly higher than 28 cents/l while the most recent official quotations on raw milk suggest an average of 26,7 cents (October). The difference should indicate that there is still room for improvement of the average farm gate milk price in November/December.

<sup>2</sup> Weighted average price of 7 main exporting MS

<sup>3</sup> Oceania quotations (Source: USDA Agricultural marketing service)

In fact, a number of major processors in main producing Member States have raised their basic payment price by 1-2 cents/l for November/December deliveries, according to information from dairy experts. For the purpose of reference, the virtual intervention price for milk is approximately 21,5 cents/l.

The most recent official EU milk prices per Member States are shown in Annex 3. Two third of the EU milk production takes place in 5 Member States (D, F, UK, NL, IE) and the average milk price for October of those countries is 27,62 cents/l.

#### 4. EXPORTS

The export figures for Jan – Sept 2009 show that exports picked up strongly in the third quarter, with most products either exceeding last year's levels or quickly closing the gap, influenced by the export refunds but also strong improvements on world markets. SMP and cheese exports are 2.4% and 1.2% above 2008 level respectively (they were below until August). Butter exports in the first three quarters are 8.5% above last year. Whey powder exports are 16.7% above last year level in the first three quarters of the year with similar development for condensed milk, casein and lactose. Butteroil and WMP exports remain, however, below last year's levels.

#### 5. ACTIONS TAKEN SINCE LAST QUARTERLY REPORT

In the continuous efforts to stabilise the dairy market and support dairy farmers, the following specific actions have been taken since the last report:

- **Art 186 of the Single CMO** has been extended to the dairy sector with 300 million EUR to be distributed among MS in order to support the dairy farmers that are severely affected by the crisis.
- The stocks of butter in **private storage** are gradually and quietly released, reducing them from 135 000 tonnes in July to 50 000 in December.
- **Export refunds** have been set at zero for all dairy commodities. Owing to improvements on world markets and restricted supply on the domestic market.
- **Intervention buying-in** for butter and SMP under the extended intervention period (until the 28th of February) has not been active since early September.
- **High Level Expert Group** for milk continues to have meetings on a monthly basis to study longer term arrangements which can further contribute to stabilising the market and producers' incomes, reducing price volatility and enhancing market transparency. A final report will be due in June 2010.

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## Annex 1: EU dairy prices

# Dairy Quotations - June and December 2009

Last update : 10.12.2009

## Raw Milk Price *in EUR/Tonne*

	Jun 09	Dec 09	Difference	
	EUR/T	EUR/T	EUR/T	%
<b>EU 27 Weighted Average</b>	<b>242</b>	<b>267 °</b>	+ 25	+ 10%
<i>NL spot prices</i>	<b>200</b>	<b>333</b>	+ 133	+ 66%
<i>North Ireland spot prices</i>	<b>217</b>	<b>311</b>	+ 94	+ 43%
<i>IT spot prices</i>	<b>281</b>	<b>361</b>	+ 80	+ 28%
<b>New Zealand</b>	<b>158</b>	<b>184 °</b>	+ 26	+ 16%
<b>U.S.A.</b>	<b>178</b>	<b>196 °</b>	+ 18	+ 10%

° : Latest available prices (October 2009)

## Commodities *in EUR/Tonne*

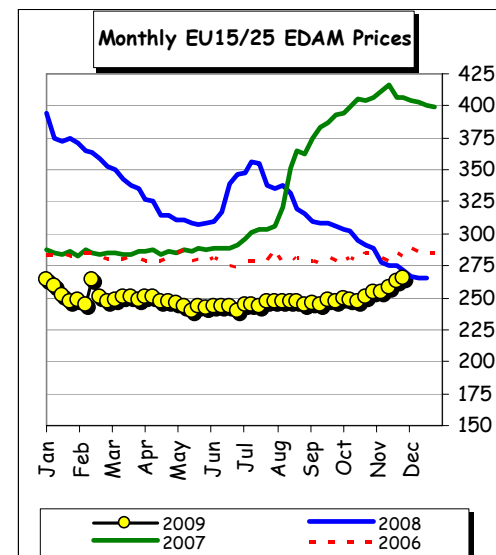
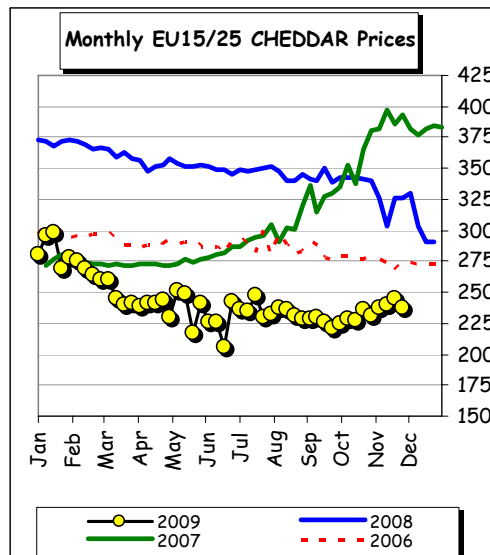
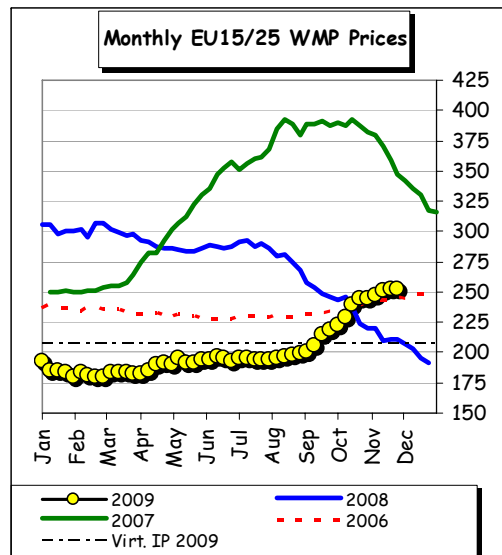
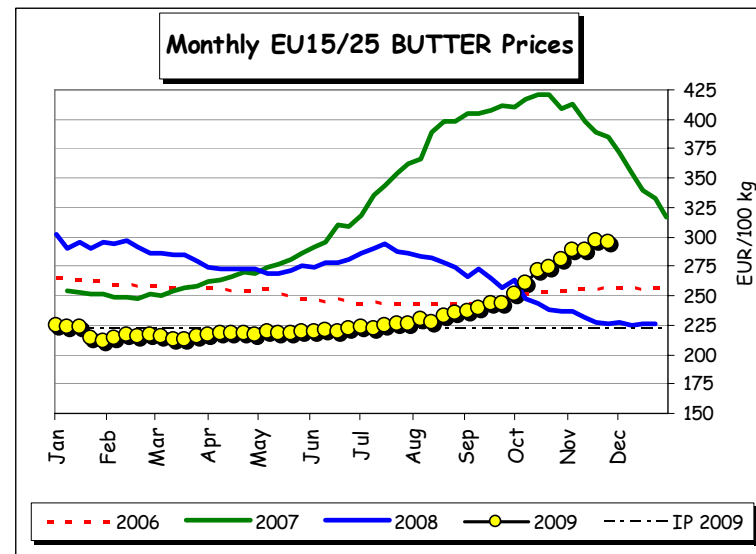
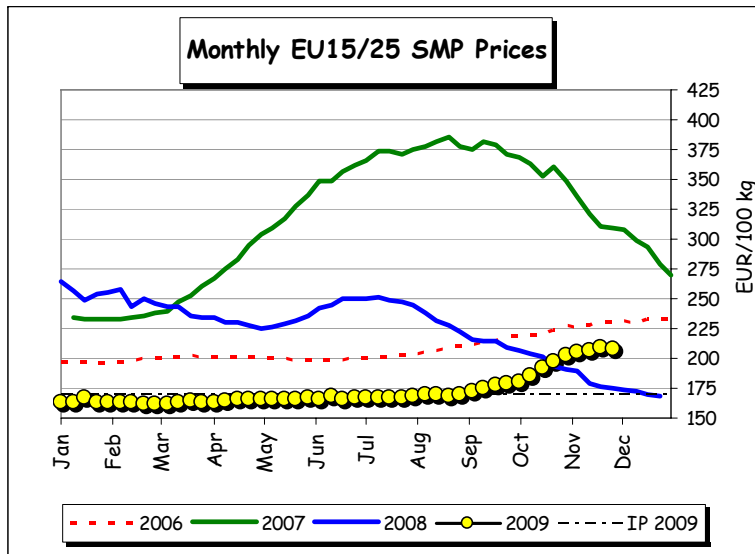
	EU 27			
	Jun 09	déc-09	Difference	
	EUR/T	EUR/T	EUR/T	%
<b>Butter</b>	<b>2.215</b>	<b>2.923</b>	+ 708	+ 32%
<b>Skimmed Milk Powder</b>	<b>1.655</b>	<b>2.109</b>	+ 454	+ 27%
<b>Whole Milk Powder</b>	<b>1.945</b>	<b>2.546</b>	+ 601	+ 31%
<b>Cheddar Cheese</b>	<b>2.160</b>	<b>2.341</b>	+ 181	+ 8%
<b>Gouda Cheese</b>	<b>2.415</b>	<b>2.632</b>	+ 217	+ 9%

Oceania			
Jun 09	Dec 09	Difference	
EUR/T	EUR/T	EUR/T	%
<b>1.355</b>	<b>2.505</b>	+ 1.150	+ 85%
<b>1.380</b>	<b>2.271</b>	+ 891	+ 65%
<b>1.545</b>	<b>2.372</b>	+ 827	+ 54%
<b>1.325</b>	<b>2.360</b>	+ 1.035	+ 78% *
<b>1.810</b>	<b>2.906</b>	+ 1.096	+ 61%

\* : Fonterra WMP Auction (NZ + australia)

U.S.A.			
Jun 09	Dec 09	Difference	
EUR/T	EUR/T	EUR/T	%
<b>2.000</b>	<b>2.240</b>	+ 240	+ 12%
<b>1.385</b>	<b>2.095</b>	+ 710	+ 51%
<b>1.855</b>	<b>2.215</b>	+ 360	+ 19%
<b>1.820</b>	<b>2.540</b>	+ 720	+ 40%

Annexe 2



Annex 3: EU raw milk prices

