

## KEY MESSAGES

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**+5%**

EU butter price above 5-year average in April

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**Stable drinking milk**

EU production in 2021

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**+7%**

EU whey exports growth in 2021 driven by the demand from China

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## MILK AND DAIRY PRODUCTS

### HIGHLIGHTS

The EU milk collection dropped in the spring due to cold weather that delayed the seasonal peak. Rainfall in May should support grass quality and availability in the upcoming months leading to an expected growth recovery of around 2% in May-June and an increase of EU milk collection by around 0.8% in 2021. Yield could grow at a lower pace than in 2020 (1.6%) due to a slow start at the beginning of the year while cows' slaughtering could accelerate towards the end of the year and result in a dairy herd reduction of around 0.9%.

EU dairy prices continue improving, mainly due to the Chinese demand which drives world prices. This should support raw milk prices and to some extent offset rising feed costs.

The EU butter and SMP production could recover after a drop at the beginning of the year during which cheese was a preferred option, together with whey for which export demand remains strong. Despite an expected drop in the EU consumption, drinking milk production could remain stable due to an increasing import demand from China.



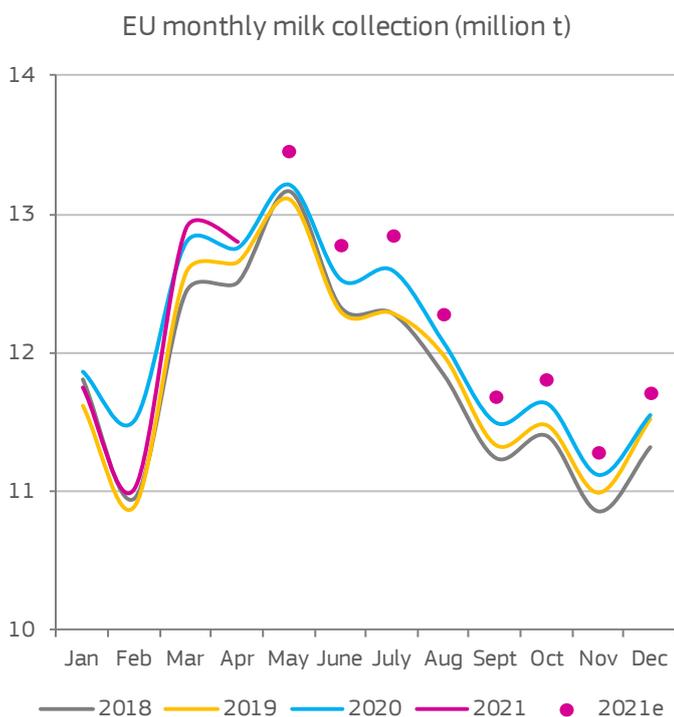
# MILK

## EU MILK COLLECTION TO RECOVER AFTER A COLD SPRING

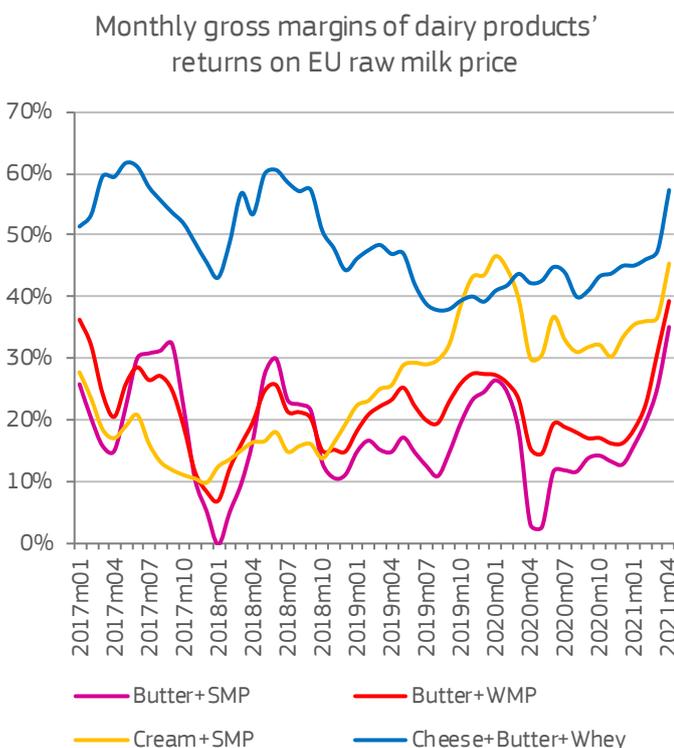
EU milk deliveries dropped in Jan-April (-1%) due to cold weather. Among the main producing countries, DE and FR recorded a decline of more than 2%, compensated to some extent by a growth in milk collection in IE (8.6%) and stable levels in PL and IT. The intensified use of feed during Jan-Apr improved the milk fat content (only -0.3%, below the EU milk collection decline). Milk protein supply dropped to a similar level as milk collection.

Rainfalls in May had a positive impact on grass quality and availability. With EU dairy prices supporting raw milk prices and to some extent offsetting rising feed costs, EU milk collection could grow from 2% in May-June down to 1.5% in December. As a result, the annual growth would be 0.8% in 2021.

Cows' slaughterings went down in Jan-March (-4%) due to positive market sentiments and decisions to keep cows in production. Given the milk decline in milk collection over spring this implies lower yield growth at the beginning of the year. This is expected to weight on total annual yield growth (+1.6%), while dairy herd could drop by -0.9%.



Source: DG Agriculture and Rural Development, based on MS notifications and Eurostat.



Source: DG Agriculture and Rural Development based on Eurostat and MS notifications.

## EU RAW MILK PRICE OUT OF SEASONAL TRENDS

EU dairy prices continued improving, benefiting from strong world prices driven by Chinese demand, as well as tight supplies in the case of butter. In April, the EU butter price was around EUR 4000/t (+5% above 5-year average) and the EU SMP price reached almost EUR 2500/t (+44% above 5-year average). This should translate into better EU raw milk prices, having exceeded EUR 35/100 kg in April and moving counter to seasonal trends. In recent history, higher prices during the seasonal peak happened only in 2014.

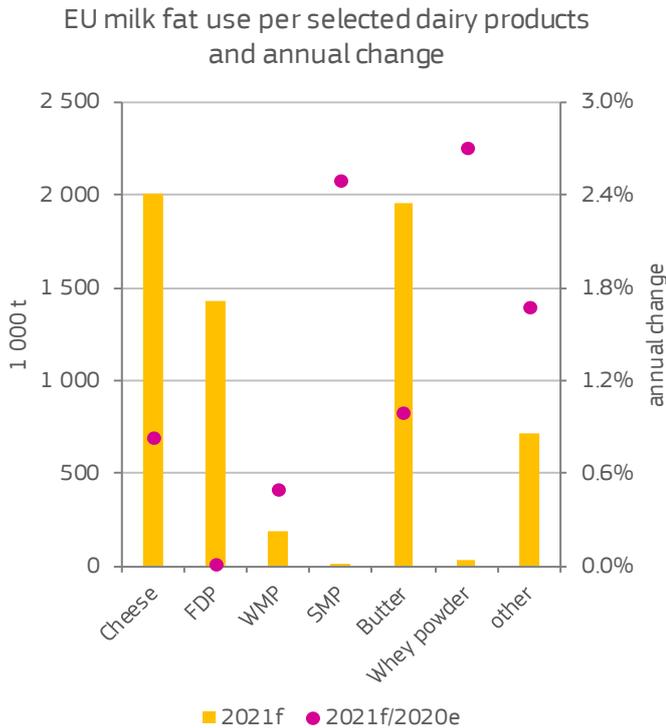
The increase in EU butter prices supported the stronger valorisation of the butter and SMP production stream, comparable to the valorisation of the butter and WMP stream. From January until April the former recorded the strongest growth (+11%). However, stable EU cheese prices (around EUR 3100/t for cheddar) and increasing EU whey prices (at almost EUR 1000/t) offered the strongest EU milk valorisation (around 57% of EU raw milk price in April).

On the world market, the EU remains competitive for butter and WMP with the main global supplier (Oceania). EU is however less competitive than the US for butter, SMP, and cheese. This could worsen the EU position in some export destinations, especially for dairy commodities.



# DAIRY PRODUCTS

## MORE MILK TO BE CHANNELLED TO BUTTER



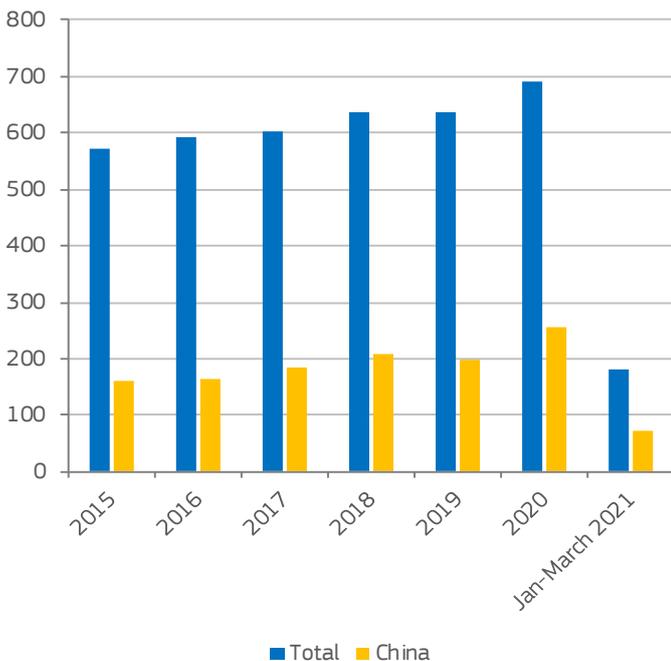
Source: DG Agriculture and Rural Development, based on Eurostat.

Despite the drop in EU milk deliveries in the spring, the EU cheese production increased in Jan-April (+3%) absorbing the majority of milk fat produced. This resulted in less milk fat availability for other dairy products and the EU butter production falling below last year's level (-2%). With the expected EU milk production growth, more milk could be channelled to butter (+1% annual growth) and cheese growth slow down (+0.8% annual growth).

The progress in the EU vaccination campaigns allowed foodservices to start reopening in many EU countries. This should support cheese and butter consumption until the end of the year. Home cooking due to working from home could continue supporting retail sales. In both cases, EU domestic use growth could be around 1%.

In Jan-March, EU cheese exports decreased by 3%, mainly due to the drop of EU exports to the UK (-21%). The evolution of the EU shipments to Japan (+14%), Switzerland (+15%) and above all China (+150%) where foodservices are recovering fast only partially compensated. Despite this slow start, EU cheese exports could recover and increase by 3% in 2021. Reduced trade flows to the UK affected also the EU butter total exports (-24%). They could record a limited growth in 2021 (+1%) despite the price competition with the

## EU whey exports (1 000 t)



Source: DG Agriculture and Rural Development, based on Eurostat.

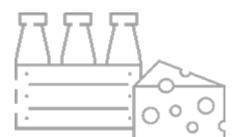
## EU WHEY EXPORTS DRIVEN BY CHINESE DEMAND

With an increase in cheese production and a strong demand, especially from China, the EU whey production increased at the beginning of the year.

In Jan-March, EU exports grew by 13%. China represented 41% of the total volume traded. This represents an increase of 54% compared to the same period last year. The main driver is the rebuilding of the Chinese pig herd and a related increasing need for feed. Because of the uncertainties arising from a resurgence of ASF in some regions in China, this trend is likely to slow down and EU exports could grow by around 7% in 2021.

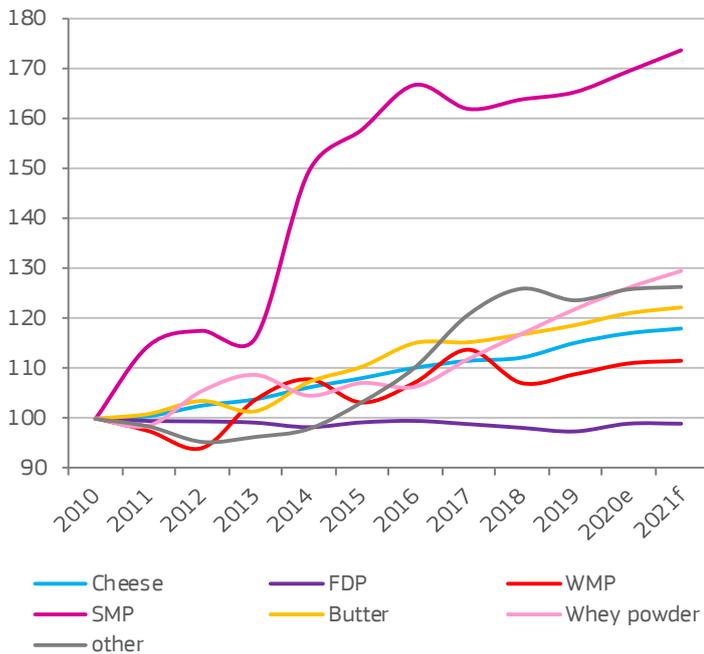
Whey is more often used for food products such as infant formula. It is also used as an ingredient to clinical products, both for aging and active-lifestyle population. In the EU, the domestic use is expected to grow by 0.6%.

This, together with exports, could result in a 2.7% production growth in 2021.



# DAIRY PRODUCTS

Trends in milk protein use per dairy products  
(2010=100)



Source: DG Agriculture and Rural Development, based on Eurostat.

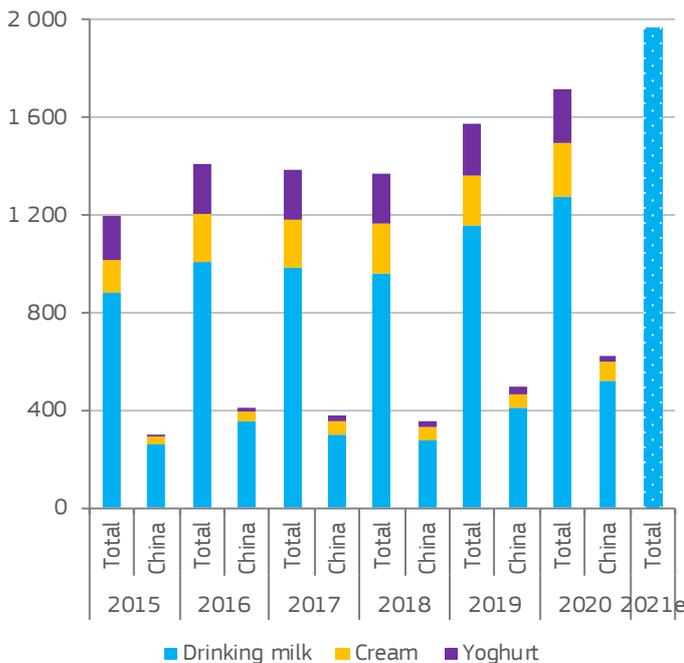
## EU SMP EXPORTS CONTINUE INCREASING

The EU SMP production should also benefit from additional milk in the upcoming months to compensate for a decline in Jan-April (-6%) and continue its long-term production growth. An estimated annual growth (+2.5%) could be supported by an increase in EU exports (+6%) and relatively stable domestic processing use (+0.5%). This could lead to a slight decline in private stocks. They could drop to around 75 000 t by the end of 2021.

In Jan-March the EU increased its shipments to the Asian markets in particular (China +5%, Indonesia +87%, Philippines +129%) despite a very competitive US SMP price. These markets represent around one third of the total EU exports. EU prospects there are expected to remain positive notwithstanding more exports to these markets from the US due to abundant availability there and existing stocks.

The EU WMP production could accompany the evolution of the butter production and grow in the upcoming months to reach around 730 000 t (+0.5%/2020). This change should be supported by an increase in domestic use (close to 1%) and stable EU WMP exports driven by demand in oil producing countries (benefiting from favourable oil prices) and in China. In the case of the latter, increasing demand for imported milk powders is driven by high domestic milk prices.

EU FDP exports (1000 t)



Source: DG Agriculture and Rural Development, based on Eurostat.

## STABLE EU DRINKING MILK PRODUCTION

In Jan-March, the EU FDP exports grew by 12%, with shipments to China accounting for 54% of the total volume of drinking milk exported (+45% year-on-year) and 46% of the cream volume exported (+178%). For the former, high Chinese domestic milk prices drove the increase in demand in particular in processing. For the latter the growth was a consequence of the foodservice recovery. EU yoghurt exports grew as well (+41%), mainly driven by exports to the UK.

In Jan-April, EU drinking milk production was 1% year-on-year. Despite this decline (especially in April), it should remain stable until the end of the year, considering there were already high growth rates during spring and autumn last year. The EU cream production was more than 1% above last year, due to high growth in March and April. With more milk fat directed to butter and WMP, the annual production is expected to remain slightly above last year (+0.5%).

Even if the EU exports of drinking milk could remain overall positive and drive an overall increase of FDP exports (+10%), the EU domestic market remains the main outlet and it is unlikely that the EU consumption of drinking milk would grow above the exceptionally high levels of last year. The overall consumption of FDP is forecast 0.5% below 2020.

