25th September 2023

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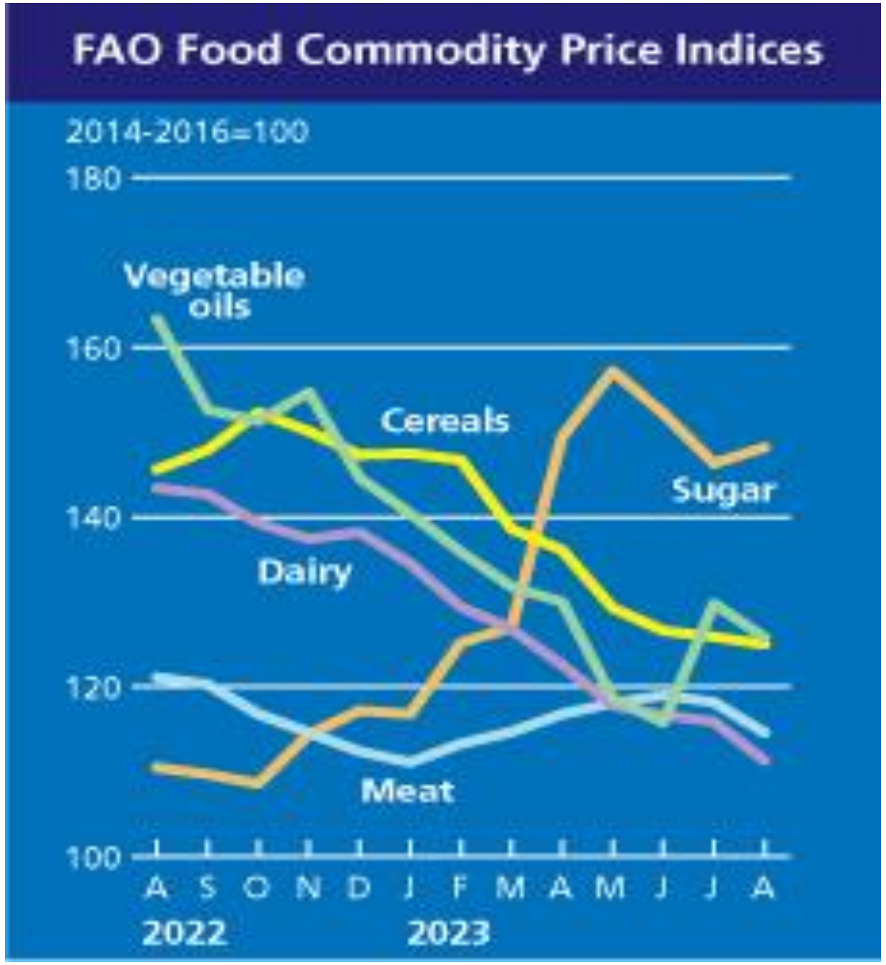
The milk market: farm economics under growing strain, but is demand recovery on its way?

Milk Market Observatory

Commodity prices



Most agri commodities have been in gradual decline since early 2022, but sugar and rice are now bucking the trend…

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Some spot prices – markets seem “to have woken up”

Gouda cheeses €3,650 firm

SMP: €2,300-2,400 firm

Cream: €6,200+ firm

Butter: €4,600-4,800 firm

Spot milk: €45.00 stable

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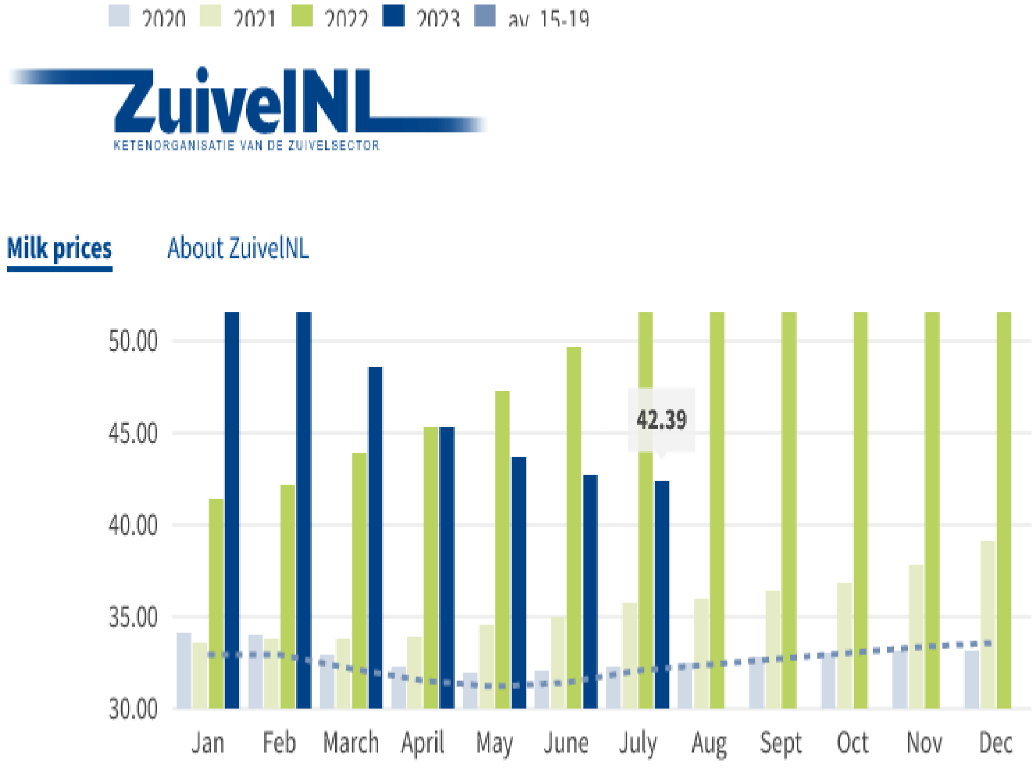
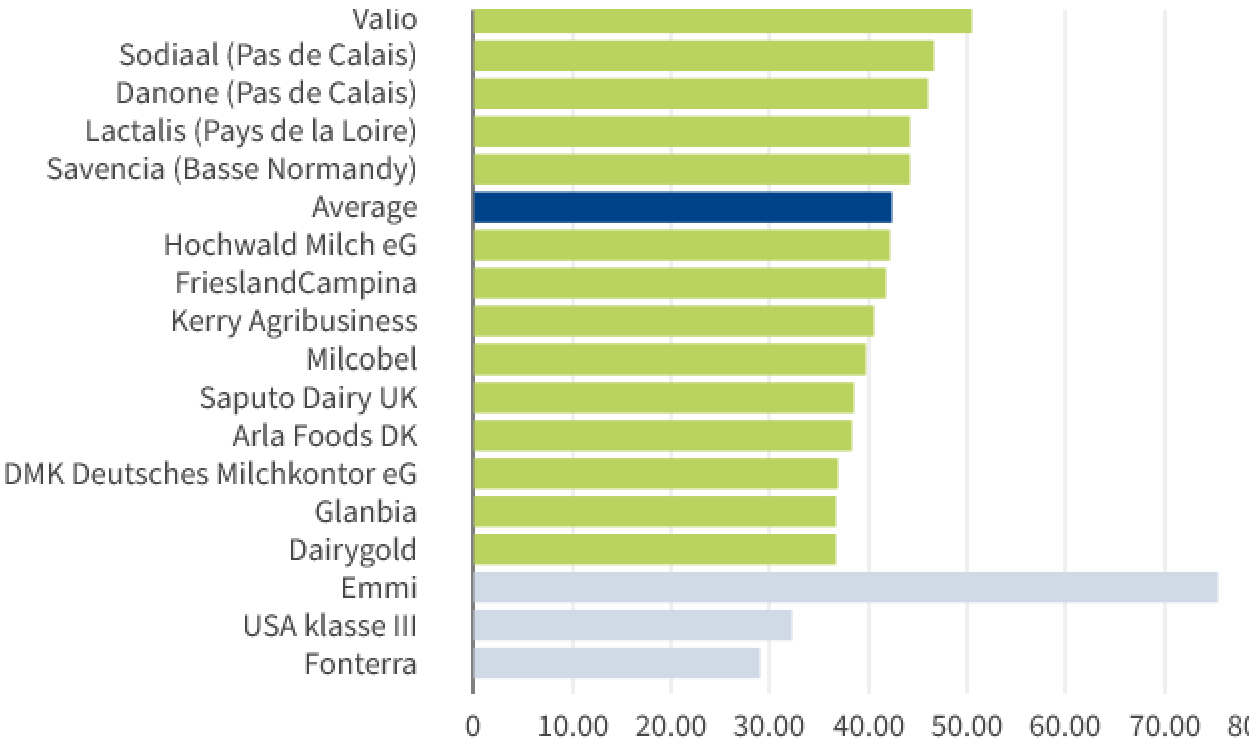
Farm gate milk prices went sharply down....

In euro per 100 kg standard milk with 4.2% fat, 3.4% protein, 1,000,000 kg/year, tbc 24,999 per ml and scc 249,999 per ml, VAT excluded



As went farm margins….

July 2023:



RFC Sept milk price € 41.25
Arla Sept milk price € 40.72
A-Ware Sept milk price € 40.52

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COPA-COGECA members comments on prices and volumes

	Milk price and volumes
Austria	July (on April): GMO-free quality milk: 47.35 (52.28); Hay milk: 51.37 (55.89); Organic: 54.50 (59.65). In July 2022 51.11 ct/kg. Since April, slight increase in milk volumes.
Finland	50.95 EUR/100 kg, volume -1.4 % y-o-y. Organics: volume down by 6.7%.
Italy	July 2023: 51,05 EUR/100kg +6% compared to July 2022; -1% compared to June 2023). Volumes -1.2% for Jan-Jun 2023.
Lithuania	34.00 EUR/100 kg (at 4.04% fat, 3.31% protein). “Price still dropping”
Latvia	June: 33.67 EUR/100 kg. Jan-June milk volumes +1% y-o-y.
Portugal	July: 48,57 EUR/100 kg), increase 15,3% on July 2022)
Slovenia	July: 42.12 EUR/100 kg, which is -3.7% on June 2023 and -4.1 % on July 2022. Production -2,6 % on June 2023, -1,9 % on July 2022, and -1,4 % Jan-July 2023/2022
UK	July: 36.11ppl, up 0.3% on the June price. Monthly deliveries July 2023 +0.9% on 2022. Volumes for April-July +0.5% on 2022.

Fonterra came out with a conservative outlook 2023/24

NZ$ 6.00-7.00 per kg Milksolids, which translates into about € 30.00 per kg milk.

NZ farmers will hold back for the time being

Grass growth has also been prohibitive during the first months of this season

But: check out this video (21st Sept). Fonterra CEO seems in a slightly better mood:

https://www.nzherald.co.nz/business/fonterras-record-recovery-why-its-still-bullish-on-china/YROXR7BTAREGRKGX7E26PTPKAU/

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Milk production

USA: USDA estimates (WASDE): +0.3% (2023), +1.3% (2024)

New Zeeland: Rabobank predicting -1.35% for the 2023/2024 season

EU: production flat in 2023 ?

Germany milk production 4-10 Sept: +0.9% y-o-y

Netherlands milk production Aug 2023:

- Milk volume +0.3% y-o-y
- Fat volume +3.1% y-o-y

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Feedback from COPA-COGECA members on costs

	Comments on input prices
Austria	-
Finland	Variable costs 29c per litre - in July -0.3 %
Italy	Jan-Jun: average costs 56.50 euro, which is +3% on 22. Energy: +31%
Lithuania	"Many farms will begin to close with the start of indoor period, because they did not produce enough fodder due to the drought at the beginning of summer, and, accompanied by low purchase prices, made the decision to withdraw from milk production."
Latvia	
Portugal	Increase of production costs on 2022: fertilizers - 200%; energy - 60%; feed - 58%
Slovenia	"Since May 2023 the milk price is not covering the cost price". Average price difference (milk price minus cost price: May 2023: -0,26 ct/kg; June 2023: -0,52 ct/kg; July 2023: -0,89 ct/kg)
UK	Concentrates £349/t, £3/t higher than in 2022. - Feed prices and markets | AHDB GB milk to feed price ratio -0.20 on last year. - Milk to feed price ratio (MFPR) | AHDB Diesel: -26% on 2022, still 20ppl more than in 2019.

Futures’ markets

ife Börsenmilchwert vom 20.09.2023 Kiel, den 21.09.2023

Das ife Institut für Ernährungswirtschaft ermittelt täglich den ife Börsenmilchwert.

Der ife Börsenmilchwert wird berechnet aus den Schlusskursen der an der European Energy Exchange (EEX) mit Sitz in Leipzig handelbaren Kontrakte für Butter und Magermilchpulver. Der Berechnung liegt die Methode des Kieler Rohstoffwertes zugrunde. Der ife Börsenmilchwert gilt für eine Standardmilch mit 4,0% Fett und 3,4% Eiweiß, ab Hof des Milcherzeugers, ohne Mehrwertsteuer.

ife Börsenmilchwert			Mittwoch, den 20.9.2023					
Kontrakt Monat	Kieler Börsen-milch-wert*	Änd.	Butter Future	Änd.	OI	MM-Pulver Future	Änd.	OI
	Ct / kg		€ / t		Anz.	€ / t		Anz.
Sep 23	35,1	→	4425	↗	723	2247	↘	877
Okt 23	37,8	↗	4600	↗	518	2425	↗	1264
Nov 23	38,5	↗	4681	↗	621	2463	↗	1316
Dez 23	39,1	↗	4733	↗	443	2500	↗	1385
Jan 24	40,5	↗	4813	↗	439	2598	↗	1032
Feb 24	41,0	→	4913	↗	330	2600	↘	737
Mrz 24	41,8	↗	5000	↗	293	2640	↘	698
Apr 24	42,8	→	5127	↗	242	2675	↘	129
Mai 24	43,3	↗	5146	↗	230	2716	↘	121
Jun 24	44,0	↗	5200	↗	226	2760	↗	94
Jul 24	44,1	↗	5213	↗	6	2770	↗	23
Aug 24	44,5	↗	5225	↗	6	2800	↗	18
Sep 24	44,7	↗	5238	↗	3	2813	↗	12
Okt 24	44,9	↗	5263	↗	0	2825	↗	6
Nov 24	45,8	↗	5275	↗	0	2913	↗	6
Dez 24	46,2	↗	5288	↗	0	2938	↗	6
Jan 25	46,6	↗	5338	↗	0	2963	↗	0
Feb 25	46,7	↗	5338	↗	0	2970	↗	0
Mrz 25	46,8	↗	5300	↗	0	3000	→	0
Summe					4080			7724

* Berechnung nach: Methode Kieler Rohstoffwert, 4,0% F., 3,4% Eiw., ab Hof, o. MwSt.
Änd. = Änderung zu Vortag, OI = Open Interest (Anzahl der bestehenden Kontrakte)
Quelle: © ife Institut Kiel, www.ife-ev.de

Ansprechpartnerin:
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Oil prices are rising

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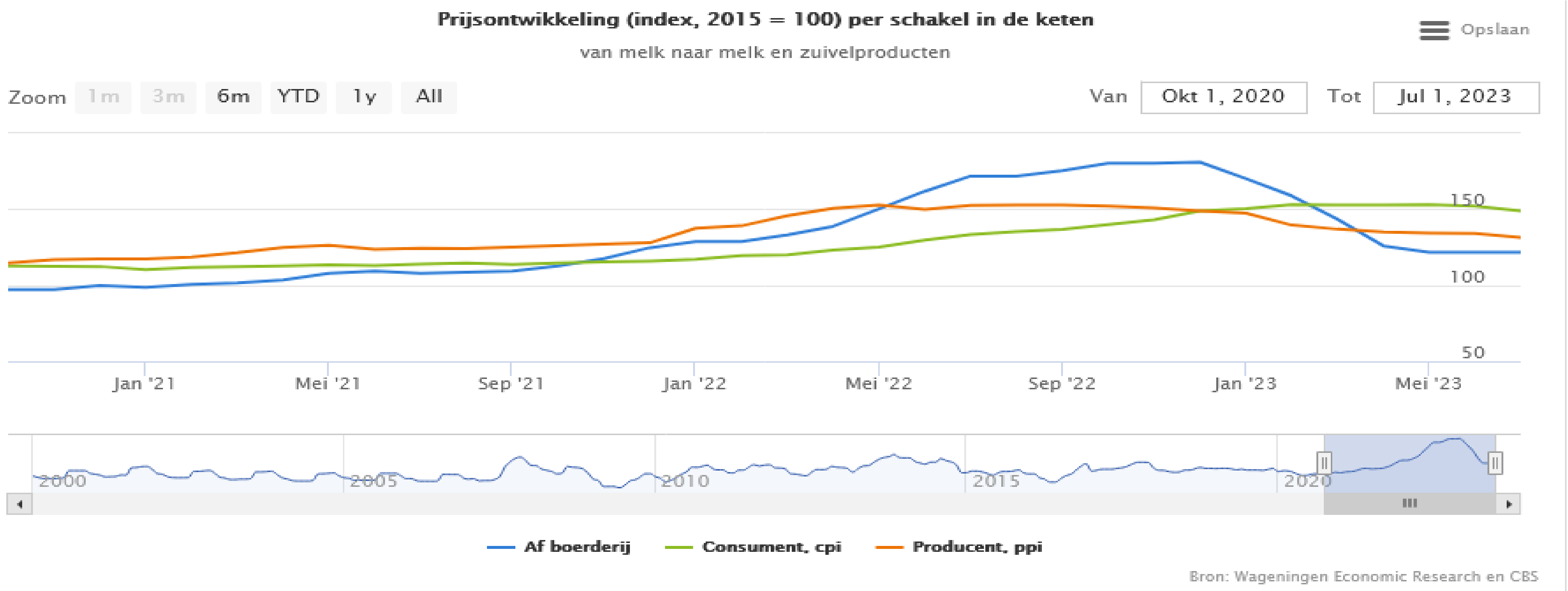
Wageningen University ‘agrimatie’ shows consumer prices lag farm prices



Green line: consumer price index
Blue line: raw milk price index - (2015 = 100)

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Some conclusions and a question ....

Elevated costs of rent, energy, wages, etc limit milk production growth globally (EU, New Zealand, US,….).

Add to that the effects of El Niño, and the war in Ukraine….

But consumers behave with caution,…. example: organics…

The good news is: China was more active on GDT last time. And oil producers have more cash to spend. The market is looking up again – this could continue the coming months

Q for the longer term: the cumulative impact of environmental policies on volumes?

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Another question: what will be the impact of the China-New Zealand FTA?

1st January 2024: China applies 0% import tariff on NZ dairy

For other countries, the import tariff remains 10%, except for Australia (2%)

For WMP, NZ already supplied 90% of China imports

For SMP, NZ supplied 45% of 335,000 MT in 2022. 45.7% of 242,000MT during Jan-July 2023. Australia supplied 18%, the EU 29% and the USA 7%.

Q: what happens if China imports more SMP from NZ. Will the EU, Australia and US able the shift exports to other destinations?

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Dutch state aid buy-out schemes (1)

Two schemes are open for registration by livestock farmers:

- Lbv ("*beëindigingsregeling veehouderijlocaties*" – general buy-out scheme). Budget €500m. Open until 1st December 2023. Open to: pig meat (€ 115m), poultry/turkey (€115m), dairy (€270m) farmers. Compensation: 100% of the replacement value of housing, loss of production rights, demolition costs etc

- Lbv-plus (buy-out scheme for 3,001 "peak emitters", within 25km of Natura 2000 areas and emitting more than 2,500 mol NH_3. Budget: €975m. Open until 5th April 2024. Open to pig meat, poultry, dairy, veal sectors. Compensation: 120% of replacement value.

Principle: first come – first serve

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Dutch buy-out schemes (2)

Interest until last week: 522 farmers have registered their interest, of which:
- 231 pig farmers
- 94 poultry farmers
- 90 dairy farmers
- 74 veal farmers

118 applications for the 'plus' scheme. An additional 103 application may also quality for 'plus'

But:
- these applications still need to be validated
- After acceptance of the validation, the farmer will receive a contract to be signed within 6 months
- Applicants may withdraw their interest

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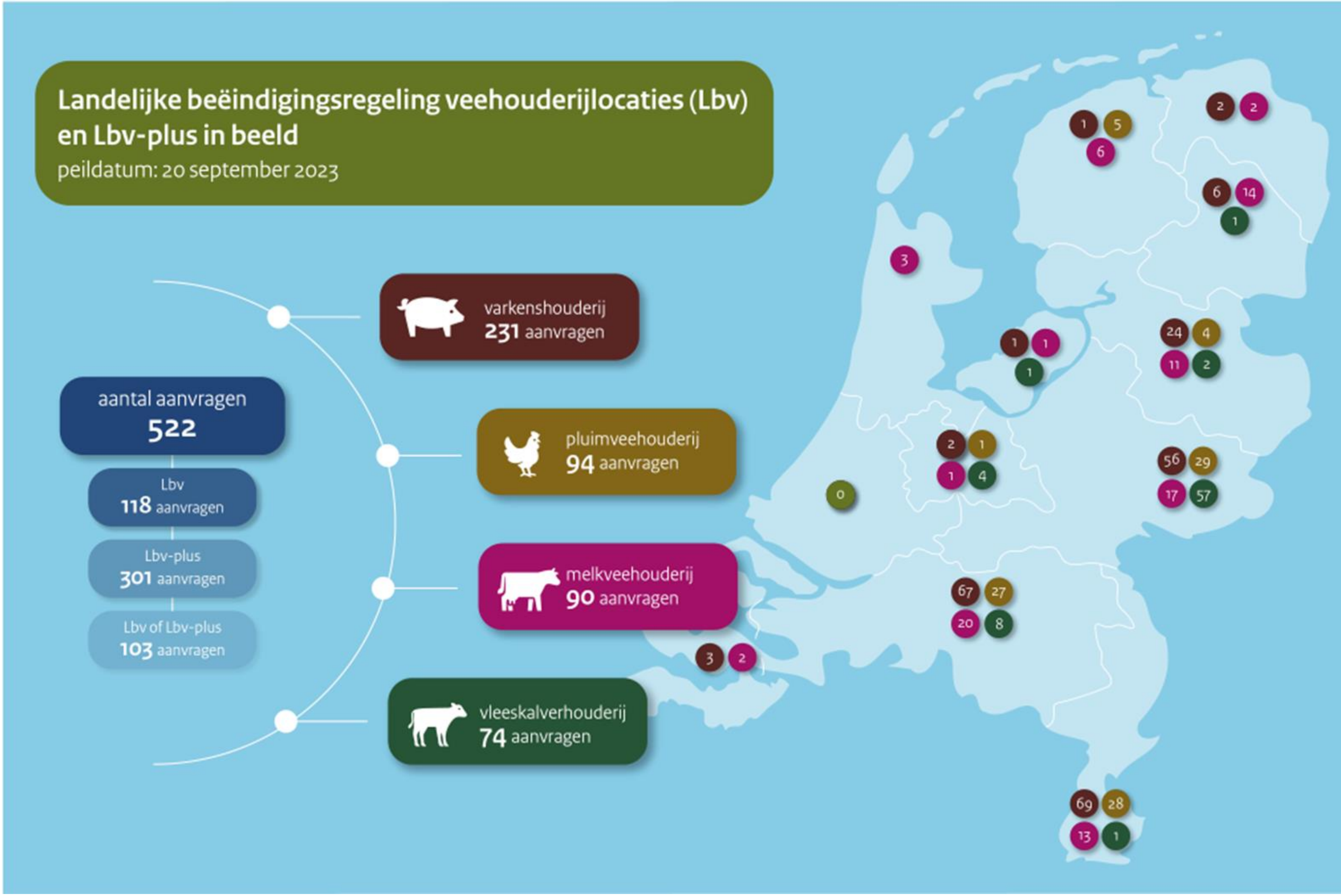
Main interest is in the south-east of the country



Dutch buy-out schemes (3)

Once applicants have signed, they lose their animal production rights. Production needs to cease within 12 months.

This does not automatically mean the end of the farm, the farmer may still continue provided nitrogen emissions remain below 15% of historic emissions , e.g.

- Arable farming
- Tourism
- Care
- …..

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Possible impact on milk volume……

90 applicants out of 14,000 = about 90 million kg = 0.6% reduction ? Maybe less….

But: what will have more impact: measures piling up (nutrients, climate, biodiversity, water, animal welfare….) the cumulative effect of measures should be estimated, e.g. -25% by 2030 or 2035 (estimate by WUR)

Dutch livestock farmers are now paying to get rid of excess manure while they are also paying for artificial fertiliser….. This is the result of the **gradual reduction of the nitrates derogation** in the Netherlands towards 2026.

Farmers want assurances for a viable future farming business model. Farmers' trust in government is low. Farmers have reduced emissions, but innovation is not taken into consideration in new proposals. So why should you invest?

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Barge…

Thank you for your attention!

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