



Milk and Milk Products Price and Trade Update



Milk and Milk Products

Price and Trade Update: June 2015¹

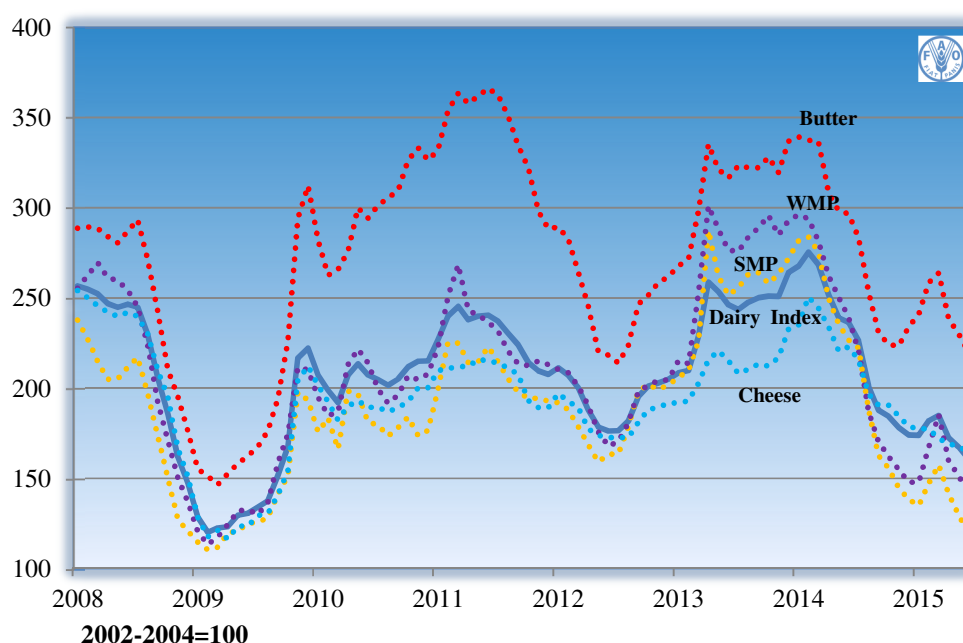
PRICES: Remain depressed

International dairy product prices began the year at low levels and, despite some positive movement in February and March, fell back during the period from April to June. A favourable opening to the April/March dairy year in the EU, combined with the abolition of the milk quota system, and the existence of unsold year-end stocks in New Zealand, raised expectations of abundant world export supplies. At the same time, uncertainty over the level of China's dairy commodity imports in 2015 and continued trade prohibitions imposed by the Russian Federation have tempered demand.

The **FAO Dairy Price Index** stood at 160.5 in June, its lowest level since September 2009. Quotations for all dairy products covered in the Index were weaker and substantially below a year ago. Compared with June 2014, prices for the main dairy commodities in June 2015 were: down 47 percent for skimmed milk powder (SMP) to USD 2 032 per tonne; down 41 percent for whole milk powder (WMP) to USD 2 455 per tonne; down 26 percent for cheddar cheese to USD 3 425 per tonne; and down 26 percent for butter to USD 3 138 per tonne.

¹ The *Milk and Milk Products: Price and Trade Update* is prepared by the meat and dairy section of the Trade and Markets Division, FAO. The present issue covers developments up to the end of **June 2015**.

FAO Dairy Export Price Indices: 2008 - 2015



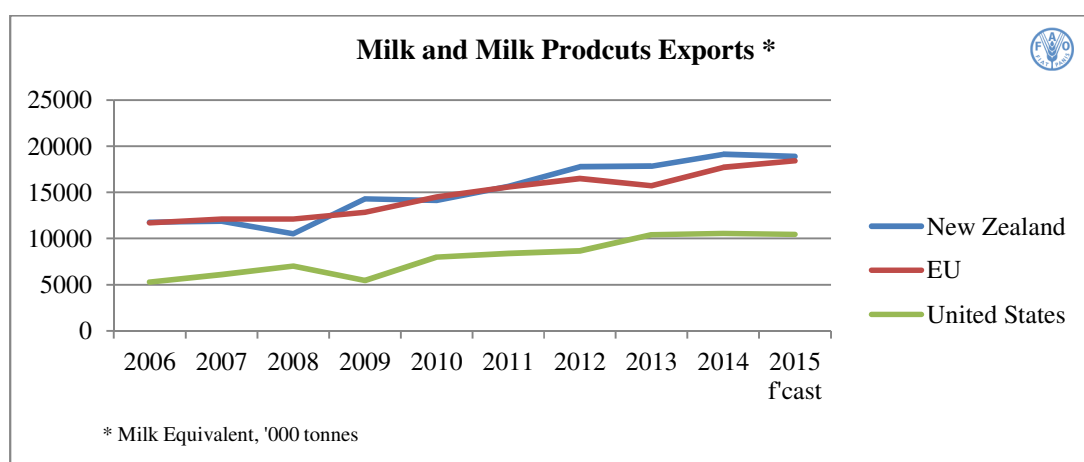
Trade Outlook: Overview

Market adjusts to changes seen in 2014

Trade in dairy products is projected to rise by 0.3 percent in 2015, a slower rate than last year, to reach 72 million tonnes of milk equivalent. For the **European Union**, the current April-March dairy year marks the first time in 31 years that the sector will not be constrained by the milk production quota system, which could sustain an increase in overall output and exports. An anticipated increase in milk production is likewise expected to boost shipments by the **United States** and **Australia**, while **Belarus** is anticipated to maintain exports at a level similar to last year. Conversely, **New Zealand** may register a small decline in overall trade in dairy products (in terms of milk-equivalent). However, as the 2015/2016 dairy year has yet to begin, New Zealand's sales will very much depend on pasture conditions following the dry-to-drought weather prevailing during the first part of 2015. Additionally falling dairy commodity prices may dampen production growth. Exports from **Argentina** are projected to decline for the second year, as a result of reduced milk production and government-imposed limitations on overseas sales.

Asia is expected to remain the main destination of dairy product trade in 2015, although growth may be slower than in recent years. Following several years of substantial gains, overall imports of dairy products by **China** may decrease during 2015 – as demand slackens and domestic production grows. Elsewhere in *Asia*, increased purchases are anticipated for the **United Arab**

Emirates, Saudi Arabia, Malaysia, Vietnam, the Philippines, Thailand, Oman and the Republic of Korea. Low prevailing international prices should stimulate imports by *Africa*. The principal countries that could see purchases increasing are **Algeria, Egypt and Nigeria**. In *Latin America and the Caribbean*, rising domestic production could result in reduced imports by **Brazil**, while **Mexico and Venezuela** are projected to purchase more. For *Europe*, imports by the **Russian Federation** are anticipated to fall for the second year in a row, reflecting the devaluation of the rouble, along with the continuation of the ban introduced in August 2014 on imports of dairy products from Australia, Canada, the EU, Norway and the United States, which has affected cheese in particular. Imports by the **EU** are forecast to be slightly lower compared with 2014, as are those of the **United States**.

**IMPORTS: TOTAL MILK**

thousand tonnes (Milk Equivalent)

	2013	2014	2015	Change 2015 over 2014 (%)
		<i>prelim.</i>	<i>f'cast</i>	
World	64761	68699	68930	0.3
China	12369	13212	12476	-5.6
Russian Fed.	4962	3892	3539	-9.1
Algeria	2231	3115	3298	5.9
Saudi Arabia	2280	3071	3271	6.5
Mexico	2906	2861	2927	2.3
Indonesia	2644	2530	2577	1.8
Viet Nam	1678	2196	2371	8.0
Malaysia	1803	2086	2250	7.8

EXPORTS: TOTAL MILK

thousand tonnes (Milk Equivalent)

	2013	2014	2015	Change 2015 over 2014 (%)
		<i>prelim.</i>	<i>f'cast</i>	
World	68340	72168	72394	0.3
New Zealand	17831	19138	18884	-1.3
EU	15735	17727	18404	3.8
United States	10410	10556	10464	-0.9
Belarus	4388	4356	4388	0.7
Australia	3358	3463	3546	2.4
Argentina	2546	2144	2021	-5.7

Whole milk powder

Prices remain weak

After declining steeply throughout 2014, prices of whole milk powder (WMP) rose somewhat in February and March 2015; however, they fell again from April through June to close at an average price of US\$2455 per tonne: a price level last seen in mid-2009. Good availability of export supplies and limited buying interest from **China** are the two main factors behind the current low prices. China's imports of WMP for the first four months of 2015 were almost 50 percent down on the same period in 2014; however, it needs to be borne in mind that the level of imports was exceptionally high in the first four months of 2014 (see chart, below). Compared with the first four months of years prior to 2014, purchases for 2015 are a more moderate 12 per cent down on 2013 and well above their level in previous years. The reduction in China's imports has notably affected exports by **New Zealand, Australia, Argentina** and **Uruguay** during the first months of 2015. In New Zealand, despite dry conditions causing an accelerated close to the 2014/2015 dairy year, stocks of WMP remain unsold and manufactures are faced with the choice of either further discounting prices or carrying stocks over into 2015/2016, in the hope of an increase in prices. In 2014, New Zealand supplied over 80 percent of China's WMP imports, while China accounted for almost 40 percent of New Zealand's WMP exports. Elsewhere lower prices may stimulate demand in several major markets, including **Algeria, Venezuela, the United Arab Emirates, Oman, Nigeria, Vietnam** and **Saudi Arabia, Sri Lanka** and **Indonesia**. Most exporters, including **New Zealand, the EU, Argentina, Australia** and the **United States**, are projected to see the level of sales fall in 2015, as a result of anticipated lower imports by China, the principal market for WMP. Overall, world exports of WMP are projected to fall by 5.2 percent in 2015 to 2.5 million tonnes.



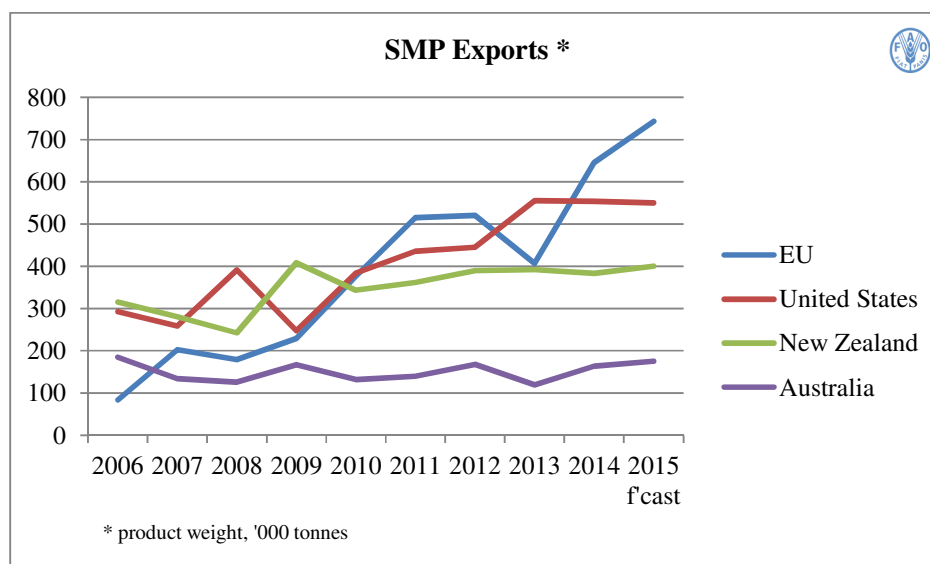
	IMPORTS: WMP				EXPORTS: WMP				
	'000 tonnes (product weight)				'000 tonnes (product weight)				
	2013	2014	2015	Change 2015 over 2014 (%)	2013	2014	2015	Change 2015 over 2014 (%)	
		<i>prelim.</i>	<i>f'cast</i>			<i>prelim.</i>	<i>f'cast</i>		
World	2266	2426	2342	-3.5	World	2472	2588	2454	-5.2
China	725	785	639	-18.7	New Zealand	1291	1424	1353	-5.0
Algeria	142	204	216	5.8	EU	374	389	370	-4.8
Venezuela	170	143	156	9.0	Argentina	182	144	132	-8.0
UAE	101	132	145	9.9	Australia	96	81	75	-7.3
Oman	75	80	85	6.3	UAE	62	64	66	3.1
Singapore	90	85	84	-1.8					

Skimmed milk powder

Prices dip

As with WMP, SMP prices fell back between April and June 2015, after a short-lived rally in February and March. Trade in SMP is predicted to grow by 5.5 percent in 2015 – stimulated by low prices. SMP is central to the milk processing industry in many countries and, as such, market demand is more dispersed than that of WMP. **China**, the main market, is anticipated to see a similar level of increase in imports as last year and a rise in purchases is anticipated for some other major importers, including (in order of volume) **Algeria**, **Malaysia**, the **Philippines** and **Vietnam**. Conversely, imports by the **Russian Federation** and **Japan** could fall.

As for the **EU**, the absence of the Russian Federation as a market for cheese means that more milk is being channelled into SMP and butter production. As a consequence, the EU is anticipated to build on a substantial rise in sales of SMP in 2014 and to record a further increase, in the order of 15 percent, to reach 743 000 tonnes, in 2015. Continued focus on SMP production for export in **Australia** is also forecast to lead to greater sales, especially to *South-East Asia*. In the case **New Zealand**, sluggish import demand for WMP by China is also expected to result in a greater emphasis on SMP production and export – with *South-East Asia*, again, being the principal destination. **Belarus**, which recorded a substantial increase in SMP exports during the first quarter of 2015, mainly as a result of a rise in sales to the **Russian Federation**, is anticipated to achieve sales in the order of 95 000 tonnes in 2015. Conversely, exports by the **United States** are forecast to be little changed, at 550 000 tonnes, as the industry there places more emphasis on cheese production for export. Following a surge in 2013, exports by **India** almost halved in 2014. The decline is projected to continue this year, as domestic prices have remained attractive compared to those prevailing in the world market.

**IMPORTS: SMP**

'000 tonnes (product weight)

	2013	2014	2015	Change 2015 over 2014 (%)
		<i>prelim.</i>	<i>f'cast</i>	
World	1935	2067	2145	3.8
China	266	286	311	8.8
Mexico	198	203	203	0.1
Algeria	120	168	181	8.0
Malaysia	102	138	161	17.0
Indonesia	155	146	150	2.6
Philippines	113	95	108	13.7

EXPORTS: SMP

'000 tonnes (product weight)

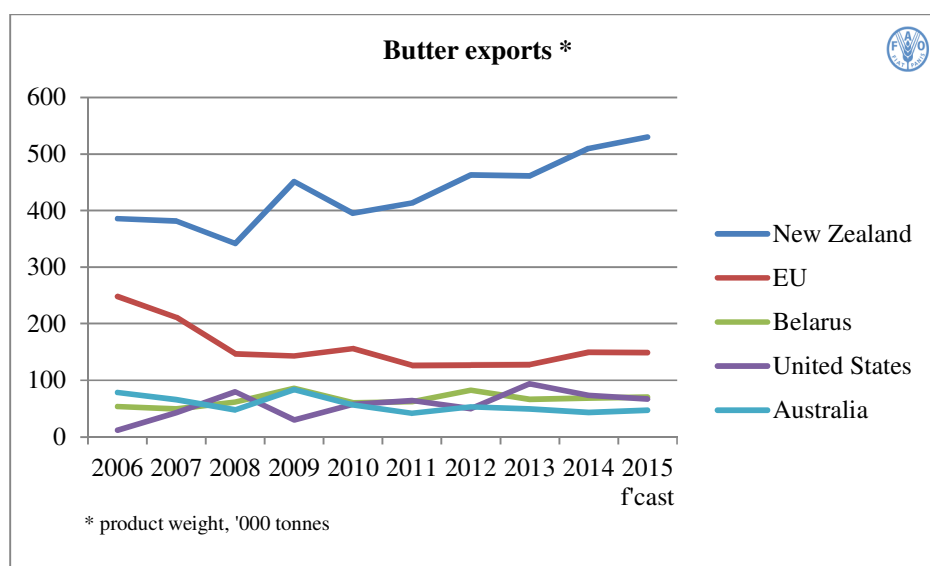
	2013	2014	2015	Change 2015 over 2014 (%)
		<i>prelim.</i>	<i>f'cast</i>	
World	1898	2131	2248	5.5
EU	407	646	743	15.0
United States	555	554	550	-0.6
New Zealand	392	383	400	4.4
Australia	119	164	175	6.9
Belarus	95	90	95	5.6

Butter

International Prices weaken

World prices of butter fell from April to June 2015, along side those of milk powder. Trade in butter is forecast to increase by 1.9 percent to 994 000 tonnes in 2015, a slower rate compared to 2014. Demand for butter comes mainly from *Southeast Asia*, the *Middle East* and the **Russian Federation**, although, as with many other milk products, **China** has substantially increased purchases in recent years. Many of the principal markets, including **China**, **Saudi Arabia**, **Mexico** and **Singapore**, are predicted to maintain or increase imports in 2015, while the devaluation of the rouble in the **Russian Federation** is expected lead to lower purchases this year. Imports by the **European Union** are also anticipated to fall, mainly as a result in a decline in *inward processing* (duty-free imports for re-export) caused by the suspension of exports to the Russian Federation.

New Zealand is anticipated to see sales expand in 2015, as reduced WMP import demand from China causes a shift towards production of butter/SMP. In the case of the **EU**, a devaluation of member states' currencies against the United States dollar has improved export competitiveness and maintenance of last year's high level of exports is expected. For the **United States**, increased production of cheese and yogurt may cause exports of butter to fall for the second year in a row.



IMPORTS: BUTTER

'000 tonnes (product weight)

	2013	2014	2015	Change 2015 over 2014 (%)
		<i>prelim.</i>	<i>f'cast</i>	
World	854	928	946	2.0
Russian Fed.	160	150	144	-4.4
China	81	113	130	15.4
Saudi Arabia	52	66	72	9.1
Egypt	42	47	46	-1.5
EU	42	50	44	-12.3
Iran	52	38	39	2.6

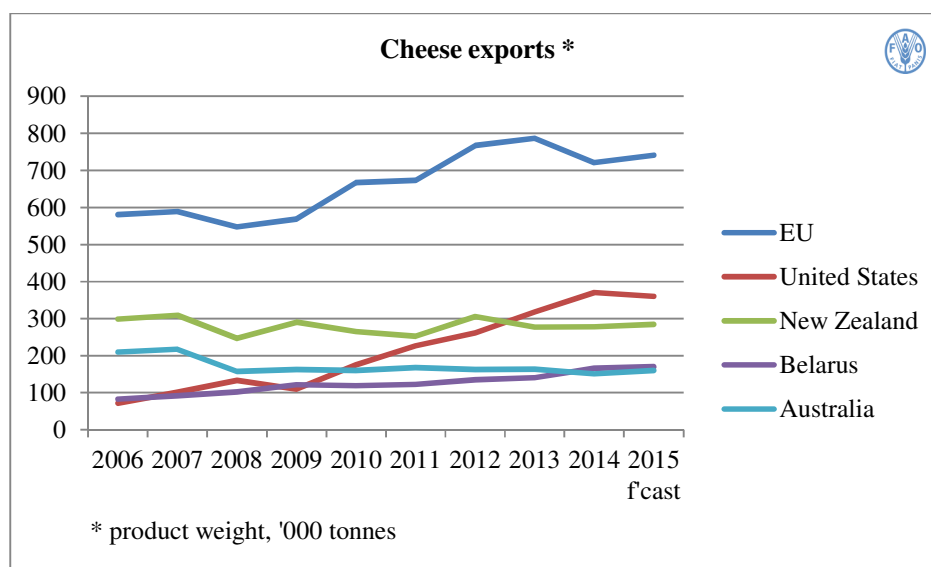
EXPORTS: BUTTER

'000 tonnes (product weight)

	2013	2014	2015	Change 2015 over 2014 (%)
		<i>prelim.</i>	<i>f'cast</i>	
World	912	976	994	1.9
New Zealand	461	510	530	3.9
EU	128	149	149	-0.2
Belarus	66	69	70	1.9
United States	94	74	67	-9.0
Australia	49	43	47	9.7

Cheese**Prices move down**

Unlike the other dairy commodities, cheese prices did not receive a fillip at the start of 2015; rather, they followed an almost continuous process decline between July 2014 and June 2015. Trade in cheese is forecast to show a moderate increase of 1.2 percent in 2015, principally due to increasing demand in **Japan, Saudi Arabia and China**. However, the effect of import prohibitions by the **Russian Federation** and lower imports by the **United States** will weigh on growth. The sudden loss of the Russian market in August 2014 caused difficulties for some exporters, in particular the EU, and intensified competition for markets. Some of the major exporters, such as the **European Union and United States**, have large domestic markets, so external sales account for only a small proportion of internal demand; consequently, processors have the option of orientating cheese production towards the domestic market. Other countries, such as **New Zealand and Australia**, with limited domestic markets, are anticipated to focus on increasing sales of cheese to neighbouring countries in Asia, in particular, to **Japan, China, Malaysia and the Republic of Korea**.

**IMPORTS: CHEESE**

'000 tonnes (product weight)

	2013	2014	2015	Change 2015 over 2014 (%)
		<i>prelim.</i>	<i>f'cast</i>	
World	2259	2186	2193	0.4
Russian Fed.	462	316	268	-15.2
Japan	236	232	235	1.3
Saudi Arabia	134	154	168	9.1
United States	148	165	160	-3.1
China	87	108	120	11.5
Korea Rep. Of	85	97	108	11.1
Mexico	103	99	101	1.3

EXPORTS: CHEESE

'000 tonnes (product weight)

	2013	2014	2015	Change 2015 over 2014 (%)
		<i>prelim.</i>	<i>f'cast</i>	
World	2406	2400	2428	1.2
EU	787	721	741	2.8
United States	318	371	360	-2.8
New Zealand	277	278	285	2.5
Belarus	140	166	170	2.6
Australia	163	151	160	6.3
Egypt	111	115	119	3.3

For comments or queries please use the following email contact: Michael.Griffin@fao.org
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