

### Encouraging milk:feed price constellation triggers volumes

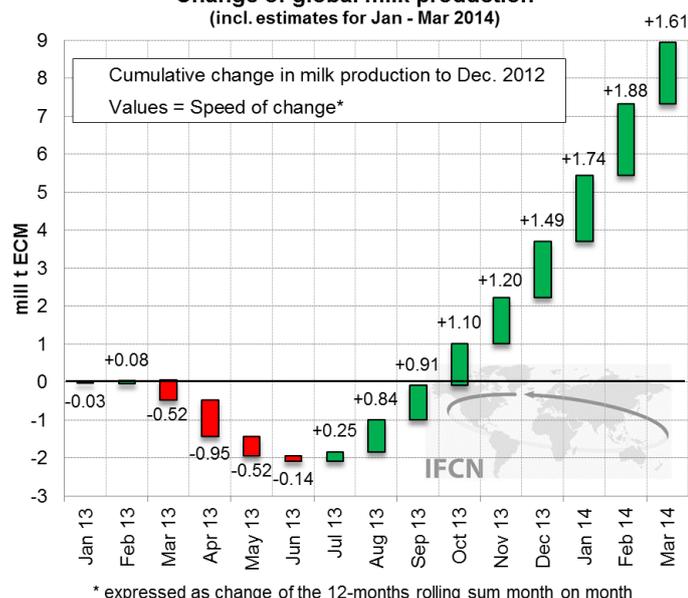
The year 2013 was characterised by encouraging high milk prices increasing to constantly more than 50 USD/100 kg ECM in Q4-2013 and the year 2014 has started with even more promising figures. The IFCN world milk price indicator exceeded with 56 USD/100 kg ECM in February 2014 the peak level of world milk prices in April 2013, just to decrease slightly to 55.7 USD/100 kg ECM in March (see right hand graph).

After a low in November 2013, the IFCN feed price indicator has increased towards 31.2 USD/100 kg feed, mirroring a compound feed composition of 70 % corn and 30 % soy bean meal. This is the second largest price increase after June/July 2012 in such a short period of time. Reasons are a high demand for soy and reduced production estimates in account of weather constraints.

The drop of milk production in H1-2013 due to a harsh winter in Europe, devastating drought conditions in North-NZ and delayed improvements of dairy farm economics world-wide resulted in a contracted milk volume of -2.1 mill t ECM in June 2013 compared to 604 mill t ECM global milk output reached in December 2012. The following expansion in milk production offset this reduction by October 2013 and led to a global production growth of +3.7 mill t ECM (+0.6 % yoy) for 2013 (see below). This was primarily borne by a good season start in NZ and high farm gate milk prices which triggered production in mainly the USA and EU-15 countries. However, it is the lowest production growth since 1997.

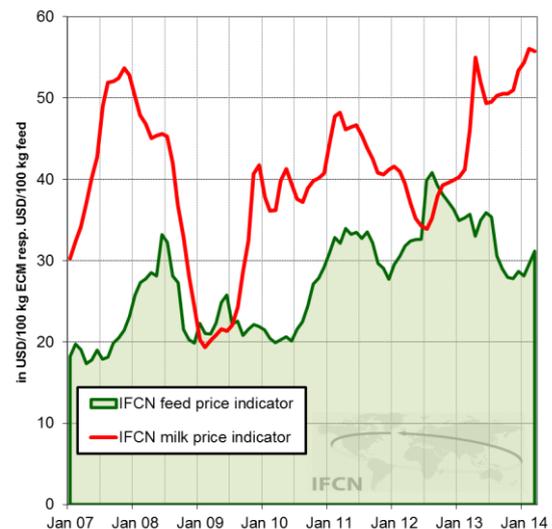
In last estimates for Q1-2014, this production growth cumulates to 9 mill t ECM compared to 2012. However, the speed of volume expansion is likely to slow down as the change of the 12-months rolling sum month on month decreased to 1.6 mill t ECM. Key restraints are the slower developments in US, upcoming super levy challenges in the EU, and uncertainties among BRIC countries.

**Change of global milk production**  
(incl. estimates for Jan - Mar 2014)



The data of the graphs is content of the IFCN data product "Monthly real time data of milk production, milk & feed prices". Countries included represent 92% of world milk production. Countries included (p = milk production, d = milk delivery): EU-28: (d), CIS: Armenia (p), Azerbaijan (p), Belarus (p), Kazakhstan (p), Kyrgyzstan (p), Moldova(p), Russia (p), Tajikistan (p), Ukraine (p), Uzbekistan (p), USA & Canada: Canada (d), USA (p), Latin America: Argentina (p), Brazil (d), Chile (d), Colombia (d), Mexico (p), Peru (d), Uruguay (d), Oceania: Australia (p), New Zealand (p), Asia: Bangladesh (p), China (p), India (p), Indonesia (d), Japan (p), Pakistan (p), Africa: Egypt (d), South Africa (p) Other: Switzerland (d), Turkey (d), Iran (p). Figures for February 2008 and February 2012 are adjusted for Leap Year. Jan - Mar. 2014 data is preliminary or estimated.

Development of global milk and feed prices



### A milk price reaction to lower global demand for milk? – Not if, but when.

Even though the world market shows an above-average milk price level in the past 12 months, the global demand for dairy products remains strong. Those conditions have triggered production – yet market equilibrium has apparently not been reached. This unbalance will lead to a continued high price level leaving room for key uncertainties:

1. Weather constraints largely affect feed prices as well as availability. Even though the northern hemisphere has experienced a rather mild winter, precipitation in the most important crop regions, such of the US and EU, has been scarce. On the other hand, important pasture regions have been drowning in water, e.g. Southwest UK and Ireland. Increasing feed prices will easily impact farm profitability world-wide.
2. Even though global trade volumes currently reflect less than 10 % of the total global production this share can be expected to grow significantly. The adaption of infrastructure will be key for the supply chain to balance geographically separated growing surplus and deficit regions.
3. Fully transmitted high dairy commodity prices to consumer prices could reduce demand growth and hence lead to negative milk price signals.
4. Question is, whether a deficit in milk supply has led to a temporarily unmet demand or whether global demand is changing on a long-term basis due to aspects such as increased welfare in developing markets. An on-going shift of demand can lead to a high milk price level until the structural change on the production side will enable sufficient supply on a global level. Nonetheless, the current milk price level might be overheated and prices at around 40 - 50 USD/100 kg ECM could be much more realistic.
5. But how sustainable and resilient is the structural change towards fewer but larger farms with lower cash margins in volatile markets in order to keep up with the rising demand?