



## Dairy Market Update

16 August 2012

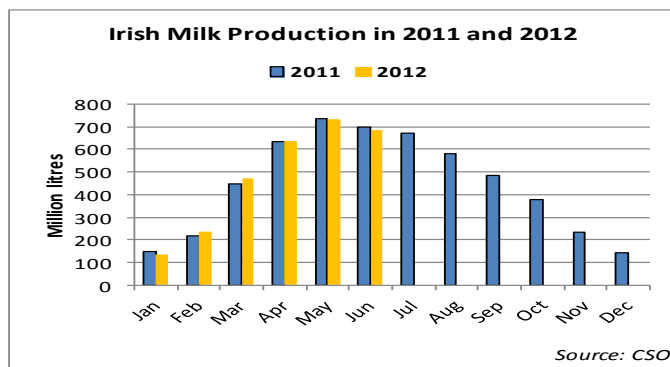
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### Global milk supply under pressure

Adverse weather conditions in several key exporting regions could have a significant impact on global milk supplies.

Severe drought in the US is impacting on milk production. In addition, the feed to milk price ratio remains at a historical low as feed costs continue to rise. The US maize crop is expected to be the smallest since 2006 due to the drought. As the crop is a key element of global feed grain supplies, global prices have firmed. The US Department of Agriculture (USDA) expects these factors to encourage a rapid decline in the US dairy herd and has reduced milk production forecasts for 2012 and 2013 as a result.

Unfavourable weather events are also impacting milk production in Ireland. Official statistics show that Irish milk production in June was 1.9% below 2011 levels. Total production (Jan-Jun 2012) is 0.6% above 2011 levels.



Looking forward, wet weather in June and July has impacted on grass growth and there are question marks over the availability and quality of silage. According to a survey by Teagasc in late July, 38% of dairy farmers said they are short of silage for this winter and nearly a third of dairy farmers said they had sold livestock to alleviate fodder problems. This has the potential to impact not only 2012/13 milk production but 2013/14 as well.

In New Zealand, according to NZX Agrifax, up to a third of cows have calved and are back in milk production. Grass growth potential so far is similar to 2011/12 levels following above average rainfall in July for the major dairy regions of the North Island.

Most analysts are estimating that production in New Zealand will continue to grow in 2012/13, although this growth is expected to be around 4-5% compared with the 10% achieved in the 12 months to 31 May 2012. However, if an El Niño weather event develops in late September as many models predict, this could adversely impact production levels.

### In Context

The tightening milk supply situation is currently a contributing factor helping to stabilise global wholesale prices, which in turn could help UK wholesale prices moving into the winter.

### USDA report shows emerging exporters

The latest report on dairy trade estimates has been released by the USDA. The bi-annual report looks at the production, consumption and trade of dairy products across selected regions. For example, the table below shows data regarding the trade of milk powders.

	2009	2010	2011*	2012(f)
<b>Exports SMP</b>	'000 tonnes			
USA	248	384	436	452
EU	231	379	518	500
New Zealand	408	344	362	365
<b>Exports WMP</b>	'000 tonnes			
Argentina	157	128	201	260
EU	463	447	390	400
New Zealand	818	948	1,110	1,200
<b>Imports SMP</b>	'000 tonnes			
Mexico	165	155	194	210
China	70	89	130	180
<b>Imports WMP</b>	'000 tonnes			
Algeria	200	167	203	180
China	177	326	320	332

\*Provisional  
(f) Forecast

In July 2011, the USDA forecasted China's 2011 import levels of WMP and SMP to be at 430,000 tonnes and 100,000 tonnes respectively. This latest report suggests that predictions for 2011 have changed to 320,000 tonnes (-26%) and 130,000 tonnes (+30%). While the EU and New Zealand have maintained their roles as major global exporters of milk powders, other countries are starting to emerge on the global stage, noticeably Argentina in WMP and the US in SMP.

### In Context

The report suggests some uplift in trade with predicted increases in consumption being satisfied by increasing imports; good news for those involved in the export of dairy products. Moving forward there are two main factors to consider. Firstly is the emergence of new global exporters. With new countries looking to increase trade, competition is likely to increase. Secondly, the types of products being demanded may also be changing. For example, figures for China show that where SMP accounted for 21% of total milk powder imports in 2010, it is forecast to account for 35% of milk powder imports in 2012. It will be interesting to see how this progresses as there could be future challenge of managing butterfat levels to cater for consumer tastes.



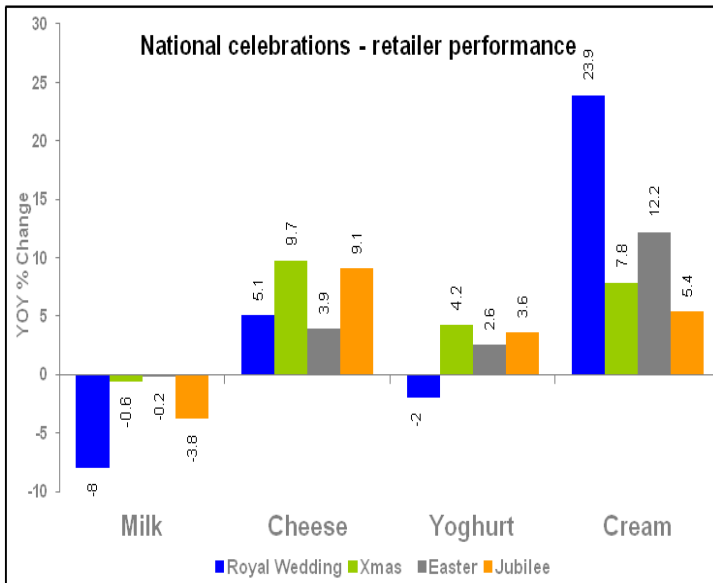
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### National celebrations boost dairy product sales

From the Royal Wedding last year to the Diamond Jubilee held this year, national celebrations have increased consumption of some dairy products. Kantar data for the four week periods which have included a national celebration are shown below for different dairy products.



Source: Kantar Worldpanel

Over the four week period to 10 June 2012, cheese sales increased by 9.1% in value compared to last year. Other dairy products such as cream and yoghurts also recorded higher value sales related to national celebrations. Cream sales by value increased by 23.9% in 2011 during the four weeks including the date of the Royal Wedding.

### Retail yogurt sales update

Latest Kantar data for the 52 weeks ending 10 June 2012, shows that retail sales of yogurt in Great Britain declined by 3% in volume versus the previous 52 week period. Despite this, the value of the market increased by 3.1% with retail prices rising on average by 6.3% in this period.

Although overall sales of yogurt declined, several sub-categories have seen strong growth, as shown below.

Yogurt	Spend (£000s)	Yr/Yr %	Volume (000kgs)	Yr/Yr %
Total market	1,322,246	+3.1%	575,800	-3.0%
Bio-set	415,978	+11.4	169,774	+13.0
Children's	33,340	-2.4	12,205	+10.1
Low fat	142,350	-7.5	83,687	-7.9
Luxury	337,534	+6.6	149,158	+9.6
Plain / Natural	79,446	+5.0	44,932	+5.4
Very low fat	267,156	+2.6	130,495	+3.1

Source: Kantar Worldpanel 52 w/e 10 June 2012

Bio-set yogurts have grown 13% in volume sales, with children's yogurts and luxury yogurts also reporting strong volume growth. Low fat yogurts sales declined by 7.9% despite having one of the lowest average prices.

Retailer own-label yogurts, which account for 28% of the market by volume have seen the strongest growth, increasing 20% in value and 13% in volume. Müller, the UK brand leader, with reportedly a 23% market share, has seen both volume and value growth during this period.

Feed Prices (Range £/tonne)	Intensive energy rations	High protein concentrates	Exchange Rate €/£ (av. 1-15 August 2012)		UK Average Farmgate Milk Price: June			
July 2012	255-268	349-358	0.7848		2012	26.25	2011	26.62
Wholesale Prices and Market Indicators	IMPE	AMPE	MCVE (Milk for Cheese Value Equivalent)	Cream Income*	Butter (£/t)	SMP (£/t)	Mild Cheddar (£/t)	Bulk Cream (£/t)
July 12	16.9	23.4	30.81	5.83	2,225	1,800	2,850	1,000
June 12	17.3	23.5	30.44	5.95	2,250	1,800	2,850	1,020
July 11	19.3	33.7	32.91	9.00	3,600	2,200	2,975	1,600
Retail Prices	Liquid Milk (retail) (4 w/e 10/06/12)		Doorstep (4 w/e 10/06/12)		Butter (01/08/12) Branded (p/250g)		Mild Cheddar (01/08/12) Non-branded (p/kg)	
June 2012	0.59		1.16		158		564	
% change v June 2011	-2.8%		+11.7%		-3.2%		-0.4%	

\*Cream income = The cream income to a liquid processor is based on the value of the excess cream created because the average level of fat on liquid milk sold through the retail market (supermarkets, local stores and doorstep) is less than the level of fat in the raw milk they receive. It assumes all the cream is sold in bulk form.

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