

## WEEKLY DAIRY MARKET UPDATE WEEK 47-2018

**Market activity** has been picking up somewhat in the past week but that has not led to any meaningful price increases so far. EEX SMP futures however are currently at €1,702.-/mt for November which is above today's cash market where some origins are on offer below the € 1,600.-/mt mark.

**Brexit** remains as chaotic as it has been. Besides the very realistic possibility the UK parliament will vote the agreement down, there's Spain that earlier this week stated it will vote against Brexit unless agreements that involve Gibraltar will be worded less ambiguous. EU will vote on 25<sup>th</sup> November for the current Brexit agreement and UK is expected to sign it off later that same day. PM May will have to sell it to parliament around the 10<sup>th</sup> December but from what we gather that's all but a certainty it will be receiving a positive vote.

**Intervention tender nmr 28 closed yesterday.** A total volume of 130.471 mt is on offer with the last accepted price being € 1.251.-/mt. The youngest production date available is 1<sup>st</sup> August 2016. It will be interesting to see if interest to buy remains as high as in the previous round of two weeks ago. The result and allocations will be published tomorrow.

### EU/ Milk production

In EU, September with 99% of EU member state production counted, milk output was down by -0.05%, or virtually unchanged:

Milk Production		September 2018 vs 2017	
Member state	Δ	weighted	
Belgium	2.59%		0.07%
Bulgaria	3.24%		0.01%
Czech Republic	0.88%		0.02%
Denmark	1.92%		0.07%
Germany	0.01%		0.00%
Estonia	1.50%		0.01%
Ireland	9.43%		0.51%
Greece	5.71%		0.02%
Spain	-0.36%		-0.02%
France	-1.73%		-0.26%
Croatia	-7.49%		-0.02%
Italy	-1.02%		-0.07%
Cyprus	5.42%		0.01%
Latvia	-4.91%		-0.03%
Lithuania	-4.78%		-0.05%
Luxembourg	2.59%		0.01%
Hungary			0.00%
Malta	-1.99%		0.00%
Netherlands	-4.55%		-0.42%
Austria	-4.93%		-0.10%
Poland	2.44%		0.18%
Portugal	-1.50%		-0.02%
Romania	5.74%		0.04%
Slovenia	-3.39%		-0.01%
Slovakia	-1.86%		-0.01%
Finland	-1.56%		-0.02%
Sweden	-2.01%		-0.04%
United Kingdom	0.78%		0.07%
Total EU 99% counted > in kgs milk			-0.05% -6,161,223

\*\* The column "weighted" represents the change by country as a % of total EU production



With 99% of member states' production counted, September so far is at a -0.05% milk production decrease.

Netherlands saw its biggest Year on Year decline since March 2004.

That record however is overtaken by October for which month the Netherlands reported a decline of -5.5%

With only Hungary left to report that represents 1% of EU milk production, it would be save to say October will end with a small decrease. This would be the first decrease in production since February 2017.

### EU MILK PRODUCTION YTD SEPTEMBER 2018



### EU MILK PRODUCTION INCREASES ROLLING 12 MONTHS TO DATE SEPTEMBER 2018



In the 12 months upto September, EU produced an incremental 4.11 billion kgs or + 2.63%

Source milk production: Eurostat

#### Official Dutch Quotations

OFFICIAL DUTCH QUOTATIONS							price development since 1/1/2018	
21st November 2018	This week €	in \$	Last week €	in \$	Δ in €	Δ in \$		
Butter	4,250	4,836	4,300	4,844	-50	-8	[Bar chart showing price development for Butter]	
Whole Milk Powder	2,650	3,015	2,650	2,985	0	30	[Bar chart showing price development for Whole Milk Powder]	
Skimmed Milk Powder food	1,620	1,843	1,620	1,825	0	18	[Bar chart showing price development for Skimmed Milk Powder food]	
Skimmed Milk Powder Feed	1,390	1,582	1,390	1,566	0	16	[Bar chart showing price development for Skimmed Milk Powder Feed]	
Sweet Whey Powder Feed	770	876	770	867	0	9	[Bar chart showing price development for Sweet Whey Powder Feed]	
€ - US \$	1.1378		1.1265			0.0113	[Bar chart showing price development for € - US \$]	
Greenmark Indices milk/100 kgs								
	This week €	in \$	Last week €	in \$	Δ in €	Δ in \$		
TMV Butter/SMP	30.65	34.88	31.24	35.54	-0.58	-0.66	[Bar chart showing price development for TMV Butter/SMP]	
TMV Cas/Wpc35/Butter	34.70	39.48	34.94	39.75	-0.24	-0.28	[Bar chart showing price development for TMV Cas/Wpc35/Butter]	
TMV Gouda/Whey	38.72	44.06	40.02	45.54	-1.30	-1.48	[Bar chart showing price development for TMV Gouda/Whey]	
TMV WMP	35.99	40.95	36.02	40.98	-0.02	-0.03	[Bar chart showing price development for TMV WMP]	
TMV Weighted all products	36.84	41.92	37.89	43.11	-1.04	-1.19	[Bar chart showing price development for TMV Weighted all products]	

TMV = Theoretical Milk Value of different product mixes, including production costs based on current spot prices.

Except Butter, the official quotations remained unchanged this week. Due to the weight of Butter in all product combination however, all indices went down. Outside of the Quotations we hear of a slightly weaker sentiment in Cheese.



Europe, Non-EU/ Prices

European Prices : NON EU														
Russia**				Russia	Ukraine				Ukraine	Belarus				
average domestic prices in \$/t					average Export prices in \$/t					average Export prices in \$/t				
week ending 14/11/2018				previous week	week ending 14/11/2018				previous week	week ending 14/11/2018				previous week
SMP	\$2,501	↑	2.78%	\$2,433	\$1,725	↑	2.99%	\$1,675	\$1,700	→		\$1,700		
WMP	\$3,259	↑	7.79%	\$3,023	\$3,075	↑	1.65%	\$3,025	\$2,875	→		\$2,875		
Butter 82,5%	\$4,926	↑	6.04%	\$4,645					\$4,525	↑	1.12%	\$4,475		
Butter 72,5%	\$4,661	↑	5.35%	\$4,424	\$3,825	↑	1.32%	\$3,775	\$4,425	↑	2.91%	\$4,300		
Cheese 50%					\$4,100	→		\$4,100	\$4,075	→		\$4,075		
whey	\$970	↑	2.78%	\$944	\$610	↑	0.83%	\$605	\$715	→		\$715		

\*\* Russian prices include 10% VAT

A strong market movement this week in Eastern Europe. Production of milk is seasonally going down. Russian buyers suffer because of the prohibition to import from Belarus. Last week on the back of that, the Russian Rosselkhoznadzor gave 4 Belarussian plants permission to export again which is an additional reason why Belarus prices moved up. Russian prices moved up strongly, aided by a 2.8% change in the Ruble/US\$ parity.

Europe/ Non-EU/ Production

European Production : NON-EU					
in kgs	2017	2018	Δ	Δ %	Ytd
Russia	24,345,000,000	24,583,000,000	238,000,000	0.98%	September
Ukraine	8,925,000,000	8,736,000,000	-189,000,000	-2.12%	October
Belarus	5,599,000,000	5,620,000,000	21,000,000	0.38%	September
Turkey	6,793,000,000	7,741,000,000	948,000,000	13.96%	September
Norway	1,166,200,000	1,161,200,000	-5,000,000	-0.43%	September
Switzerland	2,566,190,000	2,634,430,000	68,240,000	2.66%	September
total	49,394,390,000	50,475,630,000	1,081,240,000	2.19%	Sept/Oct

Production in Turkey remains very strong. YTD September production is up 13.96% or 948 million kgs. The group as a whole stands at + 2.19% or + 1.08 billion kgs.

South America/Milk production

South America Milk Production					
Milk Production	Ytd month	2017	2018	Δ kgs	Δ %
Brazil	June	11,490,000,000	11,452,000,000	-38,000,000	-0.33%
Argentina	September	6,721,000,000	7,127,000,000	406,000,000	6.04%
Uruguay	September	1,328,600,000	1,412,400,000	83,800,000	6.31%
Chile	September	1,363,500,000	1,476,100,000	112,600,000	8.26%
Total		20,903,100,000	21,467,500,000	564,400,000	2.70%

While the other SAM countries continue to see milk production move up, Brazil, that was in Q1 2.5% ahead of last year, saw severe declines in Q2 bringing the YTD June production change to -0.33%. Chilean production continues to see further increases.

## EU/ Dairy Exports

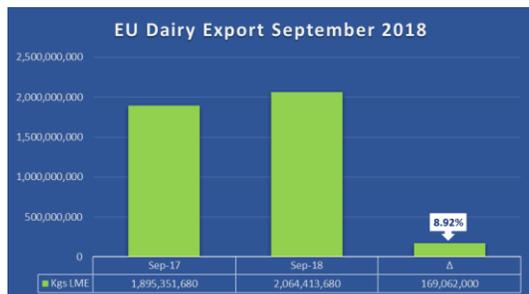
In our last report we reported lower SMP exports for September which was caused by a mistake in Eurostat reporting. This only refers to the single month September figures. We have meanwhile corrected the data and included I/F exports

For the first month in some time, September has been a strong month for Dairy exports:

EU Dairy Exports September 2018													
	WMP	SMP	Whey	Casein(ates)	Lactose	I/F	BMP	Dairy Blends	Butter	AMF	Cheese	Milk	Condensed
	incl wpc's/demin												
Sep-18	27,200	67,296	48,600	5,100	21,400	44,000	4,600	5,900	9,500	1,200	68,100	73,600	20,900
Sep-17	29,800	48,896	47,100	5,100	15,000	44,000	3,300	5,600	9,200	2,100	66,400	86,200	25,700
Δ	-2,600	18,400	1,500	0	6,400	0	1,300	300	300	-900	1,700	-12,600	-4,800
Δ%	-8.72%	37.63%	3.18%	0.00%	42.67%	0.00%	39.39%	5.36%	3.26%	-42.86%	2.56%	-14.62%	-18.68%

Lower Butterfat prices are paying off in increased exports of Butter and Cheese. WMP doesn't take advantage of it because of competing exporters from Oceania and South America are up to 15% cheaper. SMP exports were very strong this month bringing the YTD from -1% in August to + 1% in September.

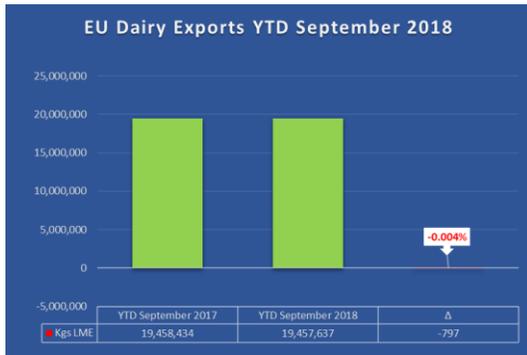
In terms of Liquid Milk Equivalent, September Dairy exports were 169 million kgs higher or + 8.92%:



The Year to date figures have come more or less on par with last year. If the September trend continues there's a good chance that by the end of the year, exports are above that of last year on the back of stronger exports of SMP, Whey and Cheese and quite possibly smaller declines in Butter and SMF in the last quarter of 2018. However with + 200.000 mt of Intervention having been brought on the market and an incremental milk production of YTD September of 1.5 billion kgs this will be insufficient to turn the market completely.

EU Dairy Exports YTD September 2018													
	WMP	SMP	Whey	Casein(ates)	Lactose	I/F	BMP	Dairy Blends	Butter	AMF	Cheese	Milk	Condensed
	incl wpc's/demin												
YTD September 2018	267,100	614,400	444,700	54,800	167,600	443,000	49,400	67,800	97,300	23,400	623,100	739,600	195,500
YTD September 2017	310,800	609,300	432,400	64,700	155,500	394,000	38,000	56,300	109,800	26,500	626,000	778,600	247,000
Δ	-43,700	5,100	12,300	-9,900	12,100	49,000	11,400	11,500	-12,500	-3,100	-2,900	-39,000	-51,500
Δ%	-14.06%	0.84%	2.84%	-15.30%	7.78%	12.44%	30.00%	20.43%	-11.38%	-11.70%	-0.46%	-5.01%	-20.85%

In terms of LME, the YTD September is 0.8 million kgs behind on 2017, or -0.004%:



### EU/ Dairy Imports

During September, Imports were brought back further:

EU Dairy Imports YTD september 2018 vs 2017												
								FATS			LIQUIDS	
	All Whey	SMP	WMP	Casein	Caseinates	Infant Formula	Lactose	Butter	AMF	Cheese	Liquid milk	Condensed
Ytd Sept 2018	51,000	3,200	700	12,000	2,300	5,200	6,400	13,000	700	42,200	12,900	600
Ytd Sept 2017	68,000	1,700	900	13,000	4,300	4,000	5,200	12,000	2,200	41,900	20,200	900
Δ	-17,000	1,500	-200	-1,000	-2,000	1,200	1,200	1,000	-1,500	300	-7,300	-300
Δ %	-25.00%	88.24%	-22.22%	-7.69%	-46.51%	30.00%	23.08%	8.33%	-68.18%	0.72%	-36.14%	-33.33%

In terms of LME., EU imported 13% less or – 132 million kgs:



With this, we can make the Milk balance for the year-to-date September:

EU Milk Balance per 30/9/2018 in LME		
Increase in stocks per 31/12/2017	637,494,000	
Incremental production YTD September	1,840,000,000	
Incremental imports	-132,376,000	
Incremental availability intervention sales	974,890,000	
Incremental exports		-797,000
Incremental domestic consumption		450,000,000
Increase in stocks		<b>2,870,805,000</b>
	3,320,008,000	3,320,008,000

If we would assume Q4 exports to be equally strong as YTD September, stocks continue to grow. A forecast on basis of extrapolation of September export and Import figures would be:

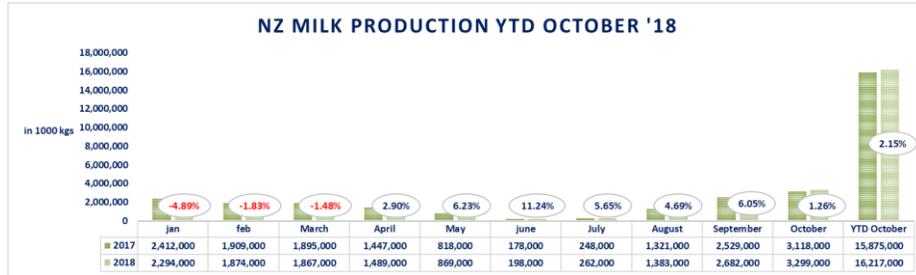
FORECAST EU Milk Balance 31/12/2018 in LME		
Increase in stocks per 31/12/2017	637,494,000	
Incremental production YTD September	1,750,000,000	
Incremental imports	-160,000,000	
Incremental availability intervention sales	1,612,600,000	
Incremental exports		500,000,000
Incremental domestic consumption		450,000,000
Increase in stocks		<b>2,890,094,000</b>
	3,840,094,000	3,840,094,000

If we deduct the stocks that were already there present when the year began, the increase in stocks will be 2.25 billion kgs, about 1.5% of 2018 milk production.

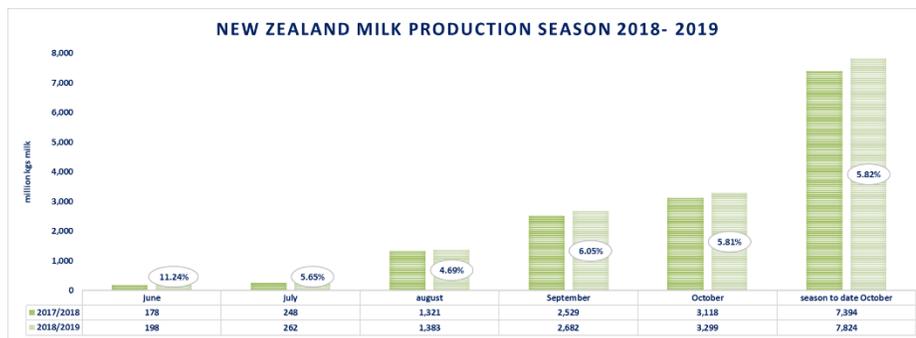
*The above does not take on board production and exports of products which are not straightforward and clearly accounted for in Eurostat data. One of those products with a sizeable volume is for instance Fat Filled Milk Powder (FFMP). There are several estimates of the export volume but there seems to be a consensus that it must be between 400-500,000mt. If that is correct the implication would be that the market is very balanced and in fact undersupplied as the LME volume of FFMP exports would exceed the amount under 'increase in stocks', which is by definition impossible.*

## New Zealand/ Milk Production

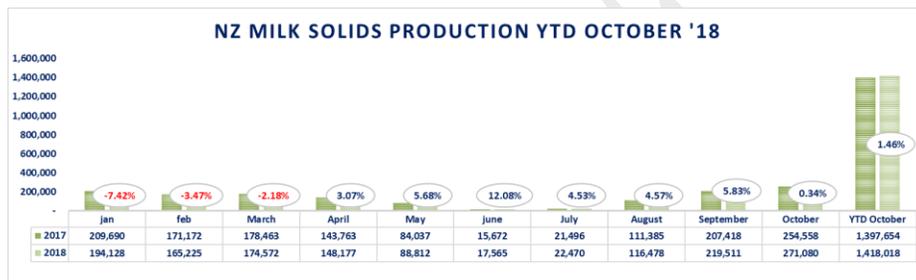
October saw milk production soar further by 5.81%, or + 181 million kgs, bringing the YTD October to 2.15 % or +342 million kgs:



For season to date October milk production stands at +5.82% or 430 million kgs:



In milk solids, YTD October shows a 1.43% increase or 20.4 million kgs:



In milk solids Season to date October production was up by 5.99% or 36.6 million kgs:



## New Zealand/ GDT event 224

Event 224 concluded with a 3.5% decrease in the GDT price index. The Average winning price was \$ 2,727.-/mt



Even though NZ was already the most competitive origin for Butter fats, both AMF and Butter saw brutal price falls.

### AMF

The average winning price settled at \$ 4,577.-/mt, a -9,4% decrease. Since the same event last year, AMF lost 33.5% in value. The Butterfat value in AMF is \$ 4,600.-/mt

### Butter

The average winning price settled at \$ 3,637.-/mt, a -9,6% decrease. Since the same event last year, Butter lost 29.7% in value. The Butterfat value in AMF is \$ 4,408.-/mt. The biggest losses were taken in C1 at -15% after which decreases gradually declined. Striking is that C2,3 and 4 are averagely priced 8,8% below C1 which is a discount of \$345.-/mt.

### Cheddar

The average winning price settled at \$ 3,252.-/mt, a 0.2% increase. Since the same event last year, Cheddar lost 15.1% in value. While C1 and C2 went up respectively by 2.1% and 4.9%, C3 a= C5 went down by 1.3%, 2.8% and 4.2%.

### WMP

The average winning price settled at \$ 2,599.-/mt, a 1.8% decrease. Since the same event last year, WMP lost 6.45% in value. The biggest loss was taken in the C1 at -7.7% while C3-C5 lost each -0.8% and C6 gained 1.9%. the average wining price for C2 was not published.

### SMP

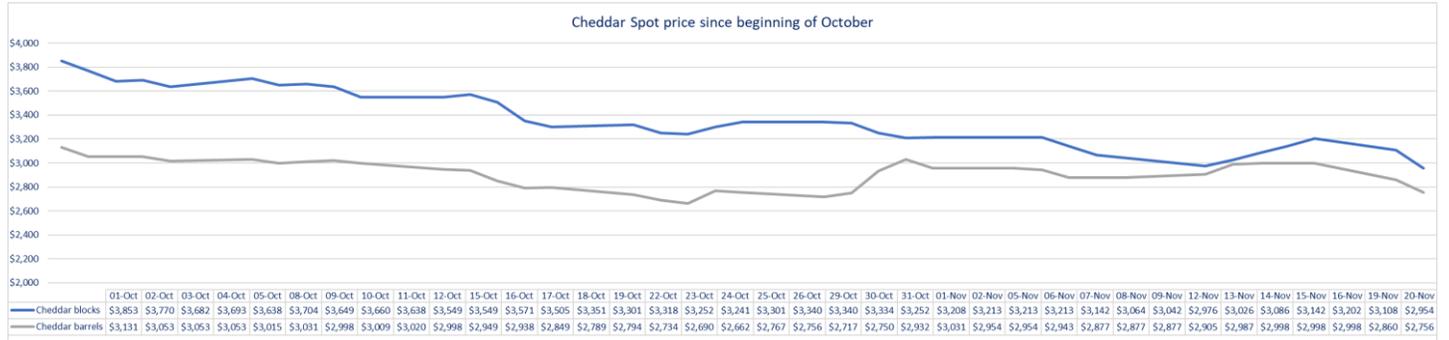
The average winning price settled at \$ 1,965.-/mt, a 1.6% decrease. Since the same event last year, SMP increased 15.5% in value. The biggest loss was taken in the C1 at -5.3% while C2-C4 lost respectively -1.5%, -1.7% and -1.0%.

European SMP from Arla settled at \$ 1.886.-/mt ( € 1.657.-/mt) which is on the higher end of the range of current EU pricing.

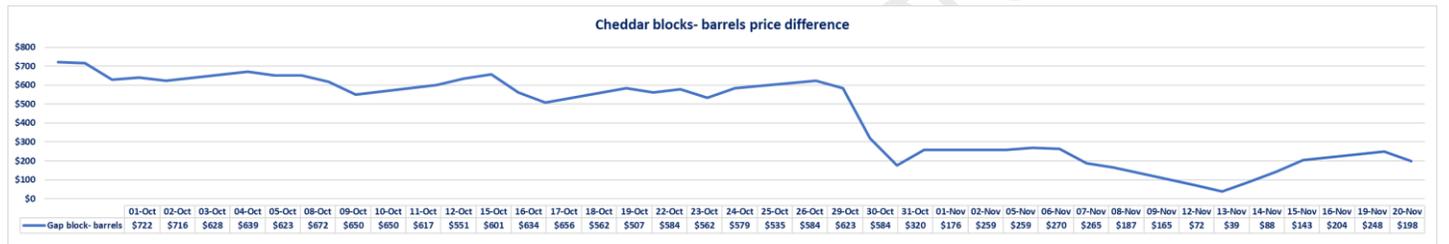
Based on poor results in Exports and higher production that implies accumulating stocks, *and* lower sales prices on GDT ( GDT has been unable to move up in the last six months already!) we are expecting a further downward adjustment in the forecast farm gate price anytime soon.

**USA/ CME Spot market**

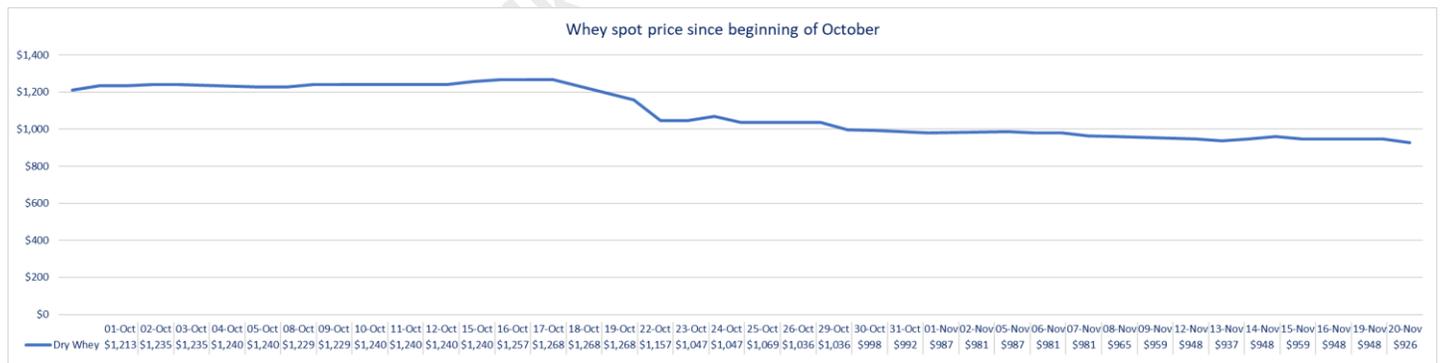
**Cheddar**



Cheddar prices have been steadily eroding since the highs reached in early October. The gap is once again, as in early September very narrow between Blocks and Barrels. The gap between the two has clearly become marginally smaller since early November:

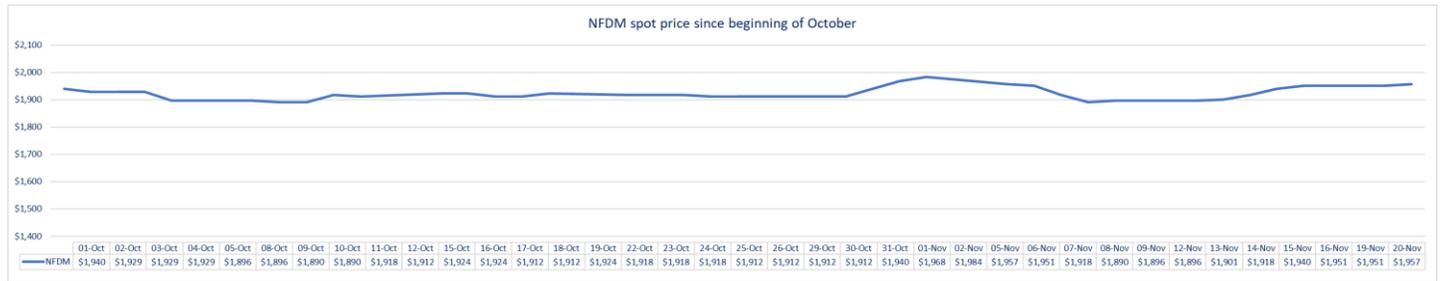


**Whey**



Since 19<sup>th</sup> October we have seen aggressive trading down and Whey pricing continues to erode. Yesterday's settlement was 27% lower than on 19<sup>th</sup> October. This seems a clear signal that exports to China contract further.

**SMP**



SMP has recovered all ground lost since it started to slide from the start of June. Since the start of September prices have continued to trade below the peak reached in early September but remained within a bandwidth of \$ 70/mt.

**Butter**



Like in EU and NZ, butter has been easing since mid-August but saw a spike 7 days ago. Meanwhile the price has come down again but remains (marginally) above the level of 1<sup>st</sup> October.

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