



Milk and Milk Products Price and Trade Update

Milk and Milk Products

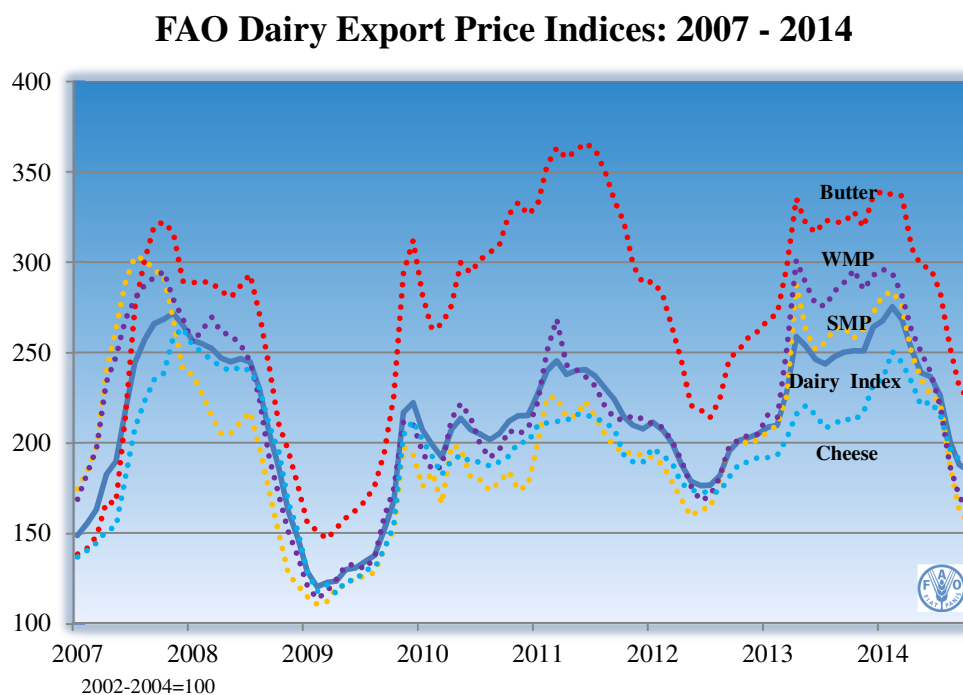
Price and Trade Update: November 2014¹

PRICES: Further decline

The **FAO Dairy Price Index** averaged 184.3 points in October, down 3.5 points (1.9 percent) from September and 66.8 points (26.6 percent) less year-on-year. Quotations for butter and whole and skimmed milk powder fell, while those for cheese were unchanged. The October slide constituted the eighth consecutive monthly decline, bringing the Index to its lowest value since August 2012.

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 **October 2014**.

FAO Price Indices: Milk Products



Trade Outlook: Overview

China re-enforces position as main market

Trade in dairy products is projected to rise by 4.8 percent in 2014 to 72.1 million tonnes of milk equivalent. The three principal exporting countries **New Zealand**, the **European Union** and the **United States**, which together account for 65 percent of trade, are all projected to register a rise in sales of 6-7 percent in 2014.

Asia remains the main centre of rising international demand, with substantially increased purchases forecast for **China**, **Saudi Arabia**, **Malaysia**, **Vietnam** and **Thailand**. **China**, in particular, is set to register strong growth, with an increase of 24 percent projected. Elsewhere in the region, **Indonesia**, the **Philippines**, **Singapore**, **Japan** and the **United Arab Emirates** remain important markets, but the level of their imports may not change markedly and, in some cases, could decrease. The fall in international prices have stimulated import demand in *Africa* as a whole, after subdued purchases for the previous two years. The principal importers expected to experience growth are **Algeria**, **Egypt** and **Ghana**. In *Latin America and the Caribbean*

increased domestic production could displace imports in **Mexico** and **Brazil**, while **Venezuela** is projected to substantially increase its level of international purchases. Finally, imports by the **Russian Federation** are anticipated to fall, perhaps by as much as 10 percent for the year as a whole, following the ban, introduced in August 2014, on imports of dairy products from Australia, Canada, the EU, Norway and the United States.

MILK EXPORTS

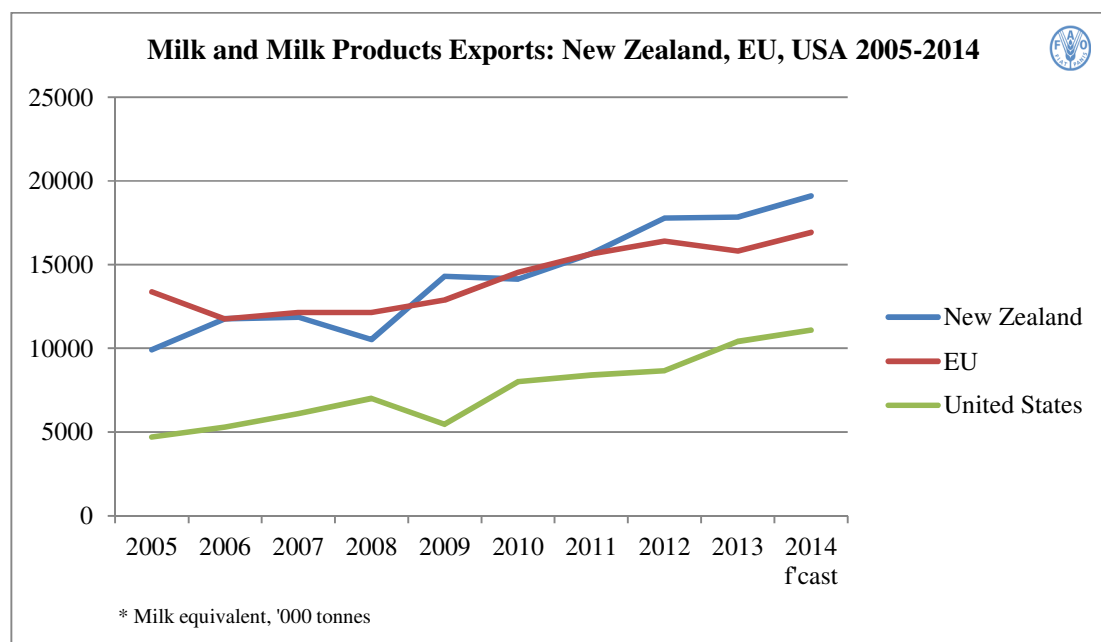
'000 tonnes (Milk Equivalent)

	2012	2013	2014	Change 2014 over 2013 (%)
		<i>prelim.</i>	<i>f'cast</i>	
New Zealand	17779	17831	19098	7.1
EU	16414	15808	16862	6.7
United States Of America	8670	10412	11170	7.3
Belarus	3551	4312	4039	-6.3
World	66144	68807	72132	4.8

MILK IMPORTS

'000 tonnes (Milk Equivalent)

	2012	2013	2014	Change 2014 over 2013 (%)
		<i>prelim.</i>	<i>f'cast</i>	
China	9593	12371	15299	23.7
Russian Fed.	4457	5005	4348	-13.1
Saudi Arabia	2845	2880	2981	3.5
Mexico	3057	2906	2791	-3.9
Indonesia	2480	2644	2583	-2.3
World	63641	65269	68607	5.1



Whole milk powder

Plentiful supplies cause prices to fall

World exports of WMP are projected to rise by 9.5 percent in 2014 to 2.7 million tonnes. This compares with limited growth of 1.8 percent in 2013, when a milk production shortfall constrained trade. The market for WMP is very geographically diverse, stemming from its wide use in both the processing industry and for direct retail sale. A number of the principal exporters including **New Zealand**, the **EU** and **Australia** are expected to increase the level of sales for 2014 as a whole; however, supply limitations are anticipated to depress exports by **Argentina**. WMP international prices fell steeply between April and October, as a result of rising export availabilities and adequate stocks in **China**, the main market, following exceptionally large-scale importation between November 2013 and March 2014, in order to guard against a possible shortage of domestic milk. Subsequently, importers reduced purchases, as they held adequate reserve products for their immediate needs. As a result, China's imports of WMP for calendar 2014 are provisionally estimated to increase by 35 percent and could approach 1 million tonnes – representing 37 percent of total trade. Elsewhere in *Asia*, lower prices have stimulated demand in several major markets, including **Indonesia**, **Malaysia**, the **Republic of Korea** and **Thailand**. Additionally, importers in *North Africa* and *Latin America and the Caribbean*, including **Algeria**, **Peru** and **Venezuela**, have returned more fully to the market, while in the case of **Brazil**, rising domestic production has displaced imports.

IMPORTS: WMP

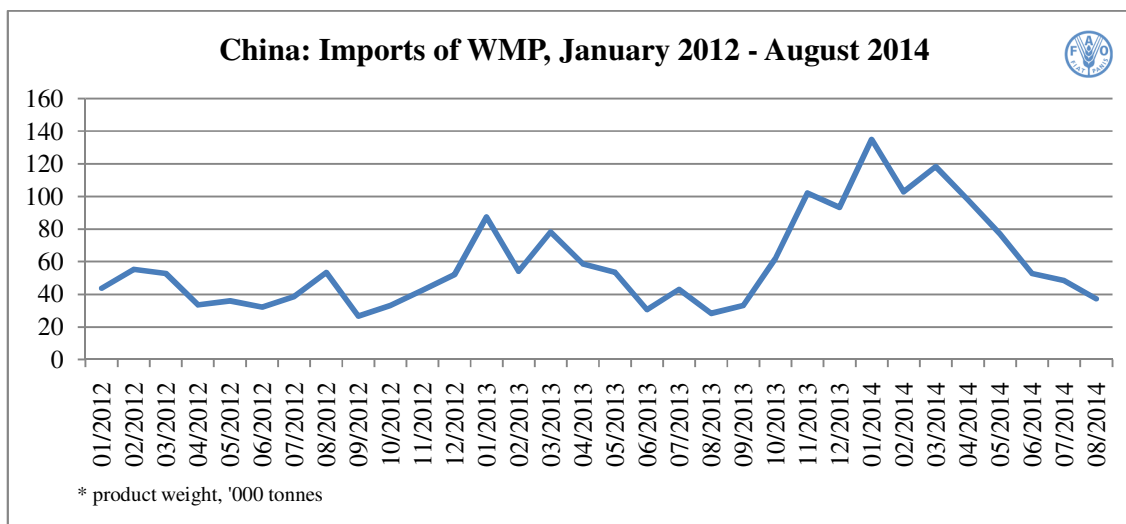
'000 tonnes (product weight)

	2012	2013	2014	Change 2014 over 2013 (%)
		<i>prelim.</i>	<i>f'cast</i>	
China	500	725	982	35.5
Venezuela	216	170	220	29.7
Algeria	188	142	161	13.2
Saudi Arabia	103	100	102	2.0
World	2281	2324	2623	12.9

EXPORTS: WMP

'000 tonnes (product weight)

	2012	2013	2014	Change 2014 over 2013 (%)
		<i>prelim.</i>	<i>f'cast</i>	
New Zealand	1261	1291	1472	14.0
EU	386	374	411	9.8
Argentina	201	182	173	-5.0
Australia	109	96	99	3.0
World	2452	2495	2732	9.5



Skimmed milk powder

India retreats from the market

Trade in SMP is predicted to grow by 6.1 percent to 2 million tonnes, a rate close to the average seen over the past decade. SMP is central to the milk processing industry in many countries and, as such, market demand is more widespread. The principal markets are (in order of volume) **China, Mexico, Indonesia, Malaysia, Algeria, the Philippines, the Russian Federation and Vietnam**, followed by **Egypt, Thailand, Saudi Arabia and Singapore**. Imports may rise by more than 30 percent in 2014 in **China**, which is anticipated to remain the main market, with a share approaching 20 percent of total trade. Purchases are set to increase for some other major importers, including (in order of volume) **Malaysia, Vietnam, and Saudi Arabia**. Conversely, a fall in imports is foreseen for **Algeria, Indonesia, Mexico and the Philippines**. Imports by the **Russian Federation** were estimated to have been 29 percent down for the first eight months of the year, compared with the same period in 2013. They are projected to remain depressed for the rest of the year, mainly as a result of a decline in demand.

Eighty percent of world SMP exports are supplied by the **United States, the EU, New Zealand and Australia**. With the exception of New Zealand, all are predicted to increase sales, with the EU and Australia recording the strongest growth. New Zealand's focus on supplying WMP to China meant that sales of SMP between January and September 2014 were down by 7 percent compared year-on-year. In 2013, **India** entered the world market for SMP in a significant way, with sales leaping 250 percent to 130 000 tonnes. Trade data for the first eight months of 2014

show exports down by 37 percent compared with the same period in 2013. Year-end exports may contract by as much as half, as, due to falling world prices, domestic sales are more profitable. Additionally, as a consequence of rising internal prices, the Government of India announced in July the abolition of a 5 percent SMP export incentive – further reducing stimulus to export. Exports by **Belarus**, down by 22 percent for the year up to August, are anticipated to finish the year lower, as a result of reduced domestic milk production and the substantial fall in international prices.

IMPORTS: SMP

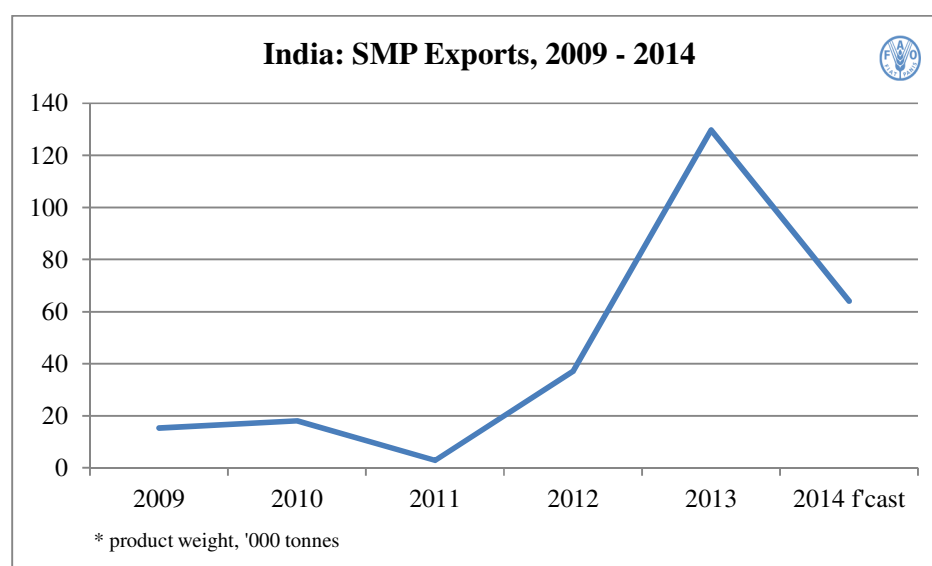
'000 tonnes (product weight)

	2012	2013	2014	Change 2014 over 2013 (%)
		<i>prelim.</i>	<i>f'cast</i>	
China	199	266	357	33.9
Mexico	236	198	194	-2.0
Indonesia	136	155	147	-5.1
Malaysia	105	102	120	18.3
Algeria	112	120	116	-3.3
Philippines	106	113	103	-9.0
Russian Federation	96	131	98	-25.1
World	1903	1924	2011	4.5

EXPORTS: SMP

'000 tonnes (product weight)

		<i>prelim.</i>	<i>f'cast</i>	Change 2014 over 2013 (%)
	2012	2013	2014	
United States	445	555	589	6.2
EU	520	407	520	27.9
New Zealand	390	392	365	-7.0
Australia	168	119	161	34.6
Belarus	76	95	75	-21.3
India	37	130	64	-50.7
World	1834	1910	2026	6.1



Butter

Prices fall along with powders

Trade in butter is forecast to increase by 2.8 percent to 937 000 tonnes. International butter prices have weakened, affected by milk powder prices and uncertainty over future sales to the Russian Federation, the main market. 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. Additionally, as a result of trade agreements and duty-free access for *inward processing* (where products are imported duty free for additional processing and export), the **EU** is both an important butter importer (ranking fourth) and exporter (ranking second). While many of the principal markets, such as **China**, **Saudi Arabia** and **Singapore**, are expected to maintain or increase imports in 2014, the origin-specific import ban by the **Russian Federation** has raised doubts about its level of purchases for the remainder of the year and, as a consequence, imports for the year as a whole may decline.

Amongst the principal exporters, **New Zealand** and the **United States** are anticipated to see an increase in sales in 2014. Furthermore, additional market opportunities may be created for New Zealand due to the Russian Federation's ban on imports from some other suppliers. At the same time, the ban may depress exports by the **EU**.

IMPORTS: BUTTER

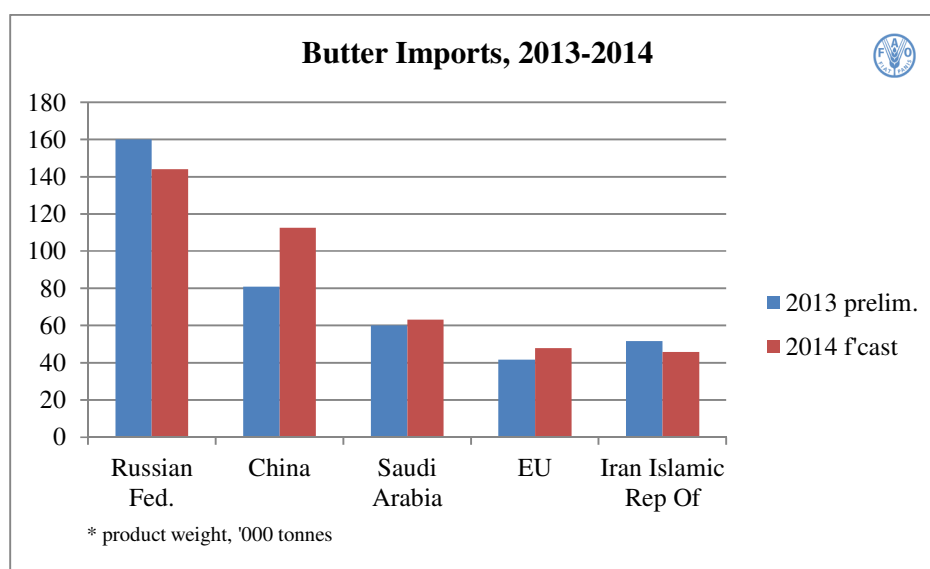
'000 tonnes (product weight)

	2012	2013	2014	Change 2014 over 2013 (%)
		<i>prelim.</i>	<i>f'cast</i>	
Russian Fed.	149	160	144	-10.0
China	77	81	112	39.2
Saudi Arabia	57	60	63	5.3
EU	44	42	48	15.3
Iran	45	52	46	-11.2
World	859	863	901	4.4

EXPORTS: BUTTER

'000 tonnes (product weight)

	2012	2013	2014	Change 2014 over 2013 (%)
		<i>prelim.</i>	<i>f'cast</i>	
New Zealand	463	461	478	3.7
EU	127	128	122	-4.4
United States	50	94	99	5.6
Belarus	83	66	65	-1.4
Australia	53	49	43	-13.2
World	898	911	937	2.8



Cheese

Follows other dairy products down

Initially, cheese prices were not as affected as other products by the general decline in dairy commodity prices during 2014; however, following the announcement of the Russian Federation's country-specific import ban, they too dropped substantially, by 11.5 percent between July and October. In terms of the overall cheese market, trade is nonetheless forecast to record growth in 2014, albeit limited, spurred by increased imports in a number of countries, including the **United States, China, the Republic of Korea, Australia and Egypt**, that will more than compensate for a fall in purchases by the **Russian Federation and Japan**.

Sales by the world's largest exporter of cheese, the **EU**, are projected to decline, as a result of the loss of its major market, the Russian Federation, in August. The next placed exporter, the **United States**, is expected to significantly increase its level of sales – exports for the first eight months of the year were almost 30 percent higher than in the same period in 2013. The United States has benefitted from substantial growth in its main markets, including Mexico, the Republic of Korea and Japan, and from reduced competition from Australia and New Zealand, as these two countries have focused on milk powder.

IMPORTS: CHEESE

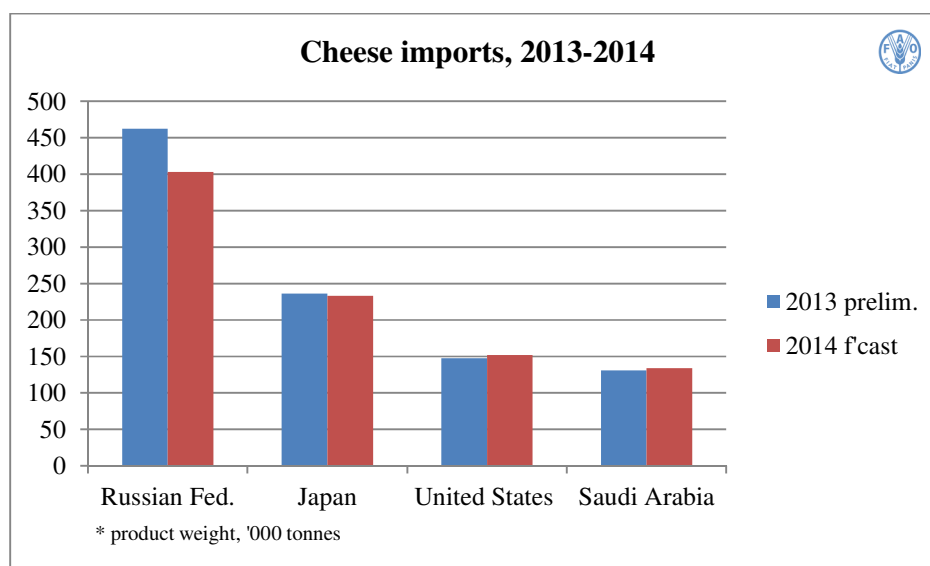
'000 tonnes (product weight)

	2012	2013	2014	Change 2014 over 2013 (%)
		<i>prelim.</i>	<i>f'cast</i>	
Russian Fed.	449	462	403	-12.9
Japan	235	236	233	-1.3
United States	154	148	152	3.0
Saudi Arabia	138	131	134	2.5
World	2253	2256	2241	-0.7

EXPORTS: CHEESE

'000 tonnes (product weight)

	2012	2013	2014	Change 2014 over 2013 (%)
		<i>prelim.</i>	<i>f'cast</i>	
EU	768	787	760	-3.4
United States	262	318	390	22.3
New Zealand	306	277	267	-3.7
Saudi Arabia	145	160	157	-1.9
Australia	163	163	153	-6.6
Belarus	135	140	143	2.1
World	2378	2455	2469	0.6



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

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