

Milk and Milk Products: Price and Trade Update

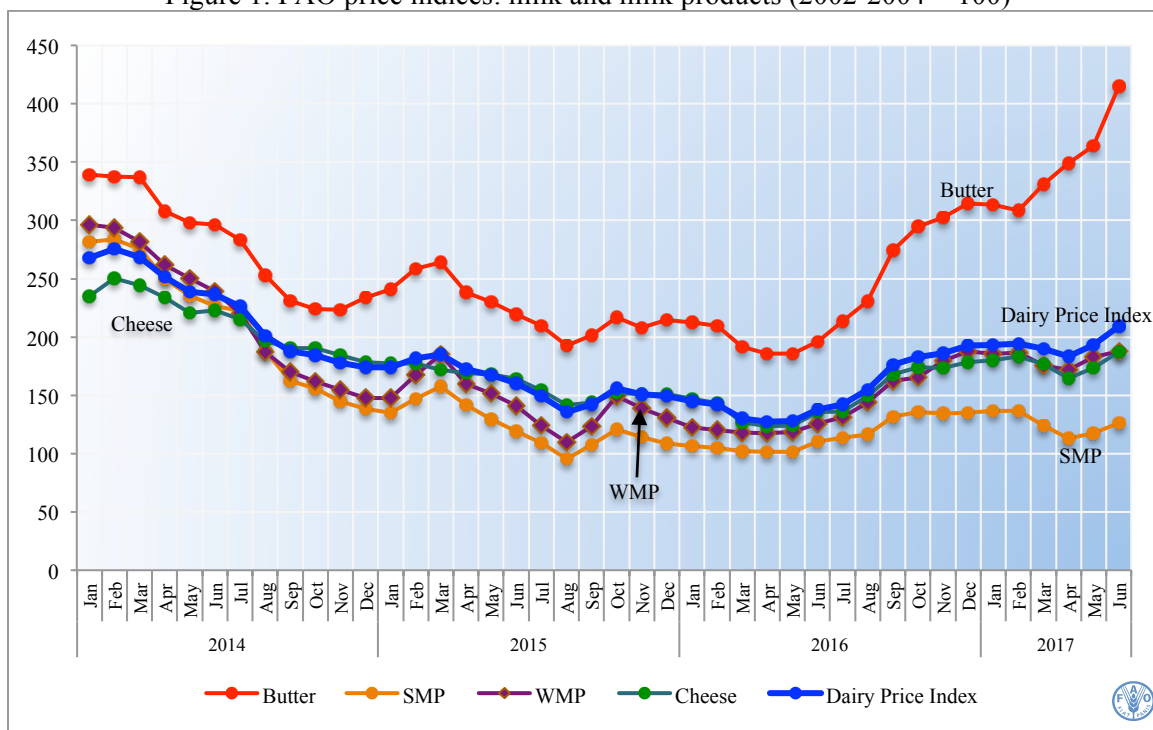
June 2017*

International dairy prices

The **FAO Dairy Price Index** averaged 209 points in June, up 16 points (8.3 percent) from January 2017 and 71 points (51.5 percent) from June 2016. Compared to June 2016, the new price level has increased by 51.5 percent, but overall price level is still 24 percent below the peak it reached in February 2014.

During the first six months in 2017, butter prices increased by 8.3 percent to USD 5 938 per tonne, and marked a new historical high. Increased domestic demand in North America and Europe reduced available supplies for exports, which contributed butter prices to increase. Limited export supplies impinged on cheese and whole milk prices too, which, respectively, increased by 3.8 percent to USD 3 900 per tonne, and 1.2 percent to USD 3 273 per tonne during the last six months. Skim milk powder (SMP) is the only exception, which experienced a decline in prices from USD 2 337 per tonne at the beginning of the year to USD 2 156 per tonnes in June, marking a 7.7 percent drop.

Figure 1. FAO price indices: milk and milk products (2002-2004 = 100)



*The present issue covers developments up to the end of June 2017

International trade in dairy products

Global trade in dairy products is projected to grow by 1 percent in 2017 to 71.8 million tonnes of milk equivalent in 2017. Among the main dairy products exporting countries, the **EU**, the **United States**, **Argentina** and **Canada** are expected to see their exports rise, while **New Zealand** and **Australia** are likely to export less. Three forces influence the volume, direction and pace of international dairy trade in 2017: sustained milk output in the **EU**, milk output growth in the United States, and possible reduction of milk export supplies from Oceania. Within the Eastern European bloc, exports from Belarus are expected to stagnate due to limited growth in import demand by the Russian Federation combined with a rise in competition from other sources of supply, especially Oceania.

Continued recovery in imports by **China** is forecast to be the main engine of growth in global dairy trade. Imports by the **Russian Federation**, **Mexico**, **Australia**, the **Philippines**, **Thailand**, **Yemen** and the **Republic of Korea**, amongst others, are also projected to increase. Conversely, a drop in imports is anticipated for **Brazil**, **Saudi Arabia**, **Malaysia**, **Viet Nam** and **Nigeria**, while shipments to **Indonesia**, the **United Arab Emirates**, the **United States** and **Japan** are expected to be little changed.

Figure 2. Global dairy trade 2014 – 2017 (Milk Equivalent, '000 tonnes)

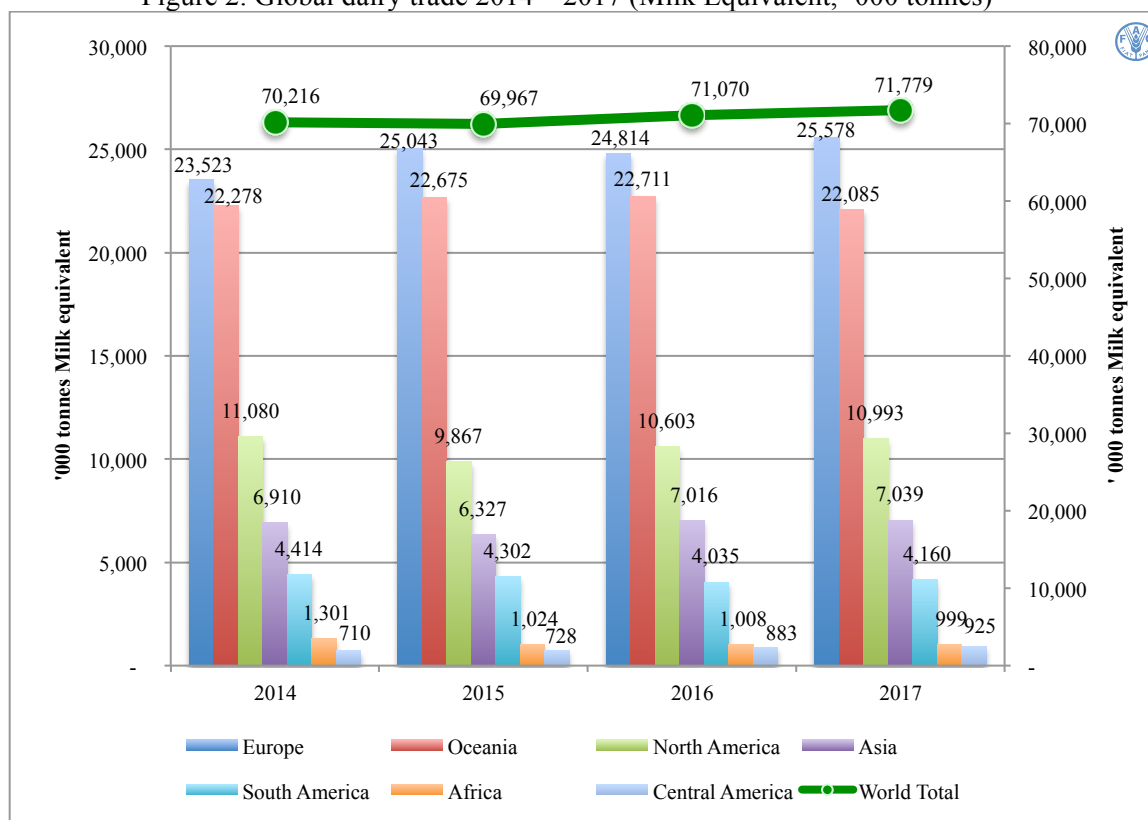


Figure 3. Milk and milk product exports (Milk Equivalent, '000 tonnes)

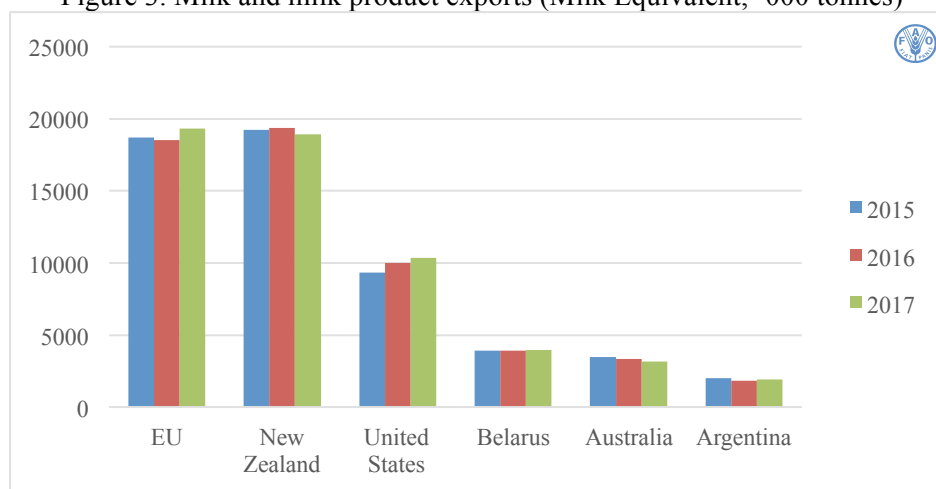


Figure 4. Milk and milk products imports (Milk Equivalent, '000 tonnes)

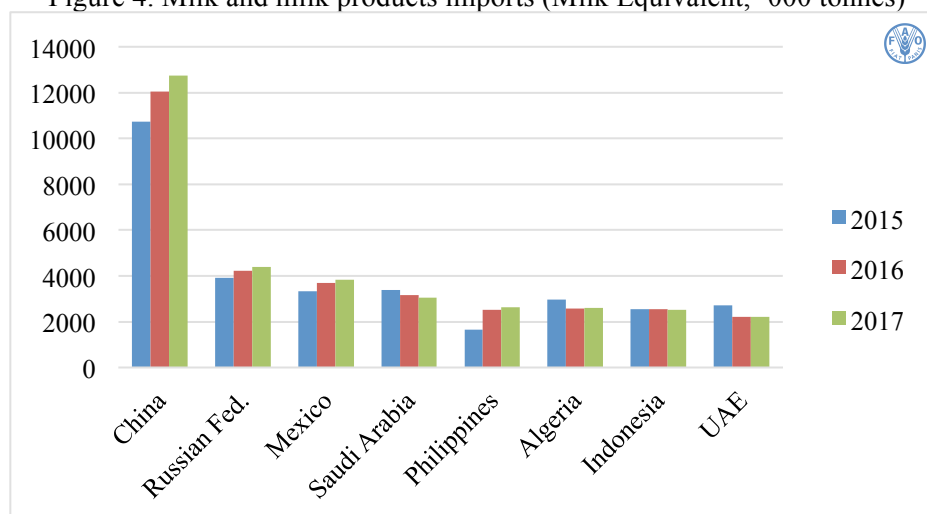


Table 1. Milk and Milk products exports of selected countries (Milk Equivalent, '000 tonnes)

	2015	2016	2017	Change
		prelim.	f'cast	2017 over 2016 (%)
World	69967	71070	71779	1.0
EU	18709	18508	19332	4.5
New Zealand	19222	19364	18911	-2.3
United States	9345	9989	10333	3.4
Belarus	3901	3930	3945	0.4
Australia	3450	3344	3170	-5.2
Argentina	2017	1817	1899	4.5

Table 2. Milk and Milk products imports of selected countries (Milk Equivalent, '000 tonnes)

	2015	2016	2017	Change
		prelim.	f'cast	2017 over 2016 (%)
World	69689	70826	71640	1.1
China	10735	12046	12755	5.9
Russian Fed.	3906	4223	4394	4.0
Mexico	3327	3692	3827	3.7
Saudi Arabia	3392	3159	3043	-3.7
Philippines	1654	2505	2628	4.9
Algeria	2965	2587	2616	1.1
Indonesia	2548	2533	2525	-0.3
UAE	2724	2207	2199	-0.3

Whole milk powder (WMP)

World trade in WMP is projected to fall slightly in 2017, by 0.5 percent to 2.5 million tonnes, which would represent a third year of decline.

The two main exporting countries, **New Zealand** and the **EU**, could place less emphasis on WMP production in 2017. The resulting shortfall may be partly filled by other countries including **Uruguay**, the **United States**, **Australia** and **Argentina**.

Brazil, where imports more than doubled in 2016, is predicted to reduce its imports as domestic milk production is likely to recover. Elsewhere, a second year of curtailed imports is forecast for **Saudi Arabia**, **Nigeria**, **Oman**, **Cuba**, **Algeria**, **Bangladesh** and the **United Arab Emirates**. Conversely, Import demand by **China** is projected to recover somewhat for a second year, rising by 55 000 tonnes to 592 000 tonnes, although still remaining substantially below the 2014 peak, which reached 786 000 tonnes. **Colombia**, **Sri Lanka**, **Egypt** and the **Russian Federation** may also raise their levels of imports.

Table 3. Whole milk powder exports of selected countries (product weight, '000 tonnes)

	2015	2016	2017	Change
		<i>prelim.</i>	<i>f'cast</i>	2017 over 2016 (%)
World	2568	2532	2518	-0.5
New Zealand	1380	1343	1330	-1.0
EU	392	380	365	-4.1
Uruguay	96	127	130	2.4
Argentina	138	110	112	2.3

Table 4. Whole milk powder imports of selected countries (product weight, '000 tonnes)

	2015	2016	2017	Change
		<i>Prelim.</i>	<i>f'cast</i>	2017 over 2016 (%)
World	2246	2316	2307	-0.3
China	456	536	592	10.3
Algeria	224	200	195	-2.5
UAE	160	124	120	-3.0
Brazil	59	126	110	-12.8
Saudi Arabia	133	121	109	-10.2
Sri Lanka	72	80	83	3.2

Figure 5. Whole milk powder exports of New Zealand (product weight '000 tonnes)

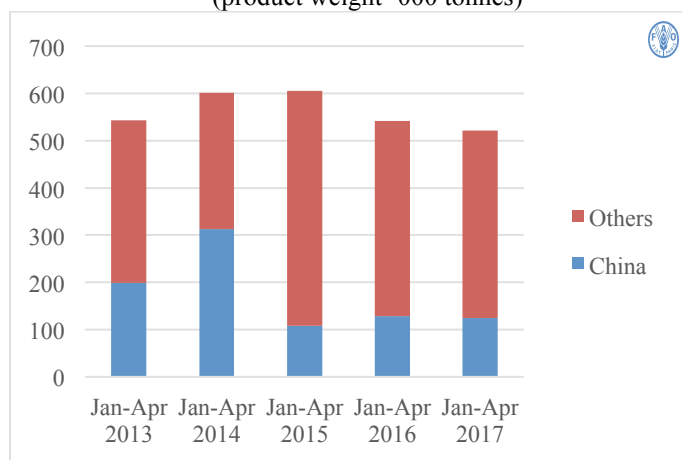
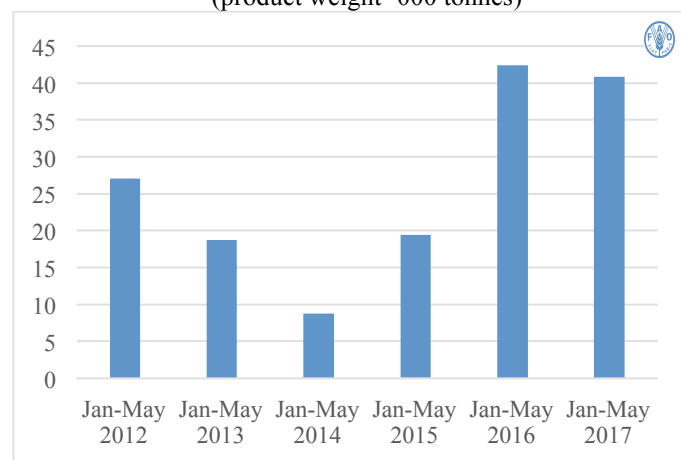


Figure 6. Whole milk powder imports: Brazil (product weight '000 tonnes)



Skimmed milk powder (SMP)

After dropping by 2.4 percent in 2016, trade in SMP is forecast to recover in 2017, gaining 2.7 percent to reach 2.2 million tonnes. This would mean a return to the consistent growth path that trade in SMP experienced for the preceding eight years. The EU may see SMP exports to recover in 2017 with sales tentatively forecast to exceed 670 000 tonnes. This is after experiencing a 17 percent drop in exports in 2016 due to SMP being channelled into the intervention stock. Exports from the United States is likely to rise by about 6 percent to 600 000 tonnes despite strong domestic demand for butter fat due to a possibly stronger growth in milk output. Meanwhile, **Australia** and **New Zealand** could see manufacture and sale of SMP fall, principally as a result of constrained milk output.

Firm demand for SMP is expected to lead to rising imports by a number of countries including **China**, **Mexico**, the **Philippines**, **Yemen**, **Algeria** and **Thailand**, while those of **Malaysia**, **Saudi Arabia**, **Singapore**, **Japan** and **Viet Nam** may be reduced somewhat.

An overarching element of uncertainty that could influence the SMP trade outlook is the EU's large intervention stocks, in excess of 400 000 tonnes as of March, equivalent to 20 percent of world trade. The European Commission sought to dispose of part of the stocks through a series of tenders that were held between December and May. However, as of May, only 40 tonnes had been disposed of because the tenders offer did not meet the minimum price required. Looking ahead, there could be a further complication, because the longer intervention stocks remain in storage and unsold, the less attractive they may become to potential purchasers due to reduced post-sale storage life.

Table 5. Skim milk powder exports of selected countries (product weight, '000 tonnes)

	2015	2016	2017	Change
		<i>prelim.</i>	<i>f'cast</i>	2017 over 2016 (%)
World	2 216	2 162	2 221	2.7
EU	692	574	672	17.0
United States	560	567	602	6.2
New Zealand	411	444	407	-8.3
Australia	201	164	134	-18.1
Belarus	111	111	106	-4.4

Table 6. Skim milk powder imports of selected countries (product weight, '000 tonnes)

	2015	2016	2017	Change
		<i>Prelim.</i>	<i>f'cast</i>	2017 over 2016 (%)
World	2123	2158	2213	2.5
Mexico	259	286	295	3.3
China	234	216	240	11.3
Philippines	101	185	194	5.0
Indonesia	146	145	145	0.0
Russian Fed.	113	133	137	3.0
Malaysia	147	135	128	-5.2

Figure 7. Skim milk powder exports – Main exporters (product weight '000 tonnes)

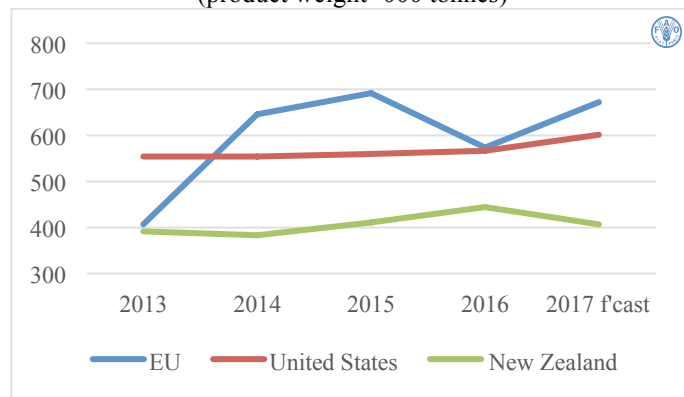
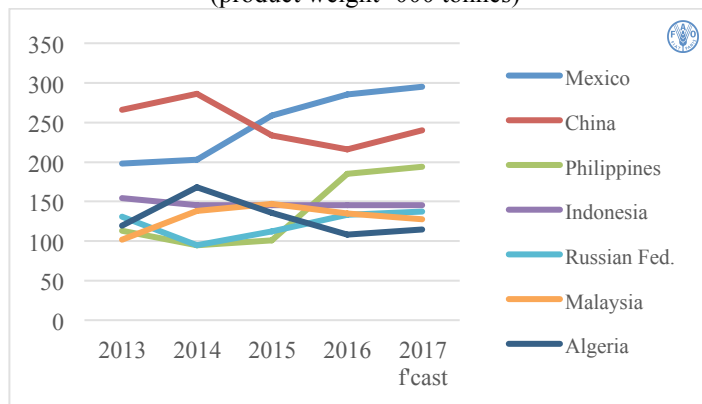


Figure 8. Skim milk powder imports – Main importers (product weight '000 tonnes)



Butter

Trade in butter is forecast to record a second year of growth in 2017, rising by 1.9 percent to 986 000 tonnes. As a reflection of strong international demand and limited supplies, international quotations for butter have risen substantially; for example, year-on-year for May, they rose 96 percent compared with an average of 37 percent for the other dairy commodities covered by the FAO Price Index.

The EU is projected to supply most of the rise in international demand for the third consecutive year, and could witness exports growth of 10 percent and total shipments exceeding 230 000 tonnes. Since 2013, EU butter exports have almost doubled, with particularly strong growth seen in China, the United States, Saudi Arabia and Egypt. In the case of **New Zealand**, the main exporter in the world, shipments of butter are likely to remain slightly above 500 000 tonnes, the same level as the previous three years. New Zealand's sale of butter to the **Russian Federation** almost tripled in 2016, reaching 21 000 tonnes, which may limit export opportunities for **Belarus**. Exports by the **United States** are expected to fall back due to firm domestic demand and associated strong internal prices, reducing opportunities for trade.

The main sources of augmented purchases are projected to be **China**, **Mexico** and **Australia**, with imports by **Egypt**, **Saudi Arabia**, the **Philippines** and the **Russian Federation** also predicted to grow. Meanwhile, greater production in the **United States** and **Canada** could limit demand for external supplies of butter. Elsewhere, other major importing countries are expected to maintain levels of purchases similar to 2016.

Table 7. Butter exports of selected countries
(product weight, '000 tonnes)

	2015	2016	2017	Change 2017
		<i>prelim.</i>	<i>f'cast</i>	over 2016 (%)
World	942	968	986	1.9
New Zealand	500	503	506	0.7
EU	178	212	233	10.1
Belarus	88	84	82	-2.4
Australia	34	31	34	9.1
United States	26	29	22	-23.9

Table 8. Butter imports of selected countries
(product weight, '000 tonnes)

	2015	2016	2017	Change
		<i>prelim.</i>	<i>f'cast</i>	2017 over 2016 (%)
World	844	918	937	2.0
China	106	117	125	7.2
Russian Fed.	96	102	104	1.9
Egypt	56	58	60	3.6
Saudi Arabia	52	55	57	3.6
Mexico	35	52	57	8.9
United States	41	49	50	2.6

Figure 9. Butter exports: EU major destinations
(product weight '000 tonnes)

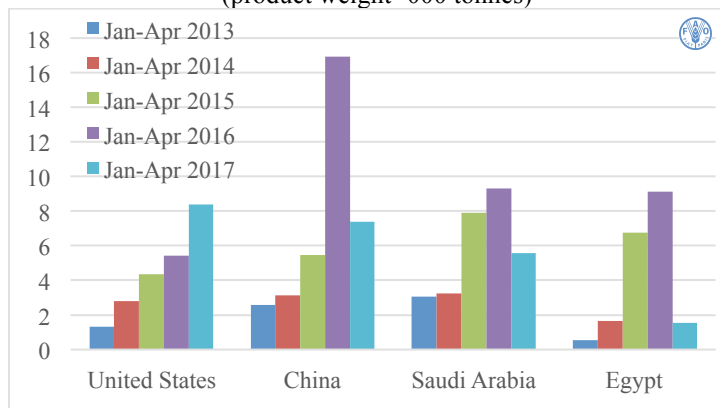
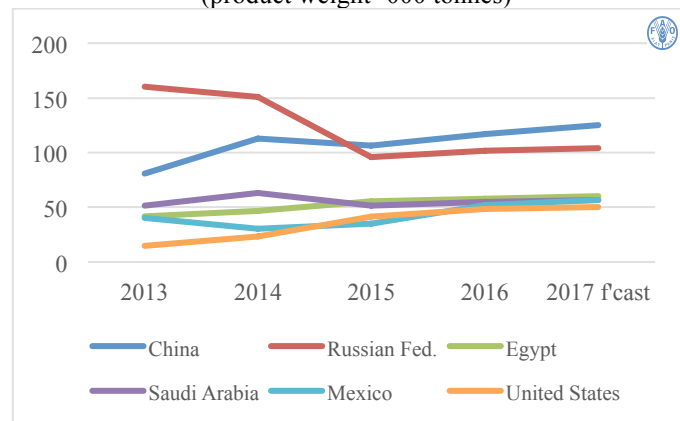


Figure 10. Butter imports: Main importers
(product weight '000 tonnes)



Cheese

Global cheese trade is forecast to increase by 2.1 percent to a record 2.5 million tonnes.

Cheese exports by the **EU** is forecast to rise by 3 percent to an historic high of 825 000 tonnes, marking the second annual increase in cheese exports since 2014. Since the imposition of trade restrictions by the Russian Federation in 2014, the EU has reoriented its exports, focusing on a range of countries including Japan, the United States, the Republic of Korea, Saudi Arabia, Mexico and Egypt. Belarus is forecast to increase its cheese exports to the Russian Federation by 7 percent in 2017 to reach 218 000 tonnes, as it expects to continue to benefit from the Russian embargo on EU exports. Exports by **Argentina**, the **United States**, **Turkey**, **Australia** and **Saudi Arabia** could also increase. Stocks of cheese in the United States have grown steadily over the past two years and represent a potential source of export supply; however, domestic prices have generally remained above those prevailing internationally, limiting overseas sales. Cheese exports from **New Zealand** may decline in 2017, perhaps falling by 4 percent to 340 000 tonnes.

Growth in imports is anticipated in several key markets, including in **China**, the **Russian Federation**, the **Republic of Korea** and **Australia**, but also **Japan**, **Saudi Arabia**, **Mexico**, the **United Arab Emirates** and the **United States**. The **EU** and **Belarus** are projected to provide much of the additional supply.

Table 9. Cheese exports of selected countries
(product weight, '000 tonnes)

	2015	2016	2017	Change
		<i>prelim.</i>	<i>f'cast</i>	2017 over 2016 (%)
World	2337	2479	2532	2.1
EU	719	800	825	3.1
New Zealand	327	355	340	-4.2
United States	318	290	295	1.8
Belarus	178	204	218	6.7
Australia	171	167	171	2.1
Saudi Arabia	126	130	133	2.3

Table 10. Cheese imports of selected countries
(product weight, '000 tonnes)

	2015	2016	2017	Change
		<i>prelim.</i>	<i>f'cast</i>	2017 over 2016 (%)
World	2310	2433	2510	3.2
Japan	249	258	263	2.1
Russian Fed.	208	217	231	6.6
United States	200	205	209	1.8
Saudi Arabia	162	170	175	2.9
China	121	146	161	10.3
Mexico	116	126	131	3.9
Rep. of Korea	112	110	120	9.5

Figure 11. Cheese exports: EU major destinations
(product weight '000 tonnes)

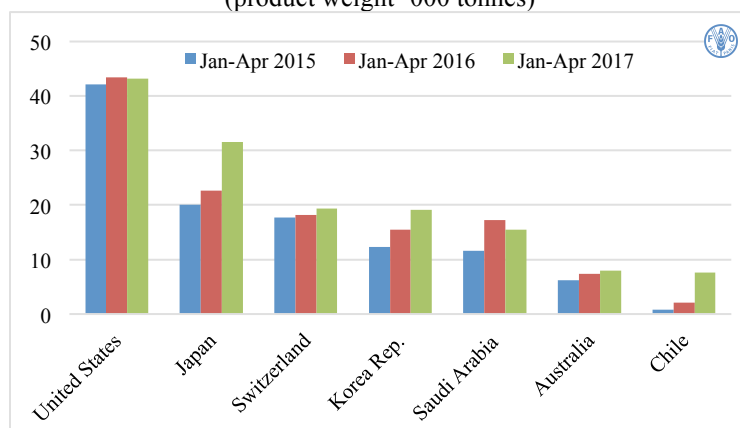
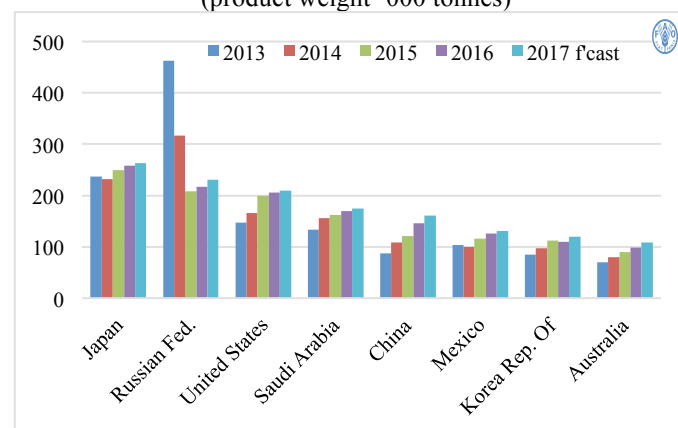


Figure 12. Cheese imports: Main importers
(product weight '000 tonnes)



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