

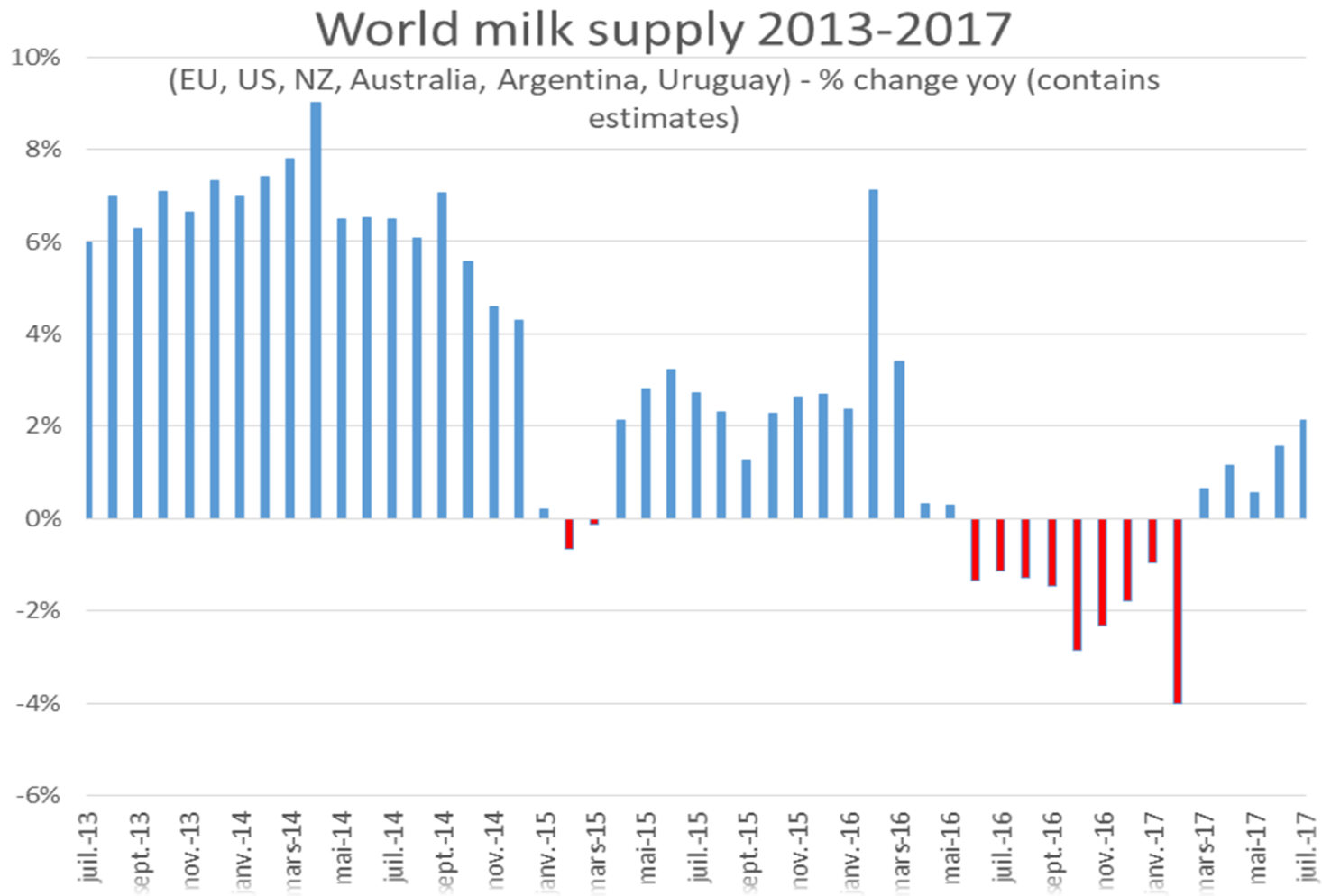
Short term outlook, key export markets & risk management

Discussion with Copa Cogeca WP Milk

16 October 2017



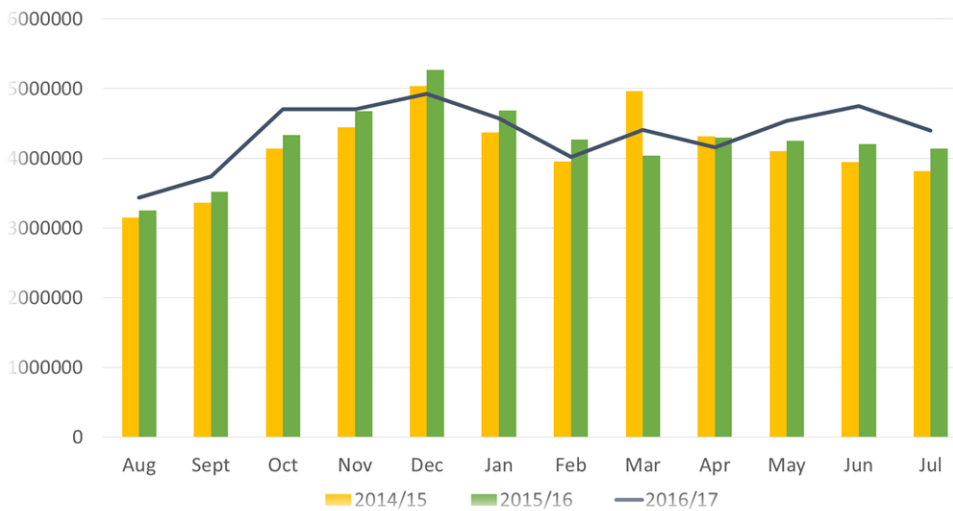
Milk production in main export regions is picking up again





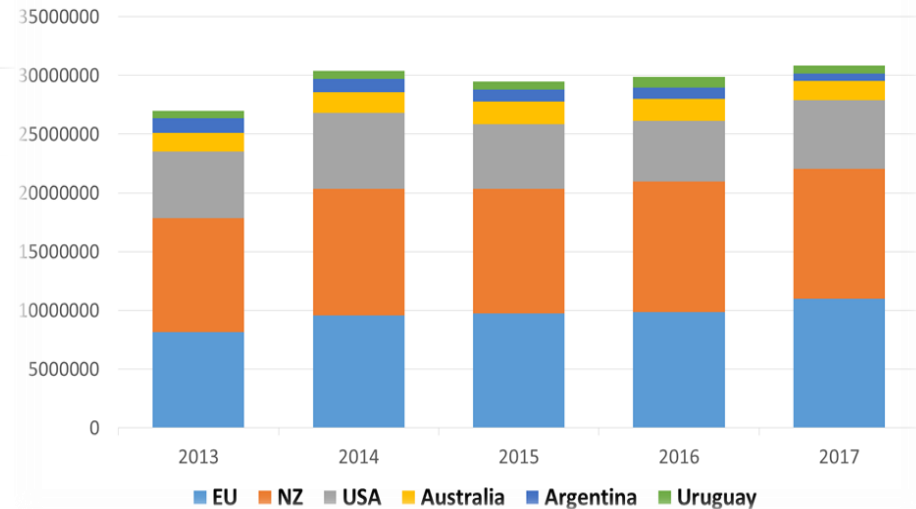
Global trade & EU exports have increased further in 2017

Monthly global exports - all products
EU+USA+NZ+Aus+Arg+Uru
(Milk equivalents)



Global exports of main market players in ME for
Jan-Jul 2013 - 2017

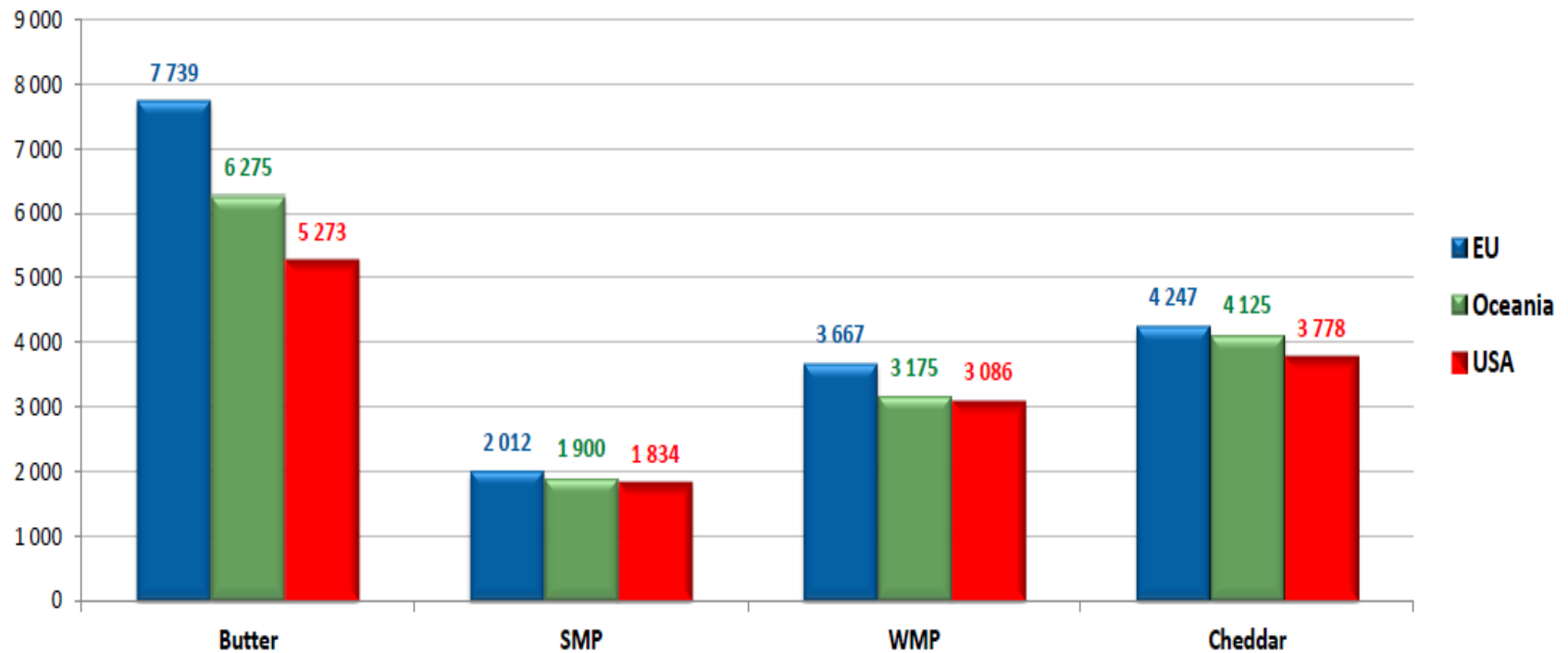
(main dairy product exports of EU+USA+NZ+Aus+Arg+Uru in tonnes)





EU not competitive at the moment

Latest Dairy Quotations





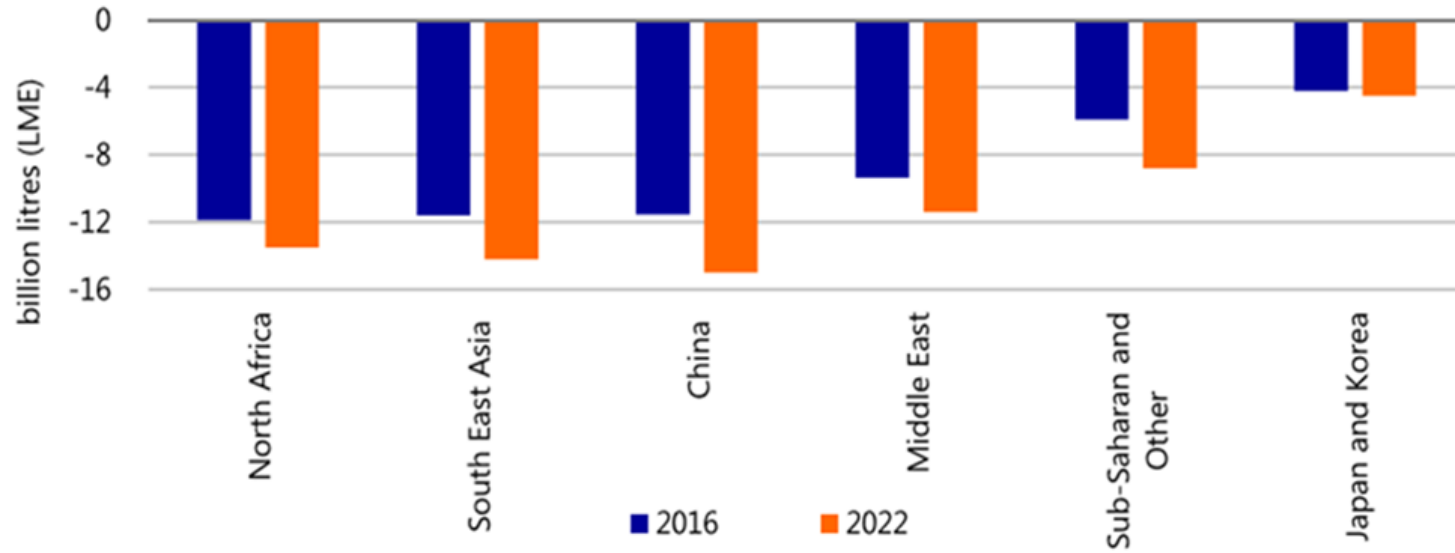
Short term outlook

- **Global milk output is increasing** on the back of higher prices and further growth is expected in H2 2017 in all major export regions (in the US constant growth at 1,5 – 2%)
- **Continuously strong demand in China and South East Asia in H2 2017** would help absorb some of the increasing volumes. Demand in MENA countries is subdued.
- **EU exports** have performed well (especially cheese and SMP) but are getting **increasingly difficult due to stronger euro and weaker dollar** and competition from the US and NZ. The EU is currently the most expensive origin for all commodities.
- The **fat – protein price gap is larger** than ever (4:1). **Butter price elasticity has been stretched to the maximum** and prices are now dropping from their historic heights. However **demand is expected to remain positive in the longer term.**
- Despite record **SMP** exports so far, prices have fallen far below the intervention level. The absence of a safety net will put even more weight on EU exports in the months to come
- **Cheese** remains the **most stable** market segment but also shows signs of weakening, in particular mozzarella
- **Given the record dairyfat prices, the structural lag in the dairy supply-chain, growing global supplies and increased export competition, are we reaching a tipping point in the EU market balance?**



Where are the opportunities?

Figure 6: Dairy import deficits in select regions (liquid milk equivalents), 2016 vs. 2022f



Source: Rabobank 2017



Main EU export markets for all dairy products (in value - €)

Jan-Jul 2015



Jan-Jul 2016



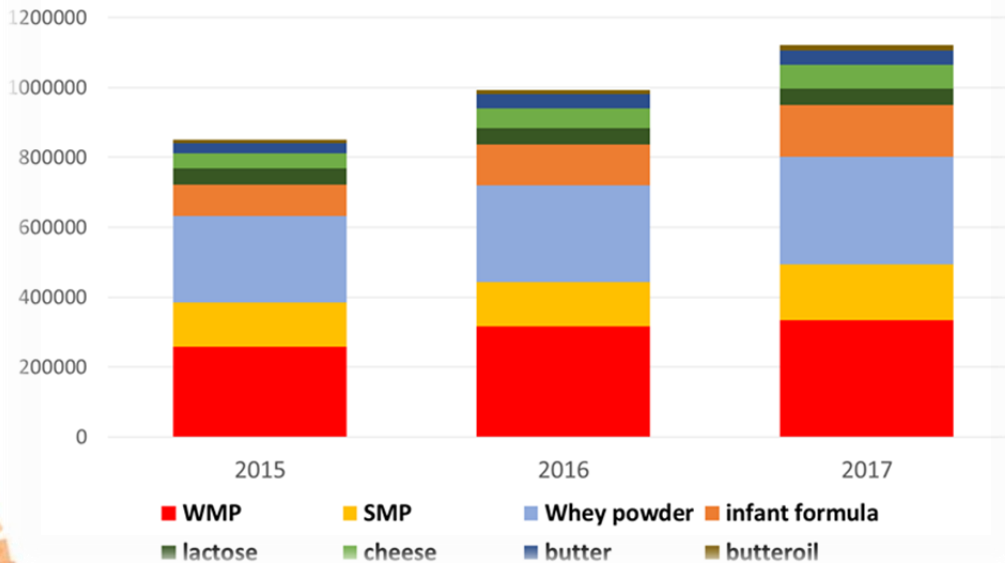
Jan-Jul 2017





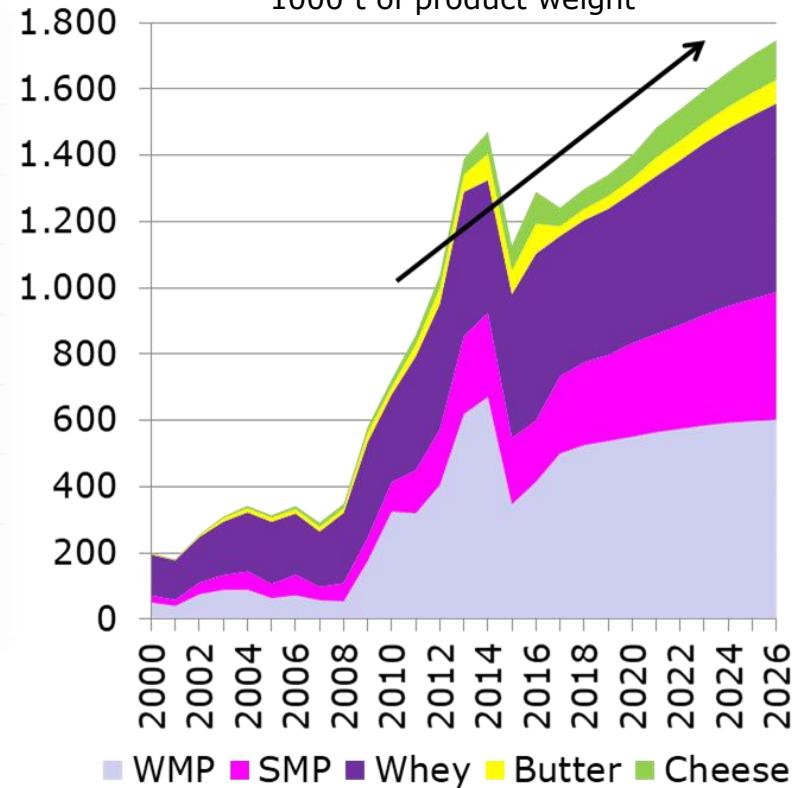
China returning to normal growth

Cumulated China imports for Jan-Jul 2015, 2016 & 2017 (tonnes)



Chinese imports of dairy products

1000 t of product weight

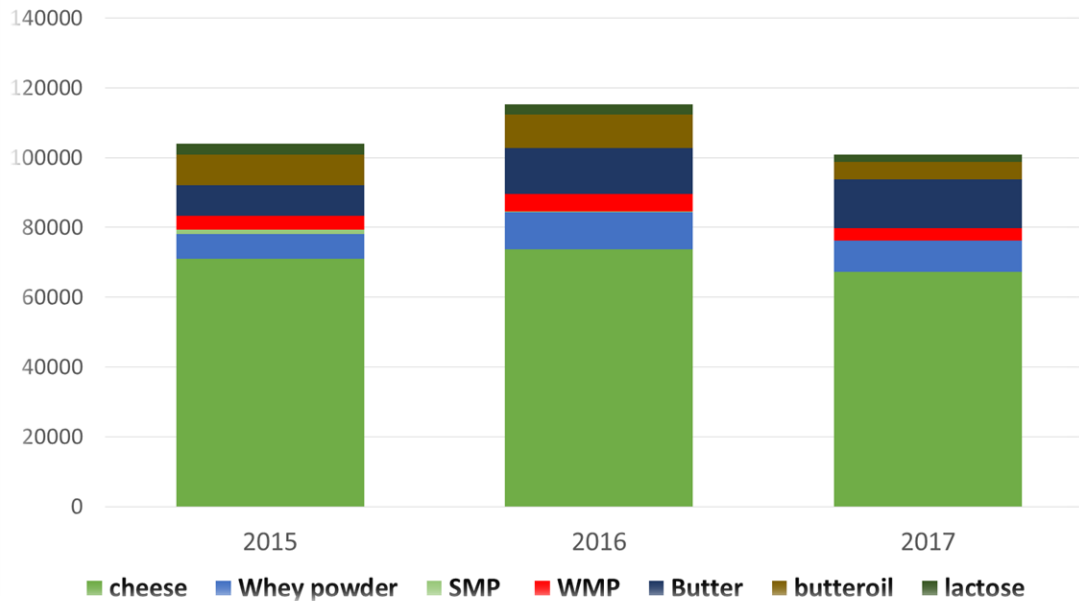


Source: EU Commission DG Agri – Medium term outlook



USA remains a priority market

Cumulated USA imports for Jan-Jul 2015, 2016 & 2017
(tonnes)



Even though US production & exports will grow

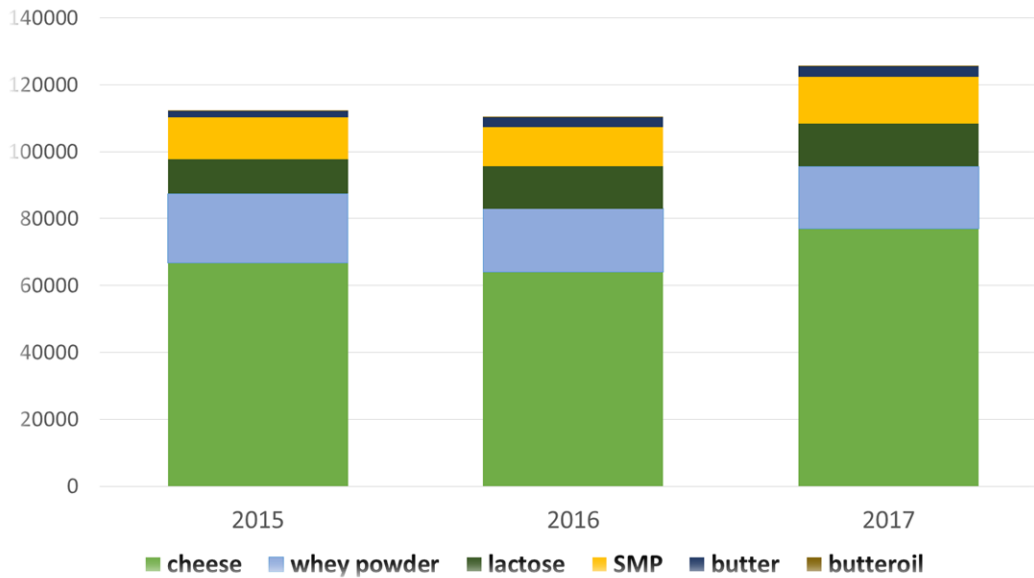
But unfortunately no market access improvements on the cards

Revival of TTIP (under a different name) when political circumstances have improved?



South Korea – thank you FTA

Cumulated South Korea imports for Jan-Jul
2015, 2016 & 2017 (tonnes)

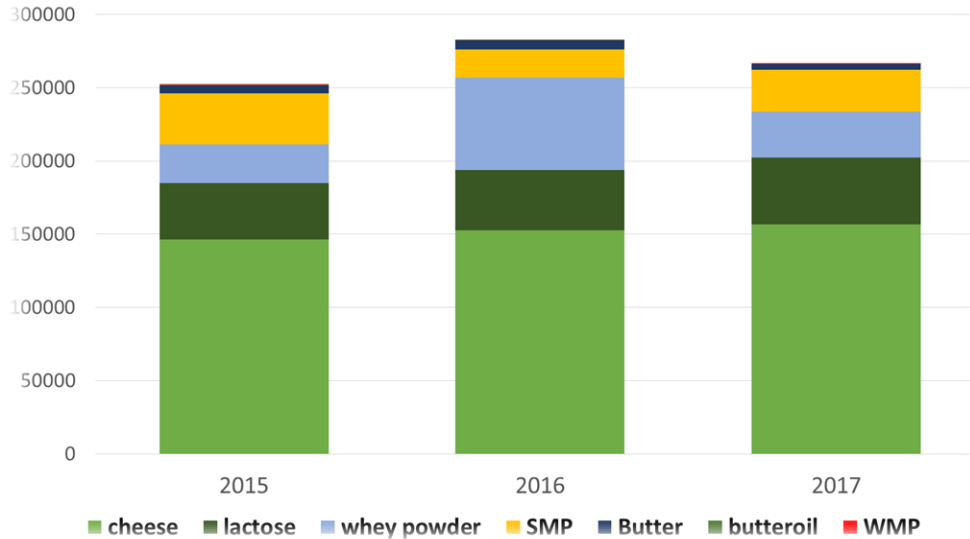


EU CHEESE EXPORTS Jan-Jun 2017	
Main destinations	Total in t: 421 515
United States	66665
Japan	48413
Switzerland	30430
Korea South	29718
Saudi Arabia	24050
Chile	12962
Australia	11785
Lebanon	10392
Algeria	10113
United Arab Emirates	10040
RoW	166947



Japan – potential to further increase (cheese) exports due to FTA

Cumulated Japan imports for Jan-Jul 2015, 2016 & 2017 (tonnes)

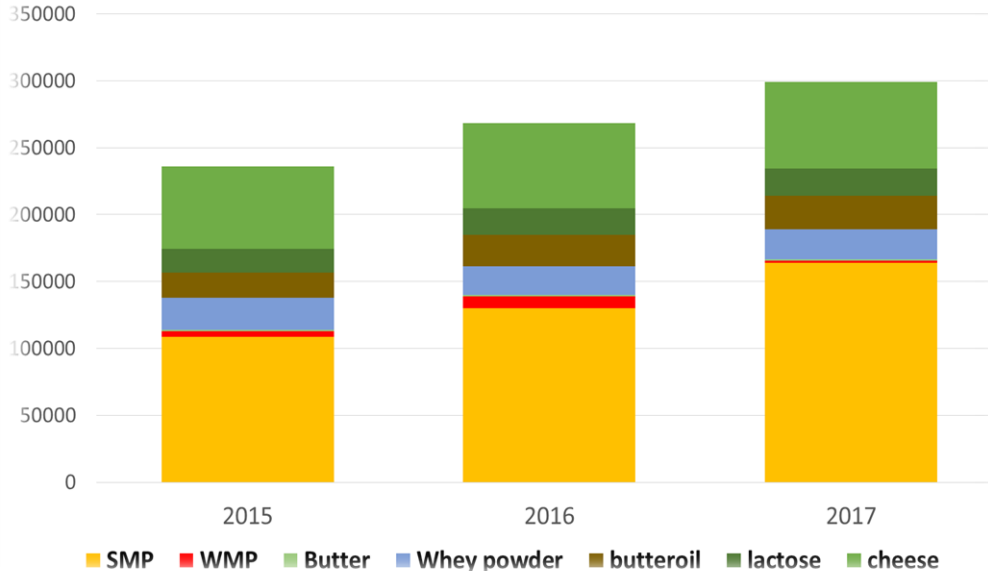


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Mexico – looking for other sources

Cumulated Mexico imports for Jan-Jun 2015, 2016 & 2017 (tonnes)



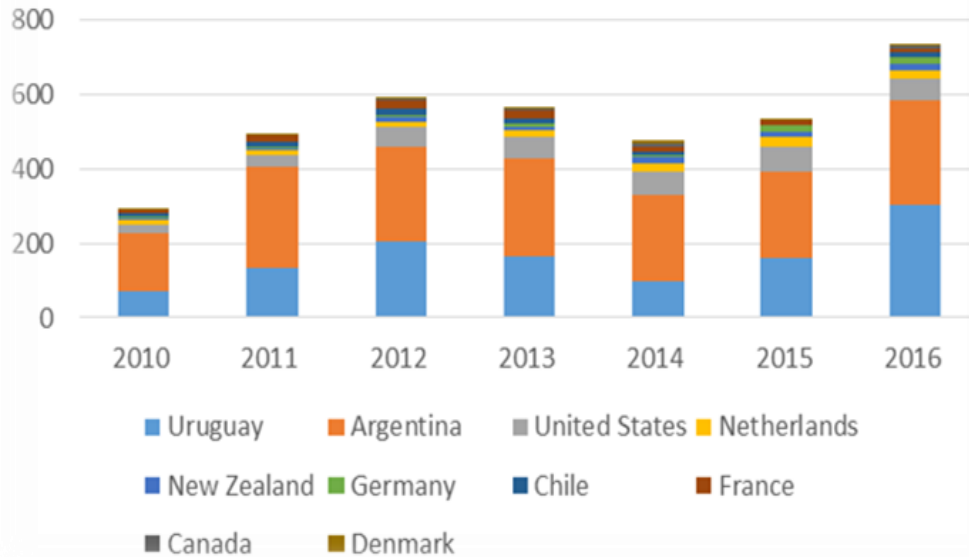
- Mexico is one of the largest dairy importers in the world (€ 1,5 billion), today almost exclusively supplied by the US
- Lots of tariff and non-tariff barriers
- Dairy is among EU's priorities in the FTA negotiations
- EU has benefited from the 'Trump effect'



Brazil – if Mercosur deal becomes reality

10 biggest origins of Brazil imports (in mio €)

Total imports of Brazil in 2016: 746 mio €



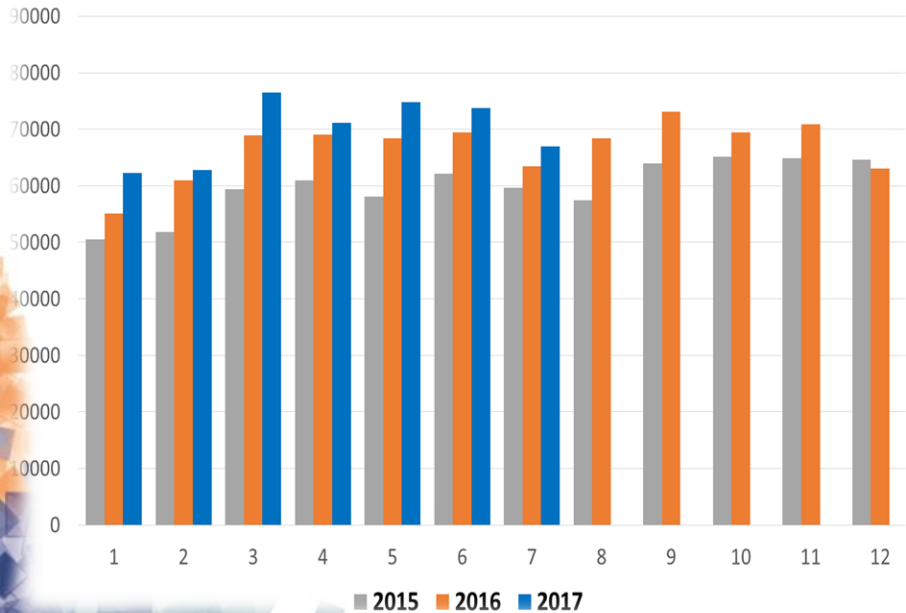
- A lot of potential if a deal with Mercosur brings improved market access
- Brazil is both a major producer and importer with growing population and dairy consumption
- Major non-tariff barriers



Cheese trade

- EU cheese exports:
 - Growth rate Jan-Jul 17/16: +7,3%
- Combined cheese exports:
 - Growth rate Jan-Jul 17/16: +6,2%

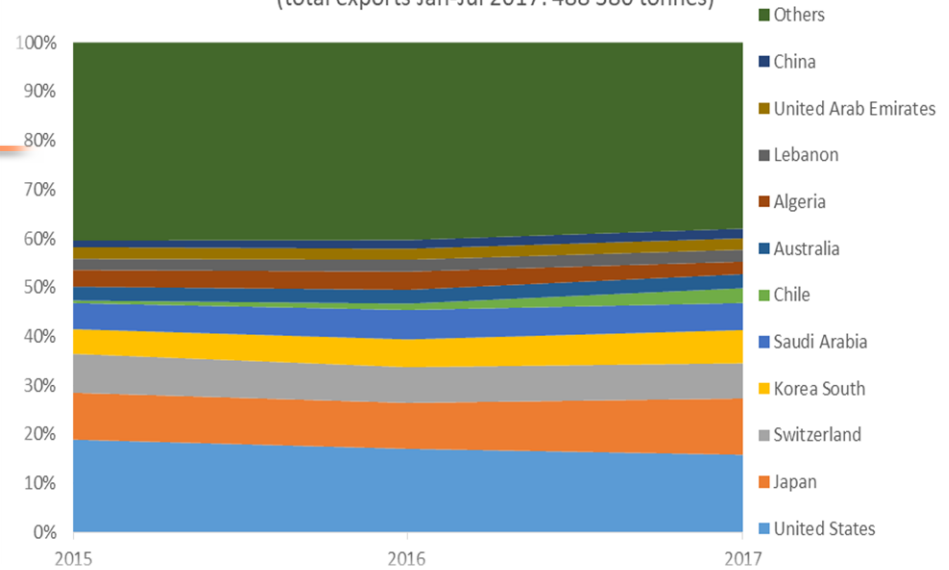
EU Cheese Exports
(tonnes)



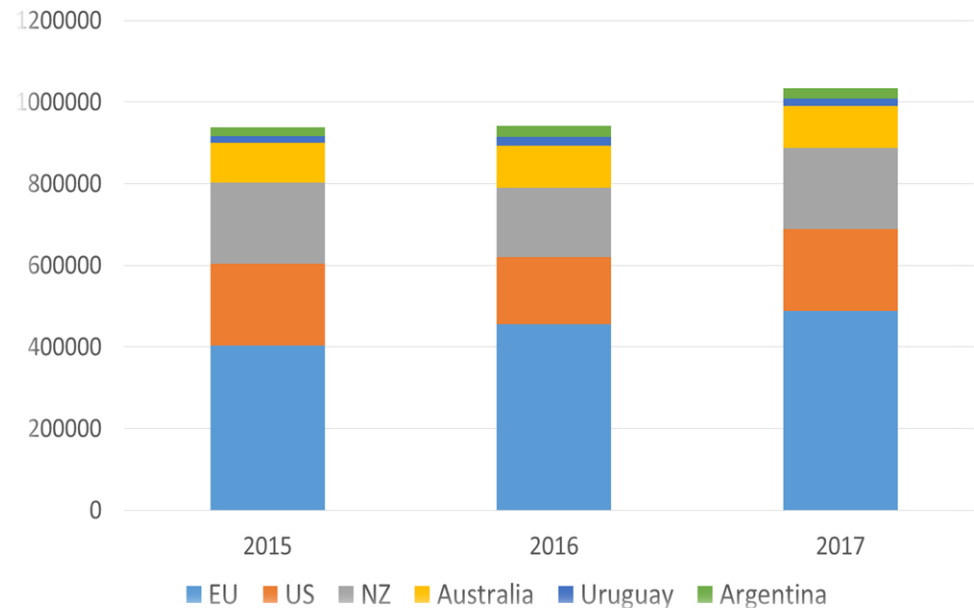
Development of EU export destinations for cheese

Jan-Jul 2015, 2016, 2017

(total exports Jan-Jul 2017: 488 380 tonnes)



Cumulated Cheese Exports for Jan-Jul 2015, 2016 & 2017 of major Exporters (tonnes)





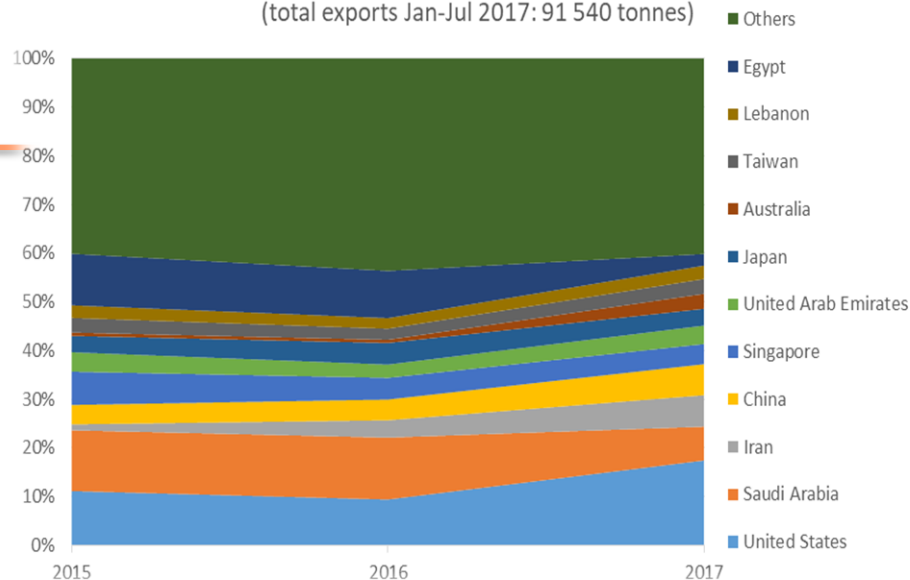
Butter trade

- EU butter exports:
 - Growth rate Jan-Jul 17/16: -15,5%
- Combined butter exports:
 - Growth rate Jan-Jul 17/16: -11,7%

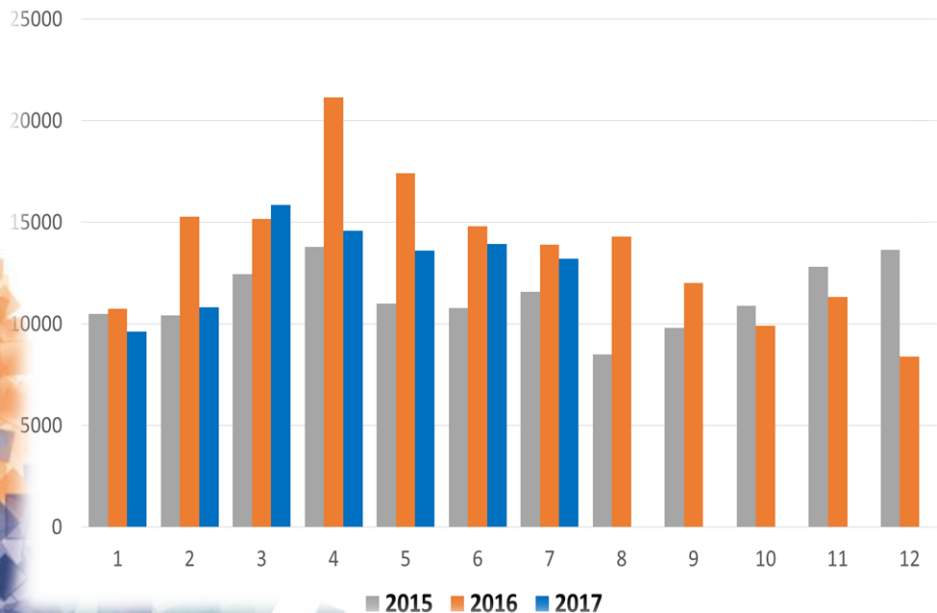
Development of EU export destinations for butter

Jan-Jul 2015, 2016, 2017

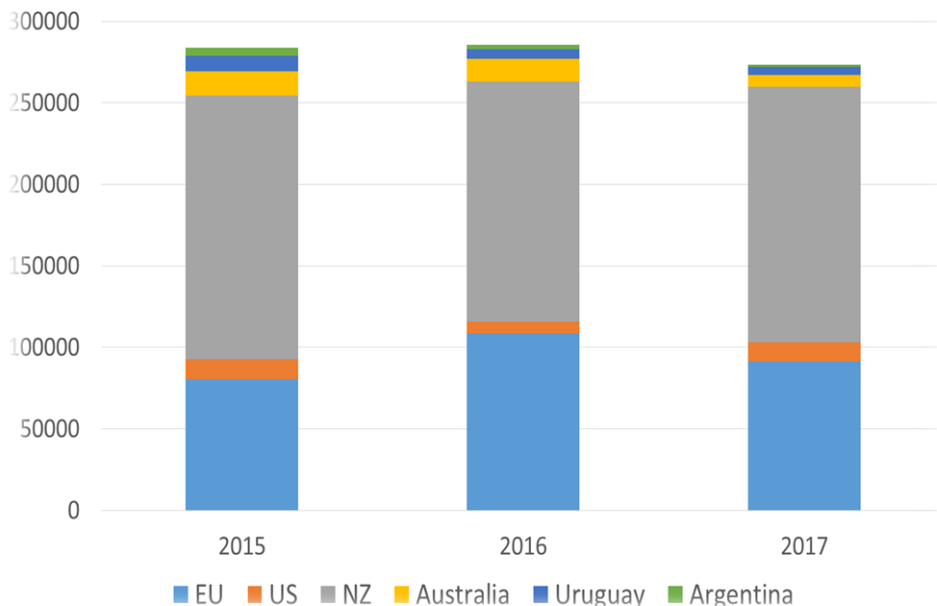
(total exports Jan-Jul 2017: 91 540 tonnes)



EU Butter Exports (tonnes)



Cumulated Butter Exports for Jan-Jul 2015, 2016 & 2017 of major Exporters (tonnes)

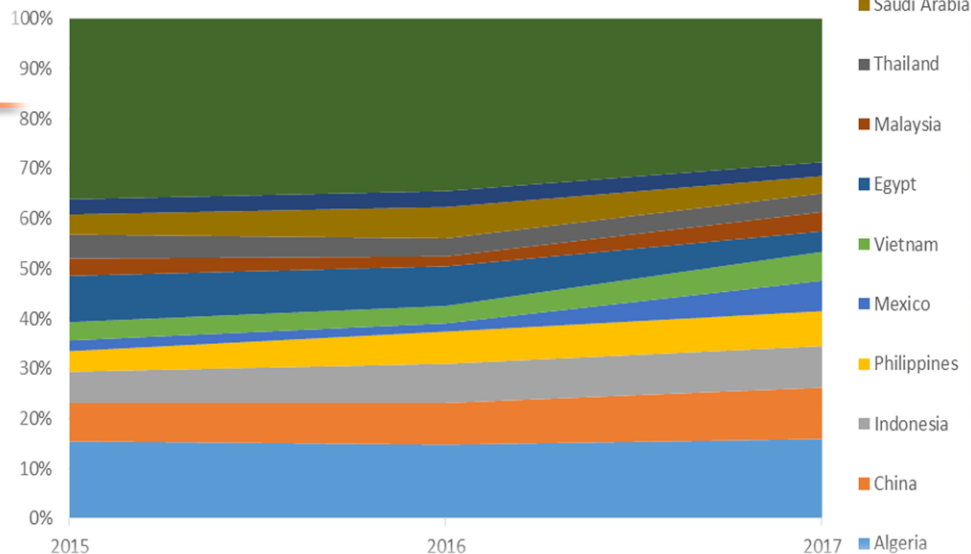




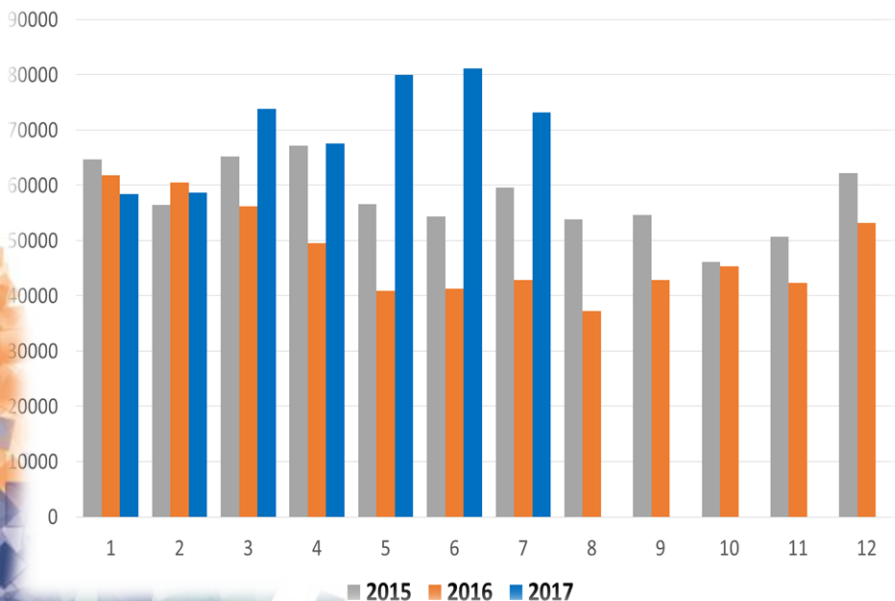
SMP trade

- EU SMP exports:
 - Growth rate Jan-Jul 17/16: +39,6%
- Combined SMP exports:
 - Growth rate Jan-Jul 17/16: +14,9%

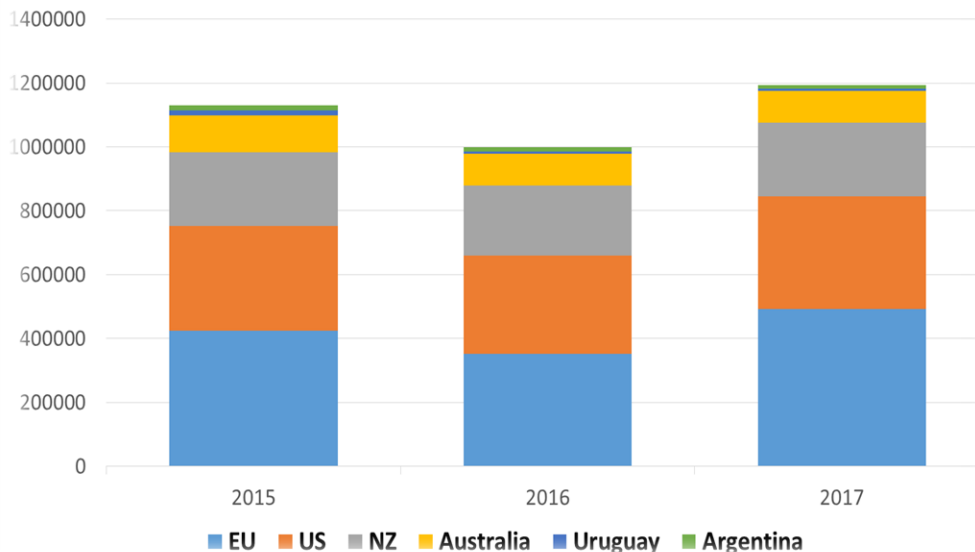
Development of EU export destinations for SMP
Jan-Jul 2015, 2016, 2017
(total exports Jan-Jul 2017: 493 093 tonnes)



EU SMP Exports
(tonnes)



Cumulated SMP Exports for Jan-Jul 2015, 2016 & 2017 of major Exporters
(tonnes)

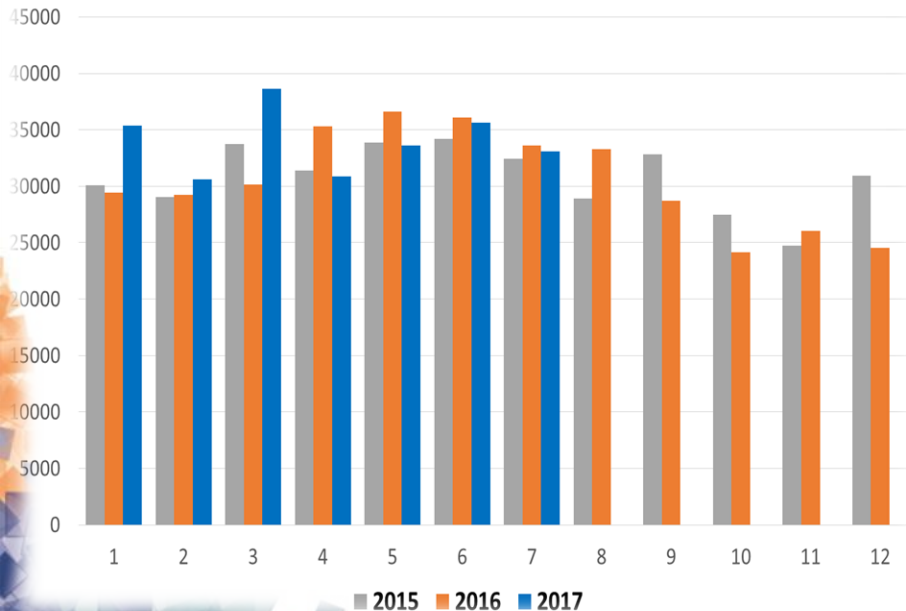




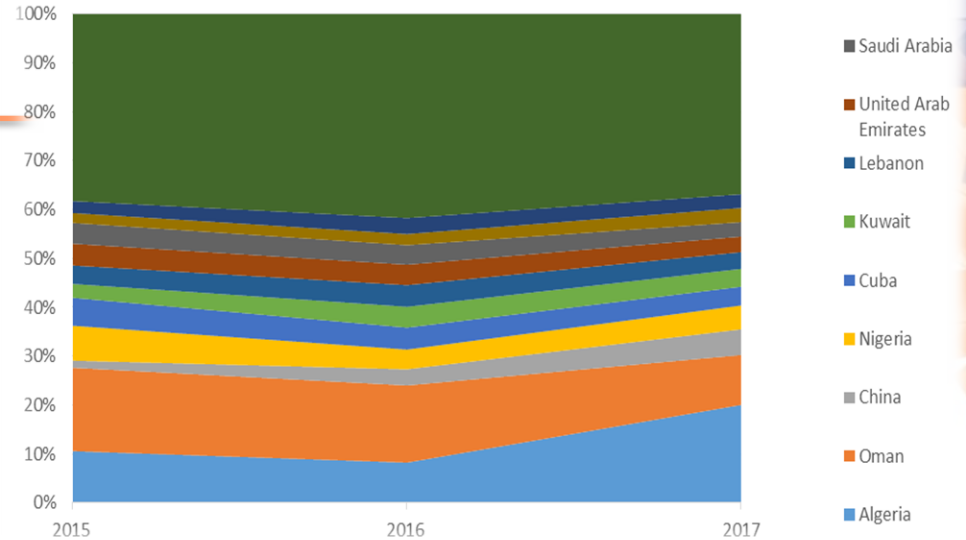
WMP trade

- EU WMP exports:
 - Growth rate Jan-Jul 17/16: +3,2%
- Combined WMP exports:
 - Growth rate Jan-Jul 17/16: -3,5%

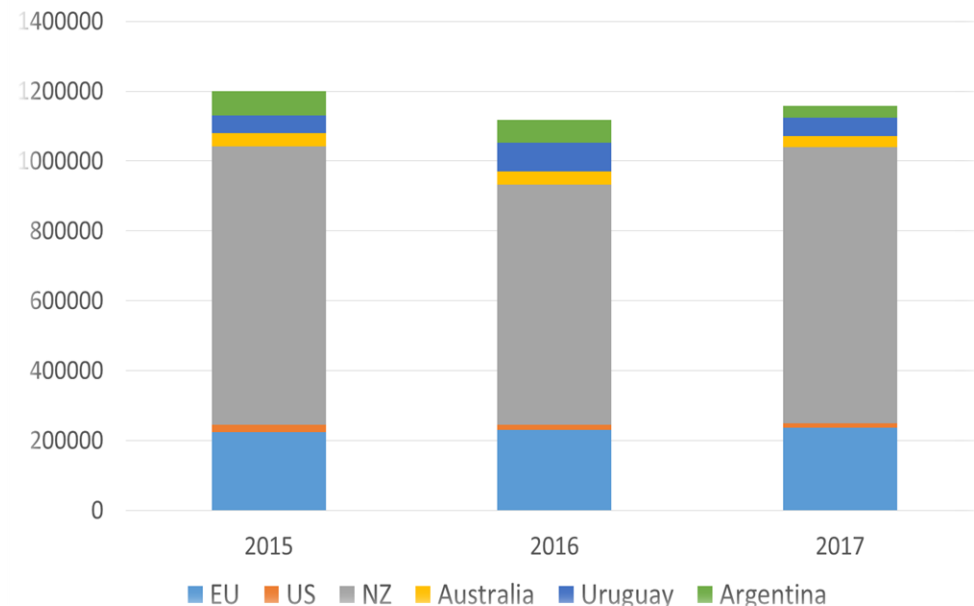
EU WMP Exports
(tonnes)



Development of EU export destinations for WMP
Jan-Jul 2015, 2016, 2017
(total exports Jan-Jul 2017: 238 923 tonnes)



Cumulated WMP Exports for Jan-Jul 2015, 2016 & 2017 of major Exporters (tonnes)



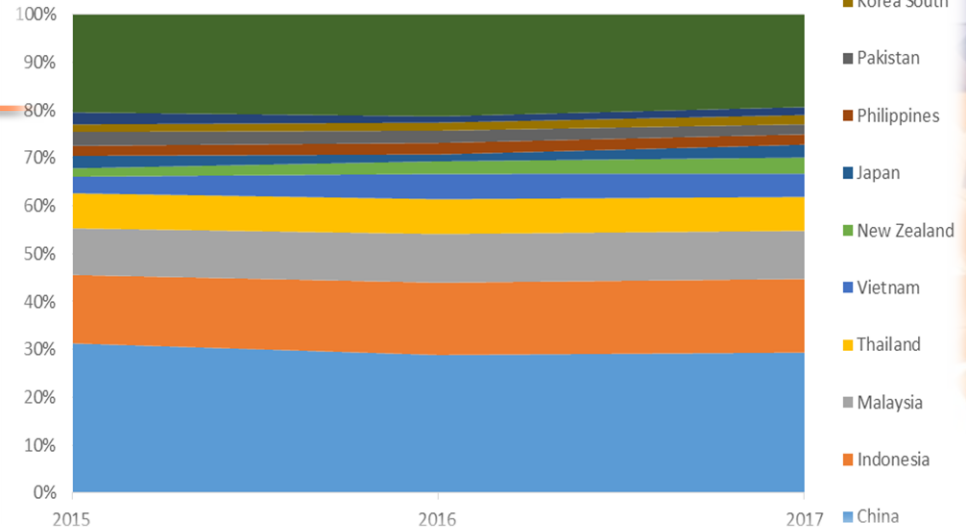


Whey powder trade

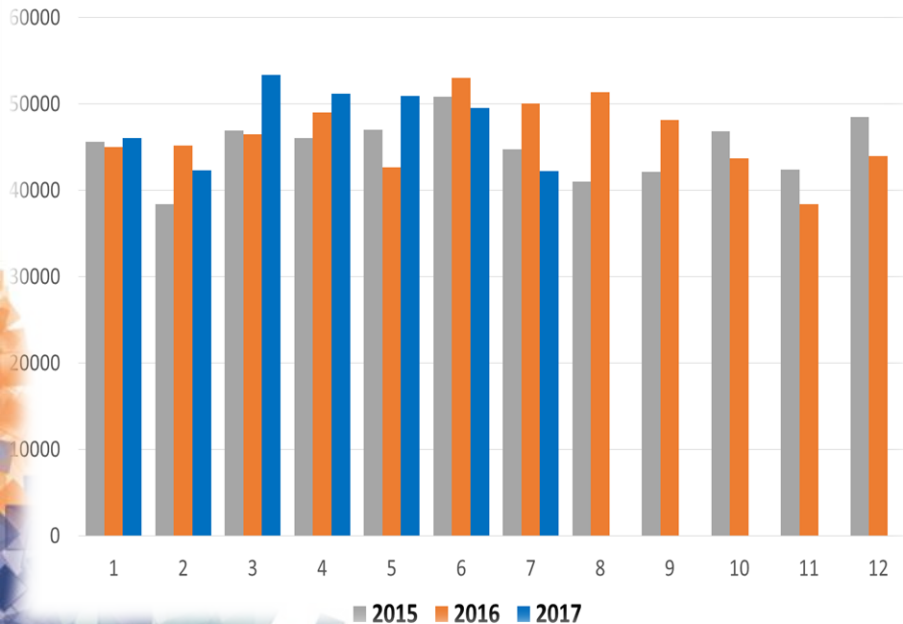
- EU whey powder exports:
 - Growth rate Jan-Jul 17/16: +1,3%
- Combined whey powder exports:
 - Growth rate Jan-Jul 17/16: +2,3%

Development of EU export destinations for Whey powder
Jan-Jul 2015, 2016, 2017

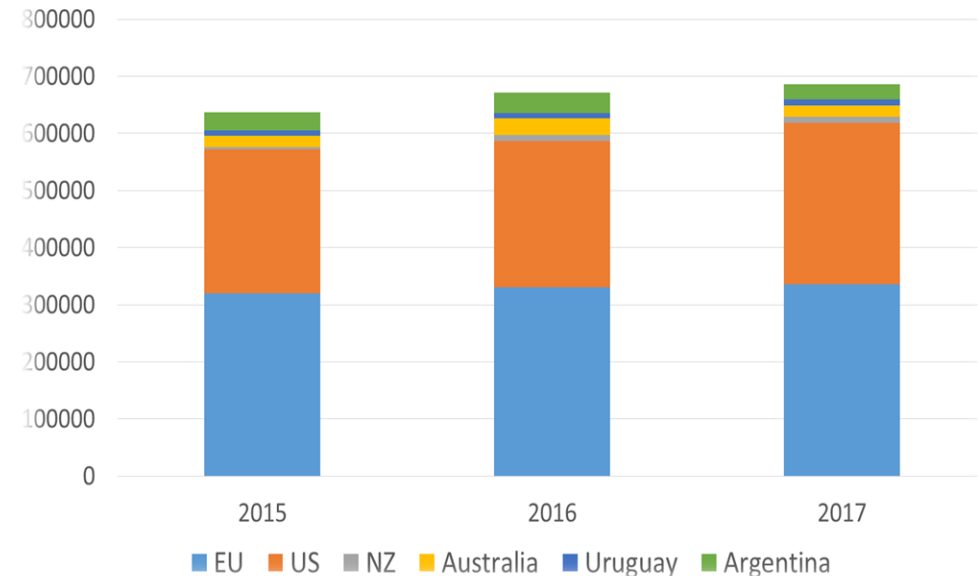
(total exports in Jan-Jul 2017: 335 759 tonnes)



EU Whey powder Exports
(tonnes)



Cumulated Whey powder Exports for Jan-Jul 2015, 2016 & 2017 of major Exporters
(tonnes)

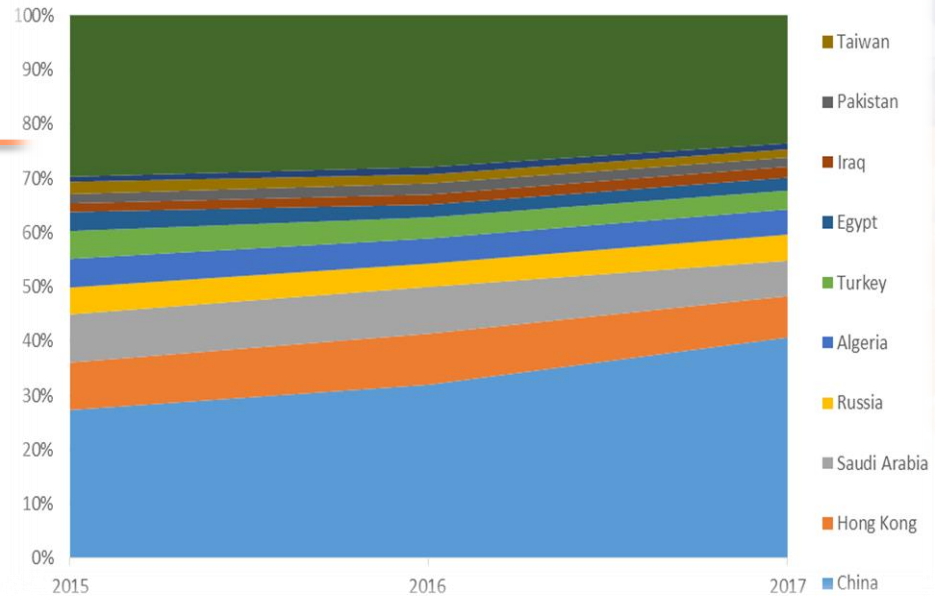




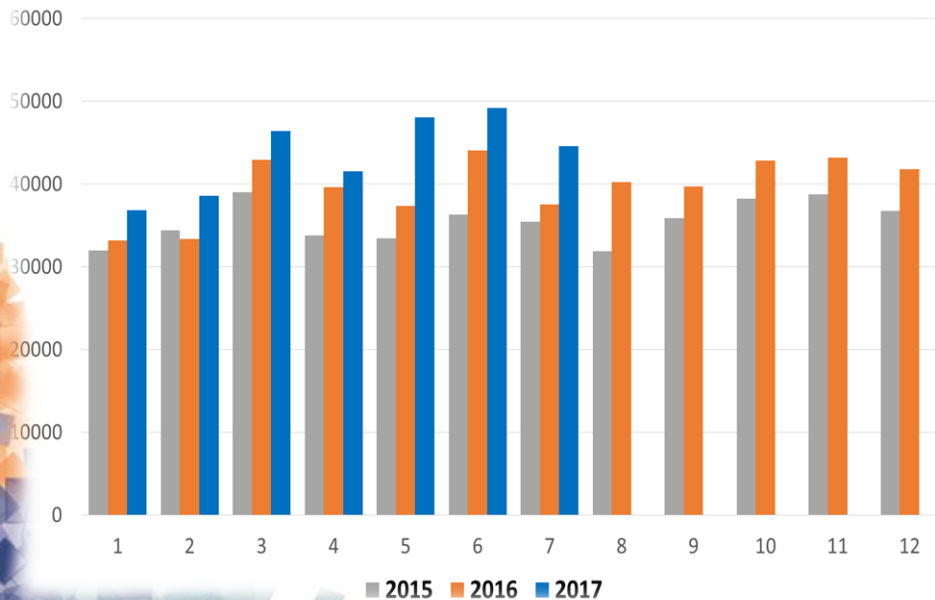
Infant formula trade

- EU infant formula exports:
 - Growth rate Jan-Jul 17/16: +13,8%
- Combined infant formula exports:
 - Growth rate Jan-Jul 17/16: +8,6%

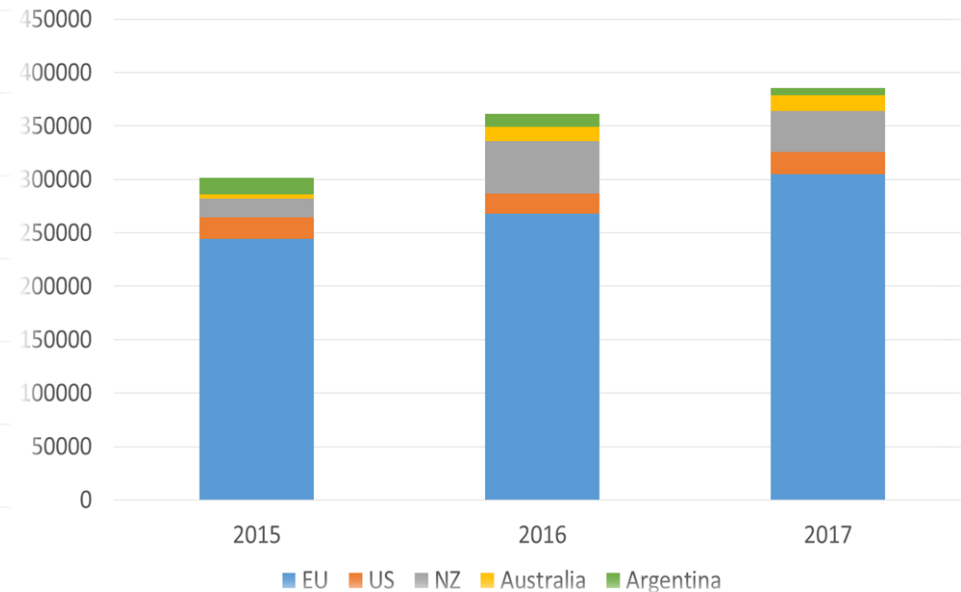
Development of EU export destinations for Infant formula
Jan-July 2015, 2016, 2017 (total exports Jan-Jul 2017: 304 991 tonnes)



EU Infant formula Exports
(tonnes)



Cumulated Infant formula Exports for Jan-Jul 2015, 2016 & 2017 of major Exporters (tonnes)

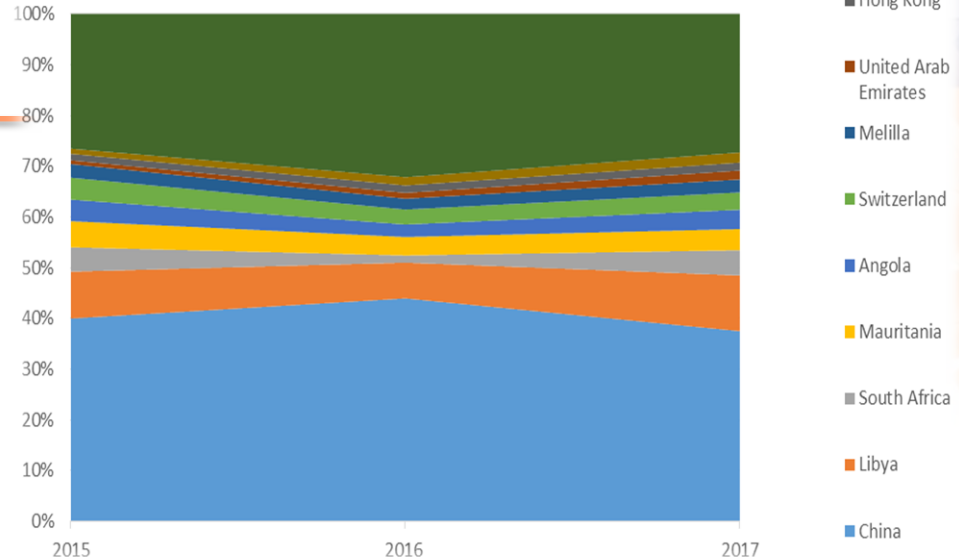




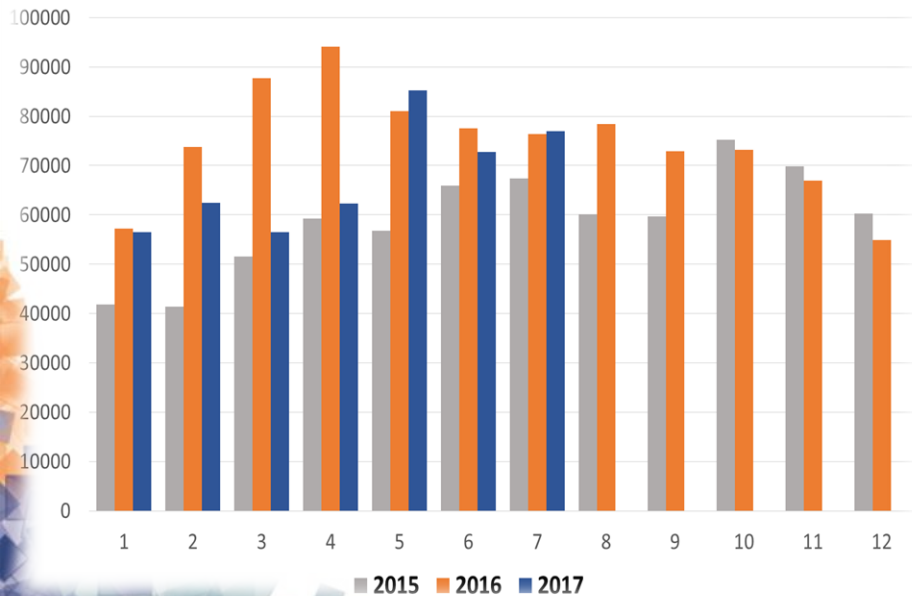
Trade of milk

- EU milk exports:
 - Growth rate Jan-Jul 17/16: -15,8%
- Combined milk exports:
 - Growth rate Jan-Jul 17/16: -6,5%

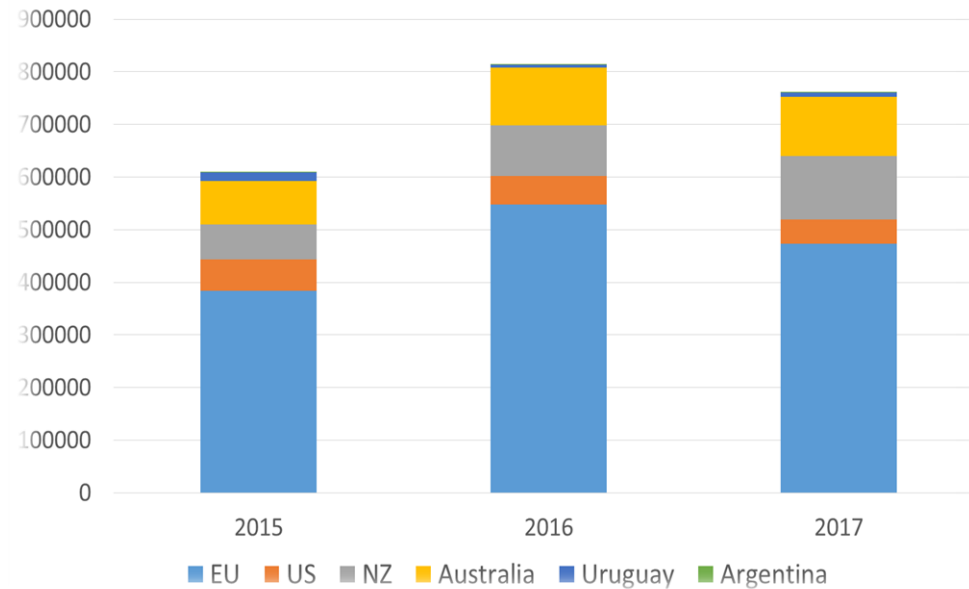
Development of EU export destinations for Liquid milk (040120 & 040110) Jan-Jul 2015, 2016, 2017 (total exports Jan-Jul 2017: 472 667 tonnes)



EU liquid milk exports (tonnes)



Cumulated liquid milk Exports for Jan-Jul 2015, 2016 & 2017 of major Exporters (tonnes)

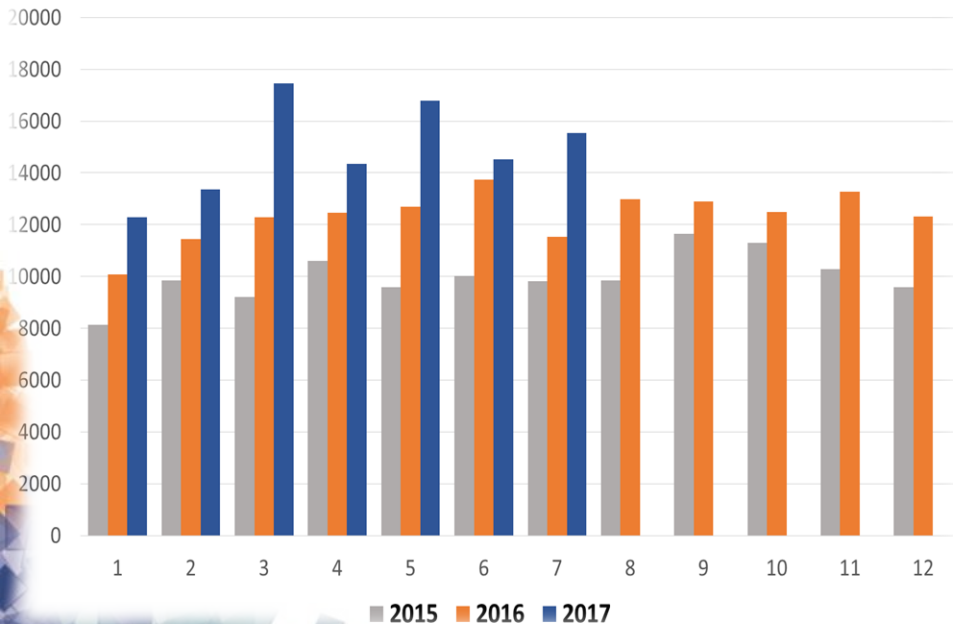




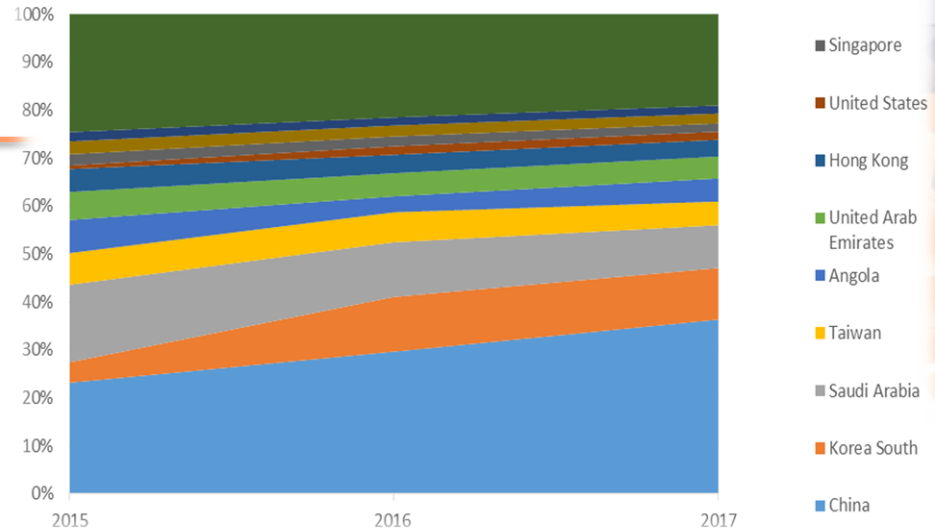
Trade of cream

- EU cream exports:
 - Growth rate Jan-Jul 17/16: +22,1%
- Combined cream exports:
 - Growth rate Jan-Jul 17/16: +10,6%

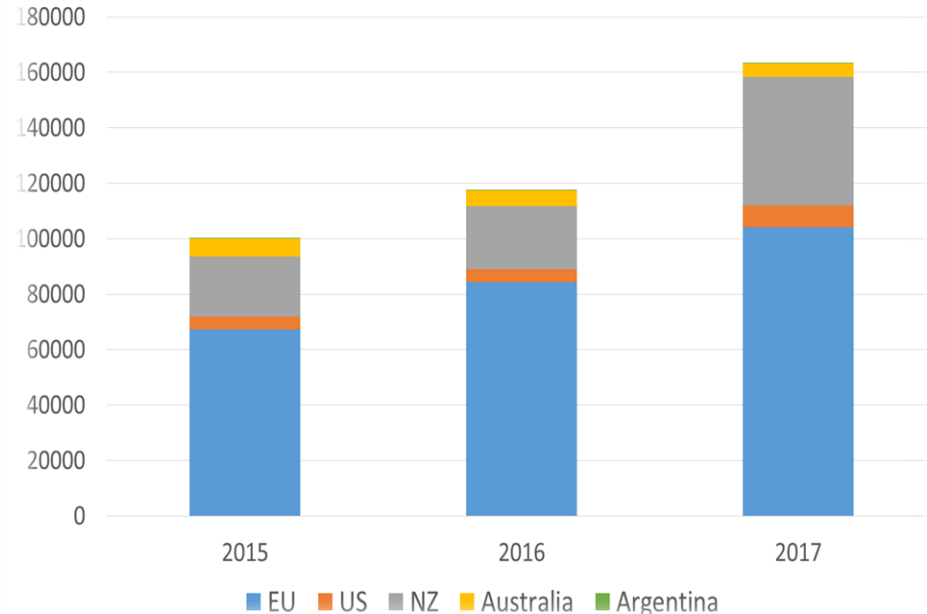
EU cream exports (tonnes)



Development of EU export destinations for Cream (040150) Jan-Jul 2015, 2016, 2017 (total exports Jan-Jul 2017: 104 277 tonnes)



Cumulated Cream Exports for Jan-Jul 2015, 2016 & 2017 of major Exporters (tonnes)





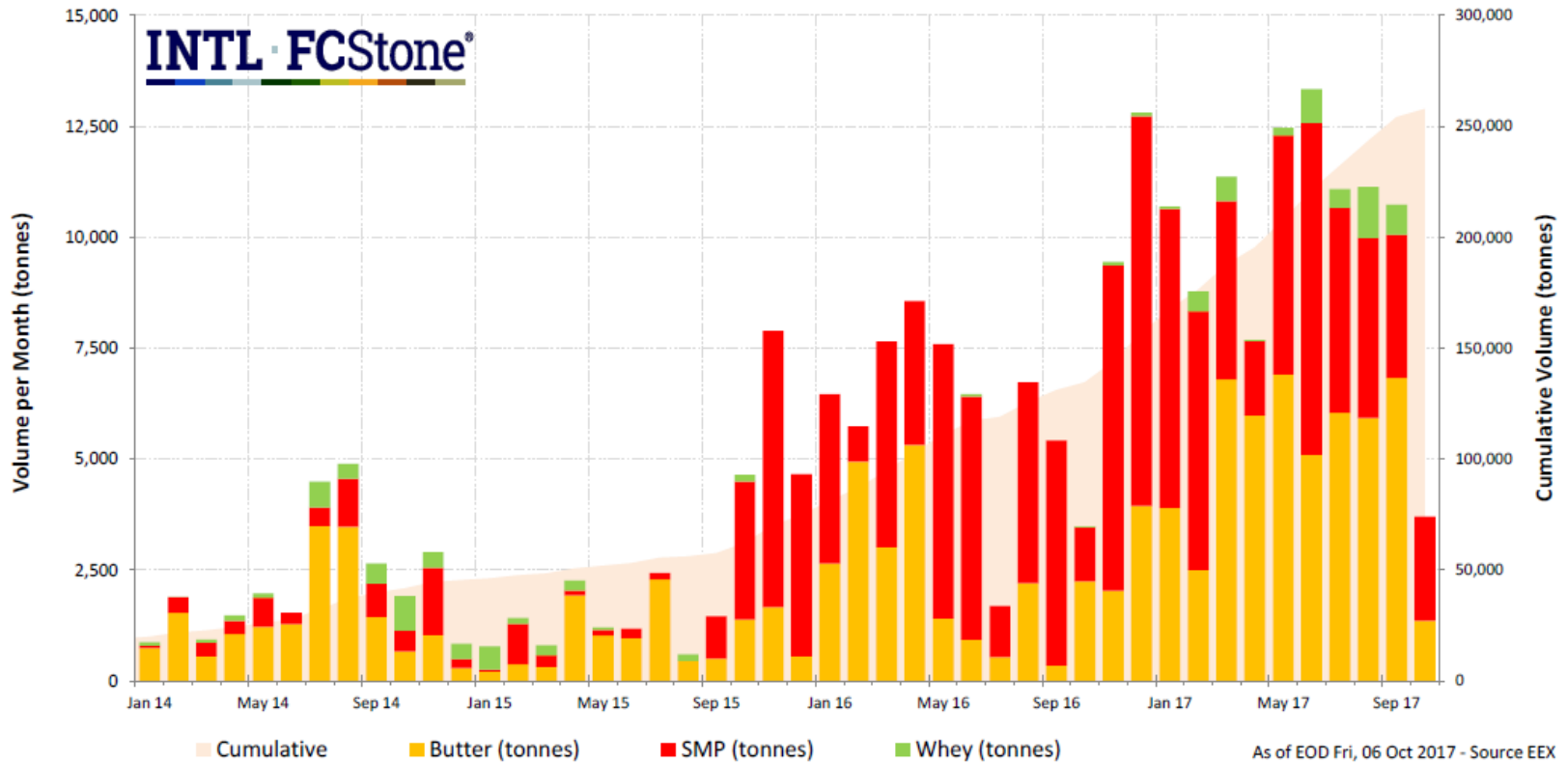
Risk management - futures

- With the increased market orientation of EU dairy policy (lower intervention prices, abolition of milk quotas and of export refunds) we are now exposed to global market developments
- Price volatility is here to stay – need to manage the resulting risks
- Various private tools for risk management – futures markets are one of them
- **Eucolait supports the development of dairy futures markets in Europe because they can help market participants to secure their margins. In addition to managing price risk, futures increase price disclosure, thus enabling better planning by all actors in the dairy supply chain.**
- Volumes are growing but still low liquidity due to lack of acquaintance. It will take time.
- Every actor has to decide for himself
- In Europe, currently possible to trade SMP, butter and whey on EEX (cash settlement) and Euronext (physical delivery)
- Milk prices can be hedged using butter and SMP futures (“synthetic milk hedge”) In addition, EEX is in the process of developing a contract for liquid milk
- There is also demand for a cheese contract but what would be the index?



Futures – evolution of volumes

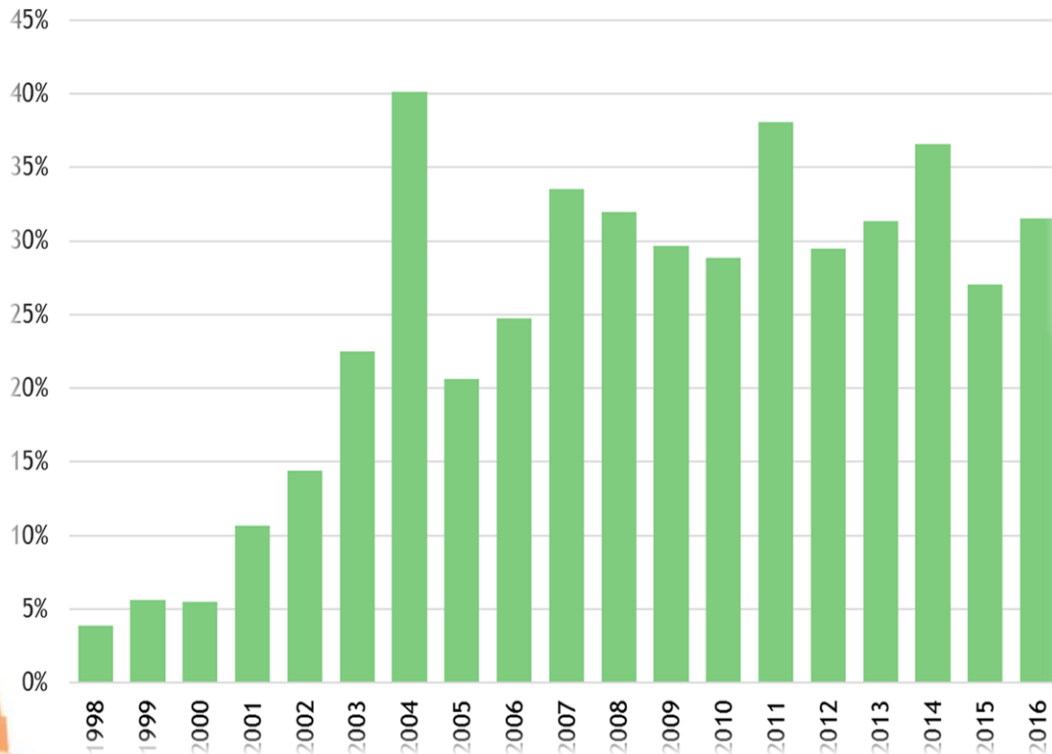
EEX Dairy Futures Monthly and Cumulative Volume





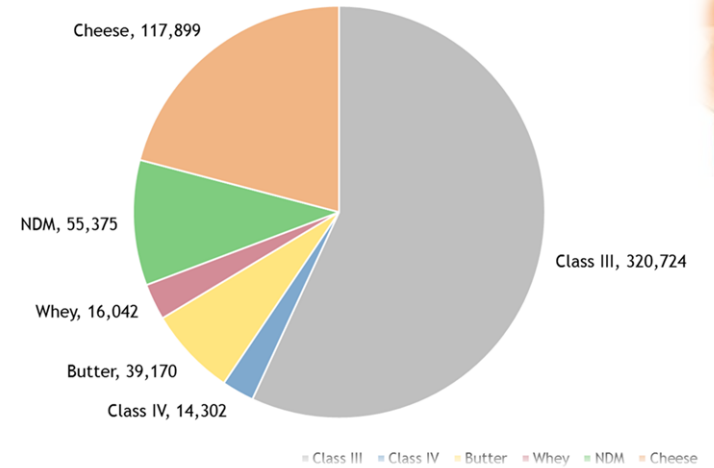
Dairy futures in the US (CME)

Milk Futures Volume as % of US Production



Source: Blimling & Associates

2016 CME Futures Volume



A RECORD VOLUME OF 1027 NFDN FUTURES
contracts traded on Sept. 7, 2017

THAT EQUALS 7X THE DAILY U.S. NFDN & SMP PRODUCTION

Data Source: CME & USDA



Thank you for your attention



Jukka Likitalo
Secretary General

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