

IFCN News
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International Farm
Comparison Network

Milk price development on the world market

In November 2007 the world milk price reached 58,2 US-\$ / 100 kg milk (42 Euro) – the highest level ever seen. Since then we observed a downward trend. For February 2008 we expect prices to be 48,2 US-\$ / 100 kg milk (33 Euro) which is 17% lower than the all-time high in November 2007. **Outlook:** A precise forecast in these times are quite difficult but it seems that a further decline is more likely than a rise. For details have a look at the charts in US-\$ and Euro on the next pages.

Feed price development on the world market

After a very strong rise of feed prices September 2006 – January 2008 it seems that prices stabilize at a price of 27,5 US-\$ per 100 kg. This is almost double the level we had in the time period 1998 – 2005. **Outlook:** It is likely that prices stay high. This means that feed cost stay high and that land price will increase.

Milk feed price ratio

The milk feed price ratio as an indicator for the favourability of high or low input systems increased in 2007 and reached in August 2,9. Since September 2007 this indicator is decreasing as the milk price is decreasing but feed is still getting more expensive. In February 2008 the milk feed ratio has reached the “old” level from 2005/2006.

New IFCN Indicator for “Milk feed price ratio”

To better show the impact of milk and feed price changes on the farms economics a new IFCN profit indicator was developed. The indicator shows a change in profits caused by changes in milk prices and feed costs (cet. par.) compared to the year 2006. The results show the economic situation on a dairy farm with moderate level of feeding intensity (350g concentrate/kg milk). This represent a milk yield level of 7000 – 8000 kg per cow and year.

Assuming a dairy farm gets the world milk price and has to pay the world market price for feed we can conclude the following: Taking 2006 as the base year we see in 2007 a much better profitability of milk production than the years before. Since December 2006 a significant improvement of the economic performance was taking place. The growth of the feed costs was overcompensated by high milk prices and led to up to 30 US-\$/100 kg milk higher profit in August-November 2007. Although the results for January-February 2008 show a decline in farm profit, the farm economics remain in clearly better conditions than in 2006 with 20 US-\$/100 kg milk higher profit on average in 2007.

Calculations

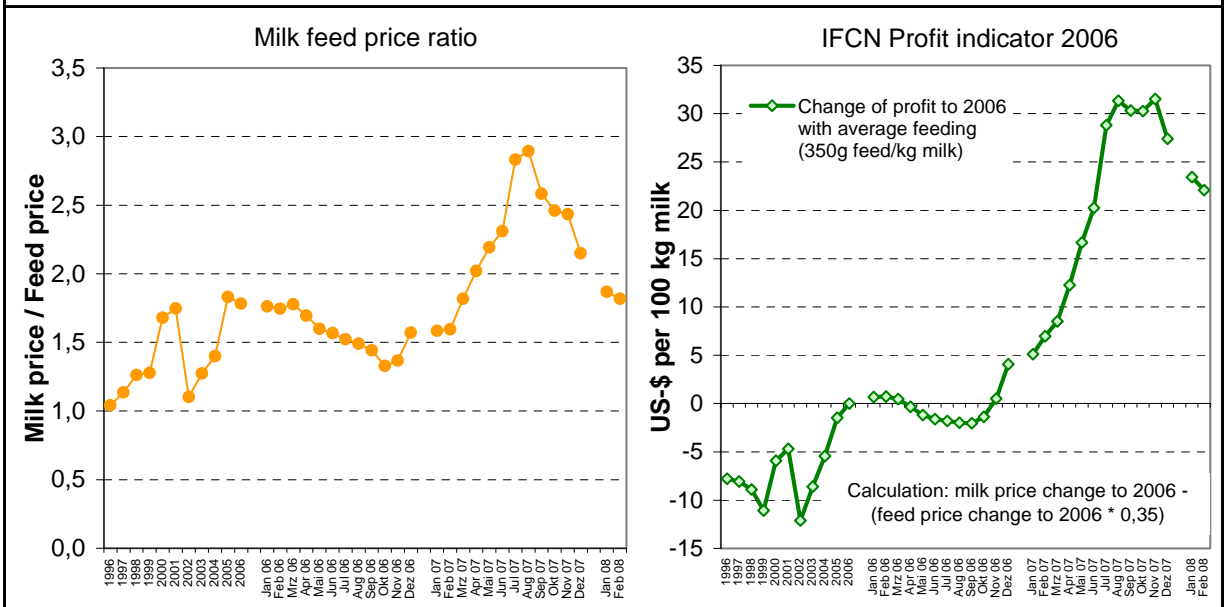
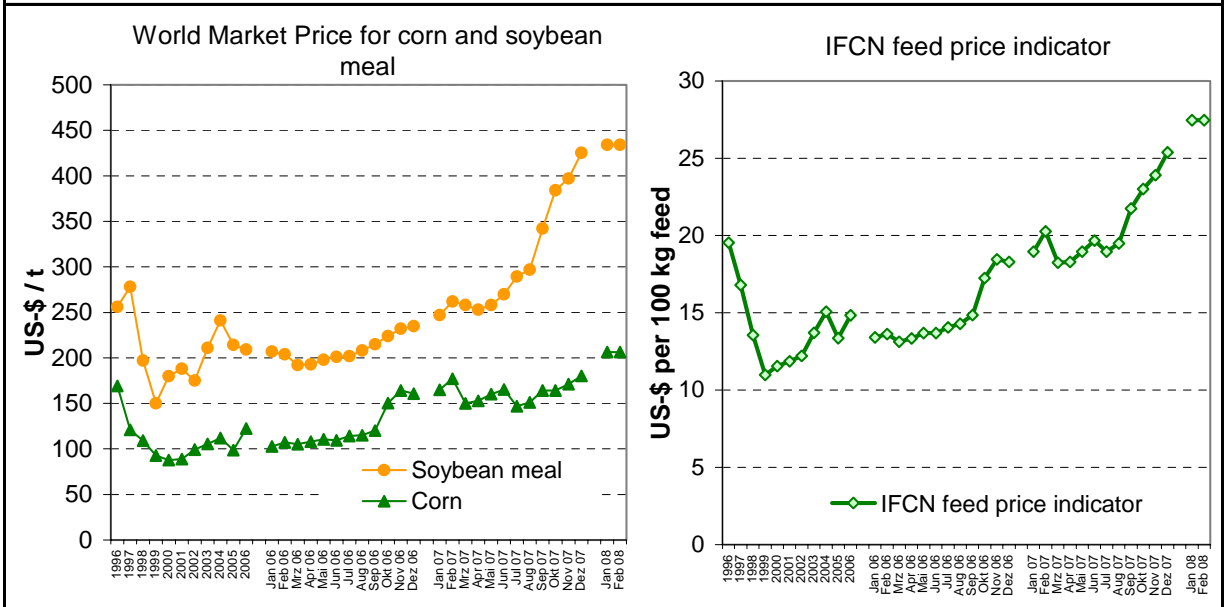
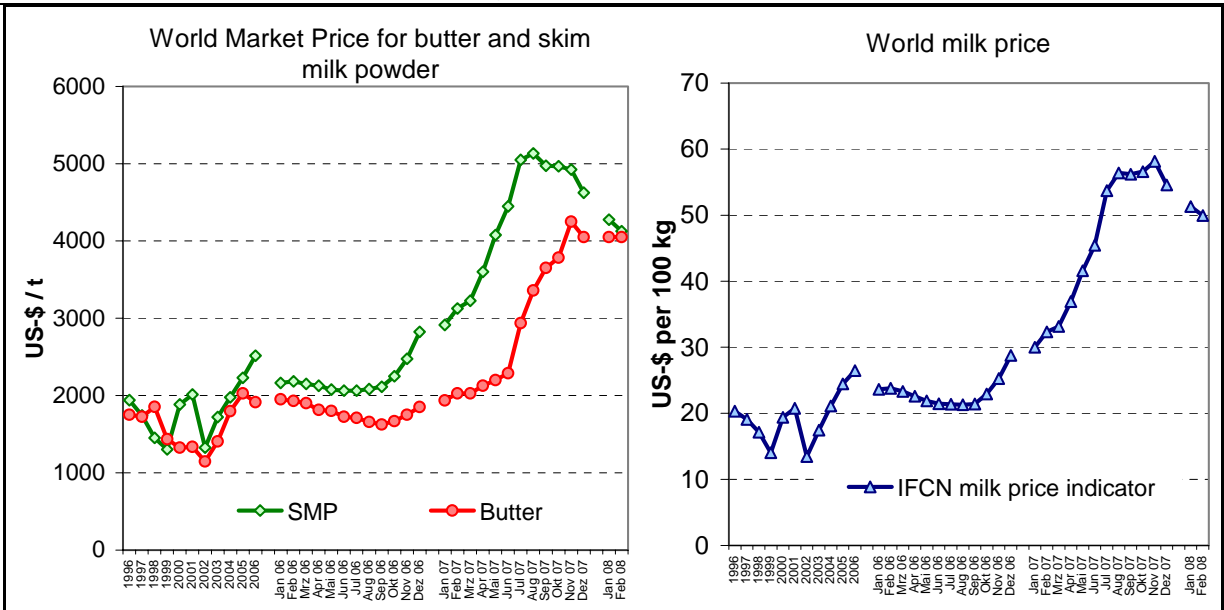
Prices = Annual averages; since January 2006 monthly data, February 2008 preliminary.

Estimate of world market price for "milk". Calculation based on world price for butter/SMP, processing costs (butter 311 €/t, SMP 290 €/t) and processing coefficients (butter 22, SMP 11).

Estimate of world market price for "feed". Calculation based on feed concentrate with 70% corn + 30% soybean meal.

IFCN Profit indicator 2006 (in \$/100 kg milk): Change in milk price – change in feed cost; Reference point is the milk and feed price in 2006.

Feed cost: Price change of feed price * 0,35; As feed ration we used 350g feed concentrate per kg milk what is a feed ration in a medium intensive production system.



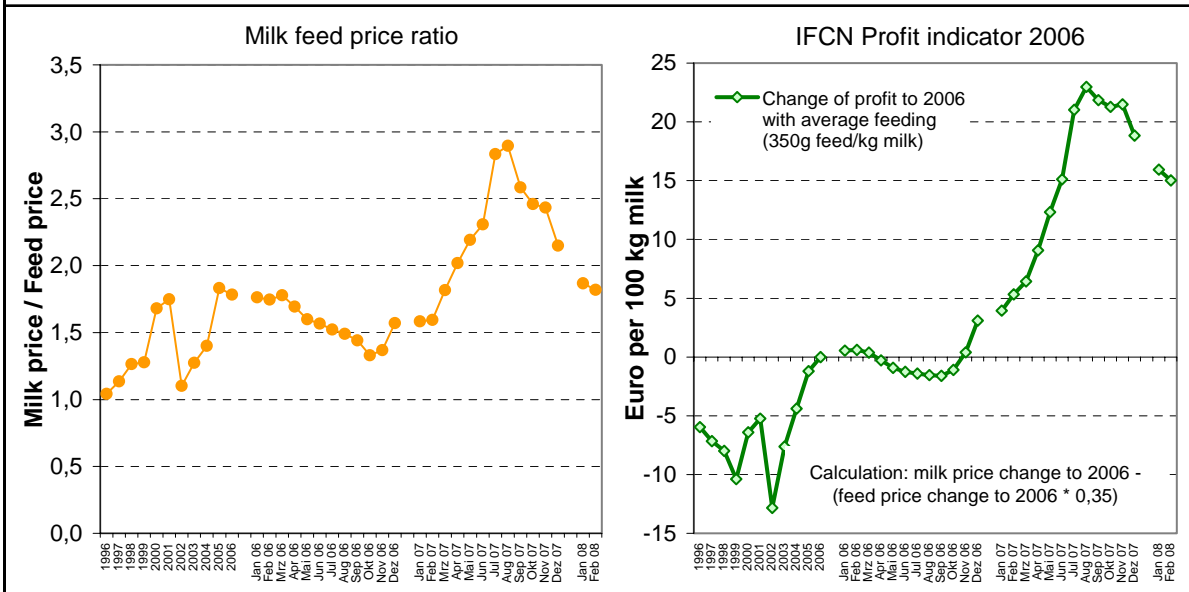
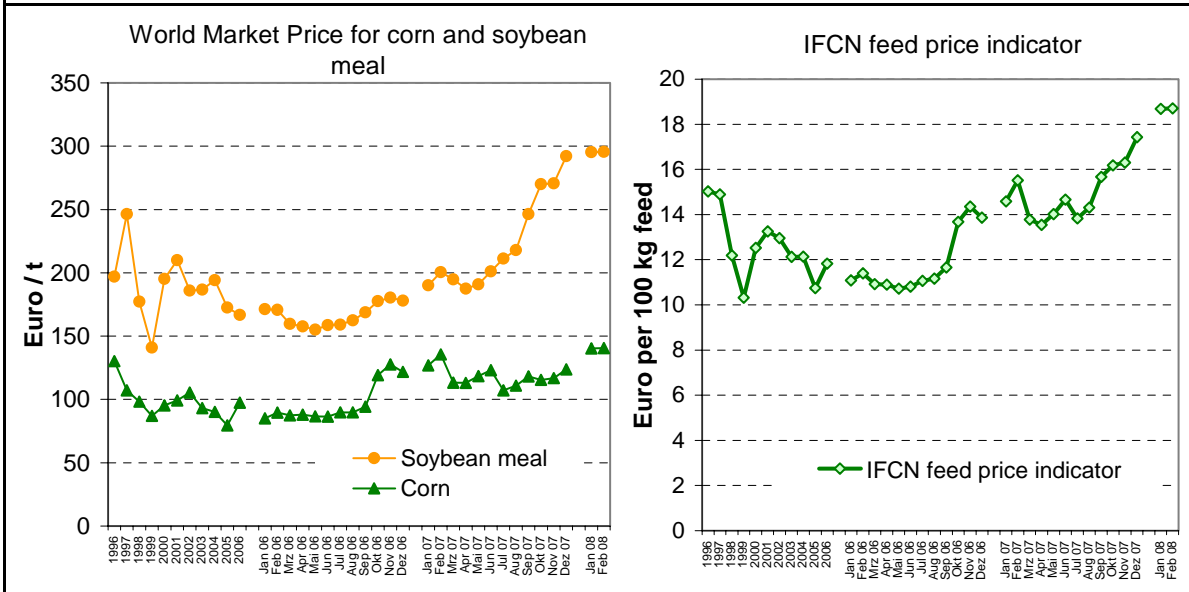
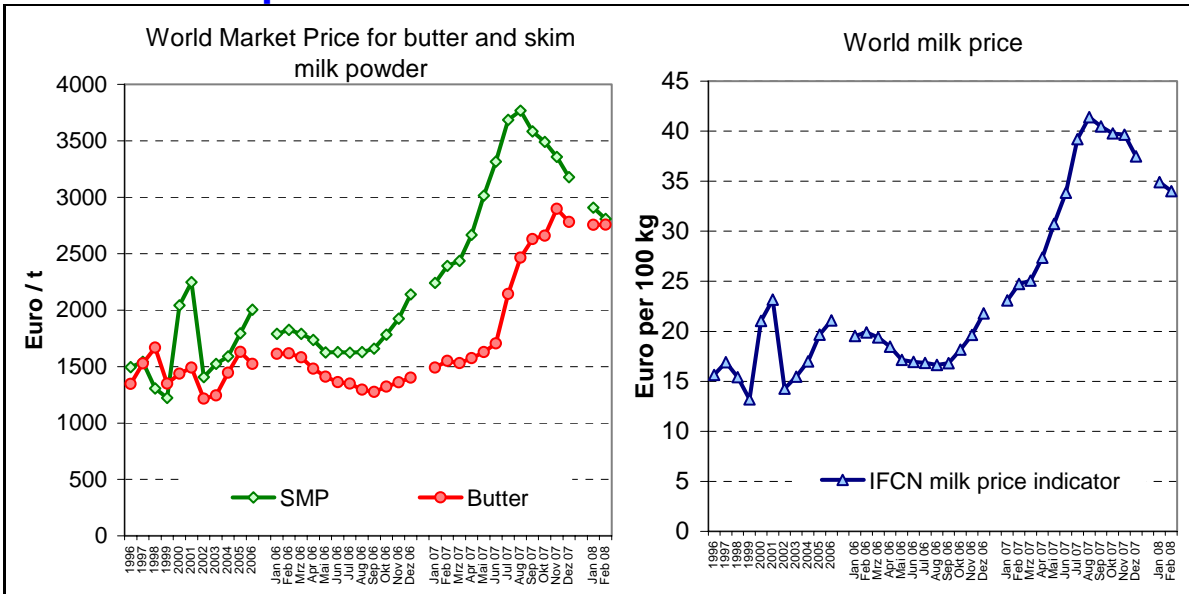
Estimate of world market price for "milk". Calculation based on world price for butter/SMP and processing costs (butter 311 €/t, SMP 290 €/t)

Estimate of world market price for "feed". Calculation based on feed concentrate with 70% corn and 30% soybean meal.

IFCN Profit indicator 2006: milk price change-(feed price change*feed ration). Prices=Annual averages; Feb 08 Preliminary.

Source: IFCN Dairy Report 2007, FAPRI, USDA, ZMP, IFCN estimates and calculations.

Price developments in Euro



Estimate of world market price for "milk". Calculation based on world price for butter/SMP and processing costs (butter 311 €/t, SMP 290 €/t)

Estimate of world market price for "feed". Calculation based on feed concentrate with 70% corn and 30% soybean meal.

IFCN Profit indicator 2006: milk price change - (feed price change * feed ration). Prices=Annual averages; Feb 08 Preliminary.

Source: IFCN Dairy Report 2007, FAPRI, USDA, ZMP, IFCN estimates and calculations.

Policy

EU policy

There is a high vote for an increase of the quota by 2% in the next quota year and for a soft landing. The EU Commission wants to realise a soft landing but not with income stabilisation as aim. **Conclusion:** There is a pressure on milk prices and quota prices.

WTO update

After the not accepted Harbinson paper (2003) the WTO negotiations continued now with a new compromise paper from Falconer (chairperson of the agriculture negotiations) in July 2007 and its revised version from January 2008. In both Falconer papers there are new proposals containing formulas for cutting tariffs and trade-distorting subsidies, and related provisions. It can be assumed that the negotiations will not lead to a result before 2009.

Conclusion: In the actual agricultural price negotiations the WTO results are not a real challenge for almost all countries.

Other facts

US – Projected milk price 2008 = 36 \$/100 kg ECM (24,5 Euro)

Scott Brown, dairy economist from the FAPRI at the University Missouri, project average US milk prices for 2008 of 17\$/cwt what is about 38 US\$/ 100 kg milk (36US-\$/ 100 kg ECM). Farms will be in difficulties at that milk price due to risen and still rising production costs. Please find details in the press notice in annex 1.

Drought in NZ

A drought in NZ seriously affects milk supply. A lot of farmers are now drying off and culling cows much earlier than usual.

Milk movement in Germany

The regions with the lowest marginal production costs are the winning regions where the milk production will be more and more concentrated with increasing quota. In Germany these regions are Northern Germany (Schleswig-Holstein, Mecklenburg-Vorpommern and Ostfriesland) and North-Eastern Bavaria.

University Kiel – Seminar papers available

Quite good papers were presented from students at the seminar “Milk production, milk processing and markets” at Kiel University the 7 February 2008 which was partly supervised by the IFCN. To those who are interested in a paper (in German) we can send it via email. Find the list below in annex 2.

IFCN News

Public Hearing at the EU Commission

IFCN was participator as dairy expert at the Public hearing in the EU Commission on the future of the dairy sector on 11 January 2008 in Brussels.

New supporters

TetraPak and Saputo joined the IFCN as new partners.

New countries in the farm comparison

We welcome Indonesia, Russia, Jordan and Iceland as new partners in 2008 in the farm analysis. Herewith we have 42 countries participating in 2008 in the farm comparison.

New countries in the country page analysis

We welcome Armenia, Colombia, Iceland, Macedonia, Serbia and Tanzania in the country analysis group of now 80 countries.

Annex 1:

Smaller milk checks to arrive at dairy farms in March after record prices since mid-2007, says MU FAPRI

COLUMBIA, Mo. – Dairy farmers can expect smaller milk checks in their mailboxes in March as milk prices drop from record-setting highs, said Scott Brown, a dairy economist at the University of Missouri. While facing lower milk prices, producers will see feed costs and other expenses continue to rise.

Declining prices and lower profits will be intensified by increasing milk production in the year ahead, said Brown, an economist with the MU Food and Agricultural Policy Research Institute (FAPRI). U.S. milk prices at the farm have reached almost \$22 per hundredweight since last July, Brown said. “That is a record-setting level.”

In dairy outlooks presented in video teleconferences from the MU campus, Brown projected average milk prices for 2008 at \$16.90 per hundredweight. That remains above the 2001-2005 long-term milk price average, but that may not be enough to compensate for increased production costs.

“Even if milk prices stay near \$17 there may be concerns. At best, that will be a break-even price,” Brown said. “High feed prices will cut into profits. From 2002 to 2007, cost of production had risen \$4 per hundredweight of milk. That cost is expected to go up another \$1 this year.

“While \$20 prices looked good, they didn’t lead to record profits. Those not close to the dairy industry might not know the extent that costs have gone up,” Brown said.

“The dairy business in 2007 turned out better than expected because of international demand,” Brown said. “There was no single cause for higher prices last year, but a huge drought in Australia played a part.” Australian dairy exports dropped sharply in 2007.

Also, large stocks of non-fat dry milk and butter in storage in both the United States and the European Union were depleted, and there was growing demand for cheese.

“The E.U. stopped subsidizing its dairy farmers and that reduced supplies in storage,” Brown said.

“Dairy farmers don’t usually think about international markets, but in 2007 those were a big help.”

The declining value of the U.S. dollar also helped boost dairy exports.

While exports are important, domestic demand remains the main market for U.S. dairy producers.

“Consumers kept buying milk, even when prices reached \$4 per gallon during the past year,” Brown said.

“When milk prices rise, you worry about users seeking substitutions,” Brown told dairy farmers.

However, alternative products such as soymilk also rose in price. The soy oil product rose from 20 cents to 50 cents per pound, which helped keep milk competitive with consumers.

Food manufacturers that rely heavily on dairy ingredients also seek substitutions. Last week, Brown heard manufacturers speak at a national dairy conference in Atlanta. “Their biggest concern is not so much price level, but volatility in prices,” he said.

Controlling supply will be a challenge for dairy producers in 2008. In response to higher prices, farmers are bringing more cows into the milking herd. “We are already seeing an increase in milk supply. Going into 2008, it will be tough to slow that growth very quickly,” Brown said.

“It will be late 2008 before we begin to see a start of a slowdown in the increasing cow inventory.”

More milk per cow could add to the milk surplus. However, increasing feed costs may put the brakes on milk yield increases as dairy farmers cut back on feeding.

“In 2008 dairy producers will face a problem finding markets for more milk. It’s one of the risks facing the industry this year,” Brown said.

“While international markets were helpful in 2007, they just add another layer of risk for 2008.”

Brown said that while the projected price for the coming year is high compared to historical averages, that does not ensure profits. “Even at prices near \$17 per hundred, producers face some serious red ink.”

Source: Scott Brown, 573-882-3861

Annex 2:

List of seminar papers to the topic “Milk production, milk processing and markets” at Kiel University 7 February 2008 (available as pdf in German):

1. Milchproduktion + Global

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- 1.1 Produktionstechnik Milch – Was bewegt die Praxis in Deutschland im Moment?

 - 1.2 “Strategic approach to farming success” (book review)

 - 1.3 Preiselastizitäten des mengenmäßigen Angebots an Milch – Was sagt die Wissenschaft zu Reaktionen der Landwirte auf Milchpreisänderungen?

 - 1.4 European Milk board / BDM Profil und Beurteilung

 - 1.5 Lactalis: Der Molkereikonzern– Unternehmensprofil, Historie und Zukunftsstrategie

 - 1.6 Mexico & Milch - Länderprofil und seine Perspektiven

2. Milchverarbeitung und Absatzmärkte

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- 2.1 Begleitmaßnahmen des Milchquotenausstiegs: Absenkung Superabgabe und Quotenerhöhung

 - 2.2 Begleitmaßnahmen des Milchquotenausstiegs: Ausgestaltung, Effekte und Bewertung von Maßnahmen der 2. Säule der Agrarpolitik (Investitionsförderung, Ausgleichszulage, etc.)

 - 2.3 Qualitätssicherung Milch (QM Milch): Bedeutung, Inhalt und weitere Entwicklung

 - 2.4 WTO Verhandlungen für Milchprodukte: Aktueller Stand und mögliche Auswirkungen

 - 2.5 Milchquotenbörse: Auswirkungen einer bundesweiten Übertragung

 - 2.6 Steigende Preisschwankungen bei Milch: Sind Warenterminmärkte für Milch eine Alternative für Milcherzeuger und Molkereien?

 - 2.7 Wettbewerbsfaktoren von Molkereien: Milcherfassungskosten im Vergleich.

 - 2.8 Schulmilch: Bisherige Umsetzung und Verbesserungsmöglichkeiten