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U.S. Department of Agriculture

February 21-22, 2008

Key Developments in the Global Dairy Market

Deborah Perkins



Key developments in the global dairy market

Deborah Perkins

22 February 2008

Rabobank International

Rabobank International

Rabobank – global analytical coverage of dairy



Rabobank

- Analyst with Primary Dairy Responsibility
- Analyst with Partial Dairy Responsibility



Contents

Section 1:	International Demand
Section 2:	International Supply
Section 3:	International Price Implications



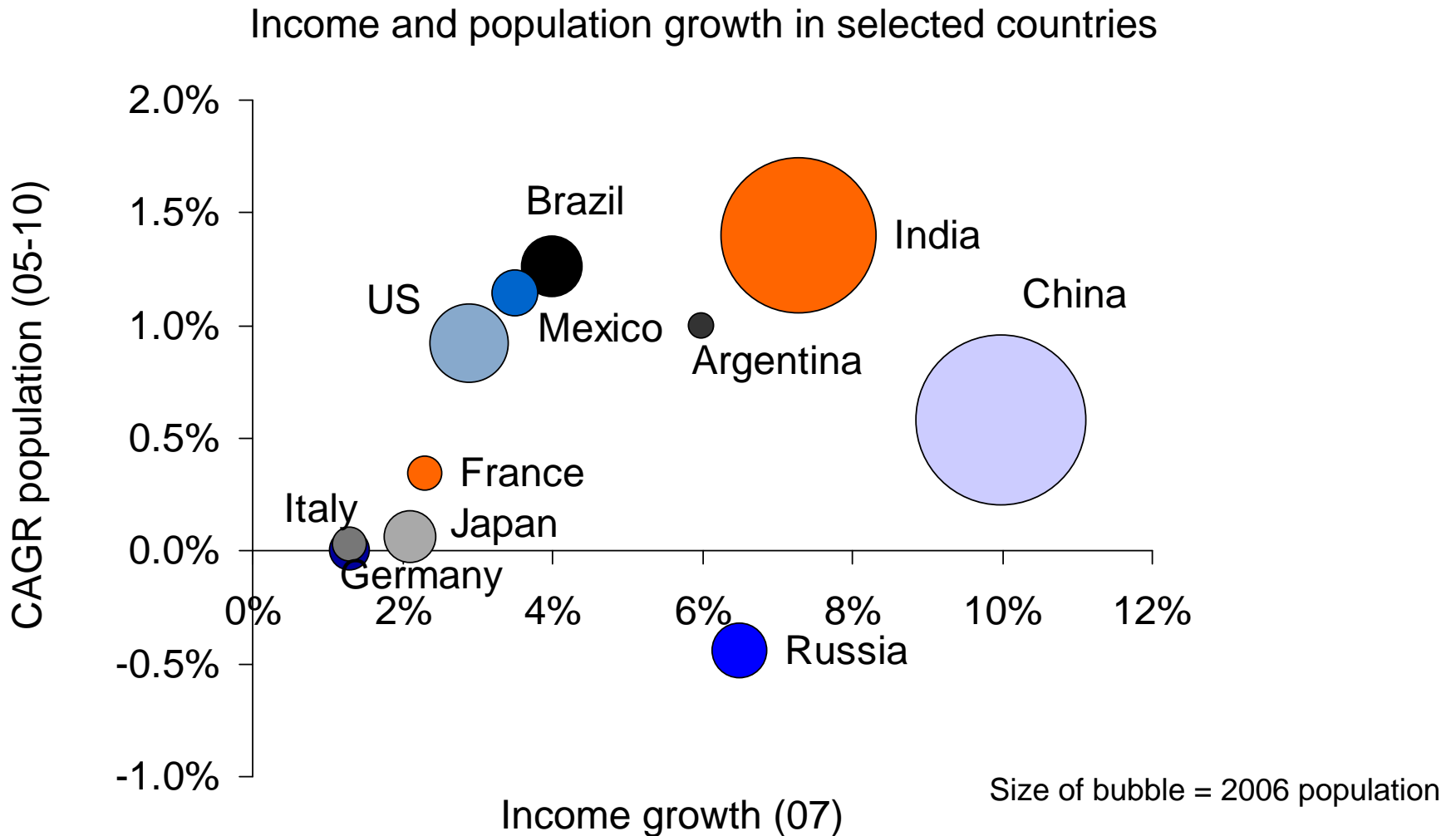
Section I

International Demand

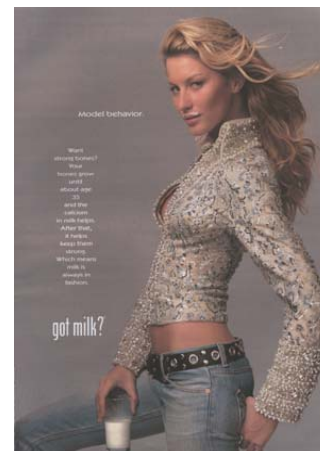
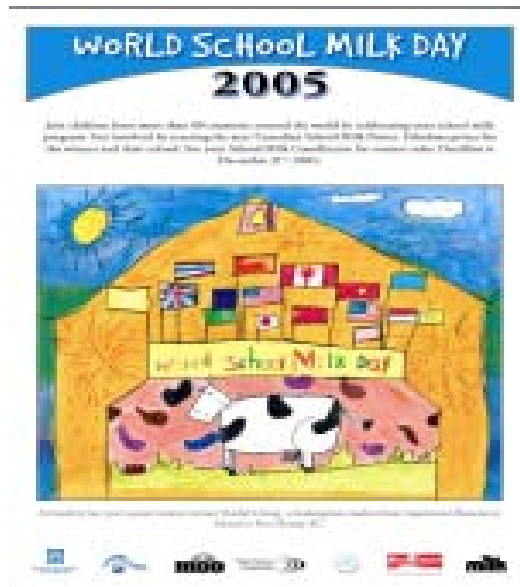
Continued income and population growth are likely to be key drivers of increased dairy consumption



Rabobank



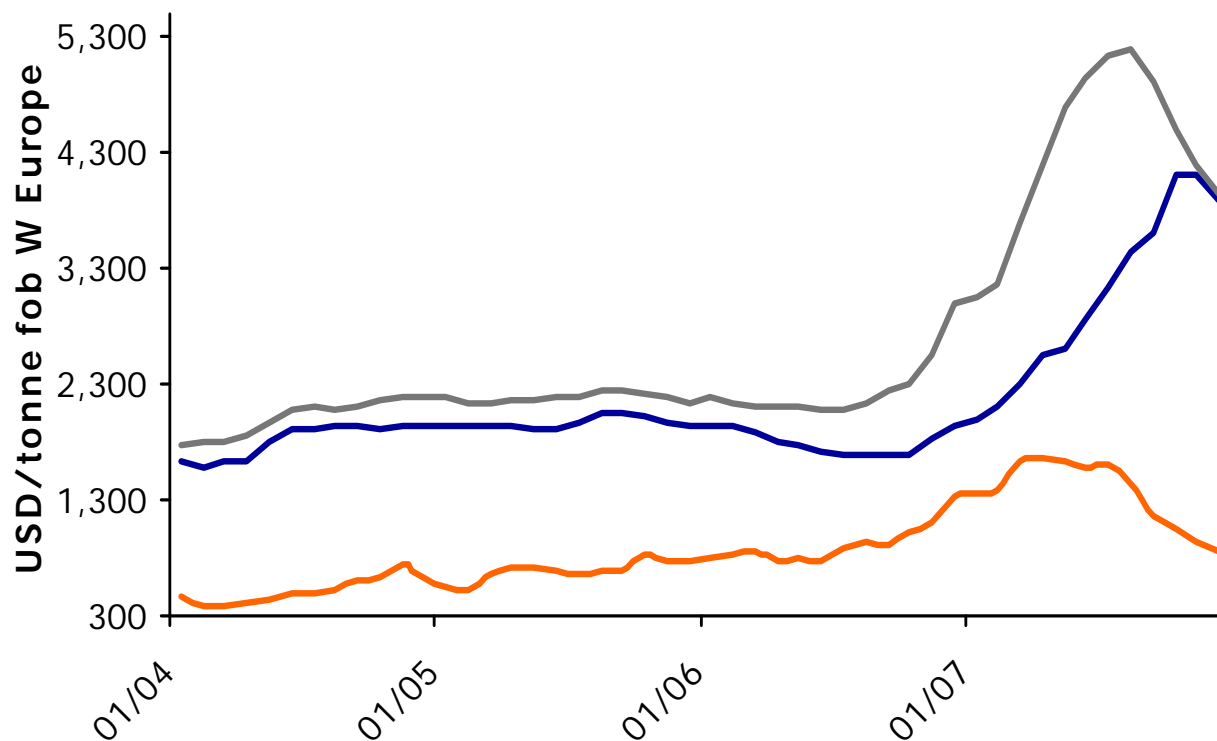
Global demand for dairy products has been growing at 2.6% since 2000



International dairy prices rose to unprecedented levels in 2007



Western Europe Commodity Prices



Source: ZMP, Rabobank

— Butter

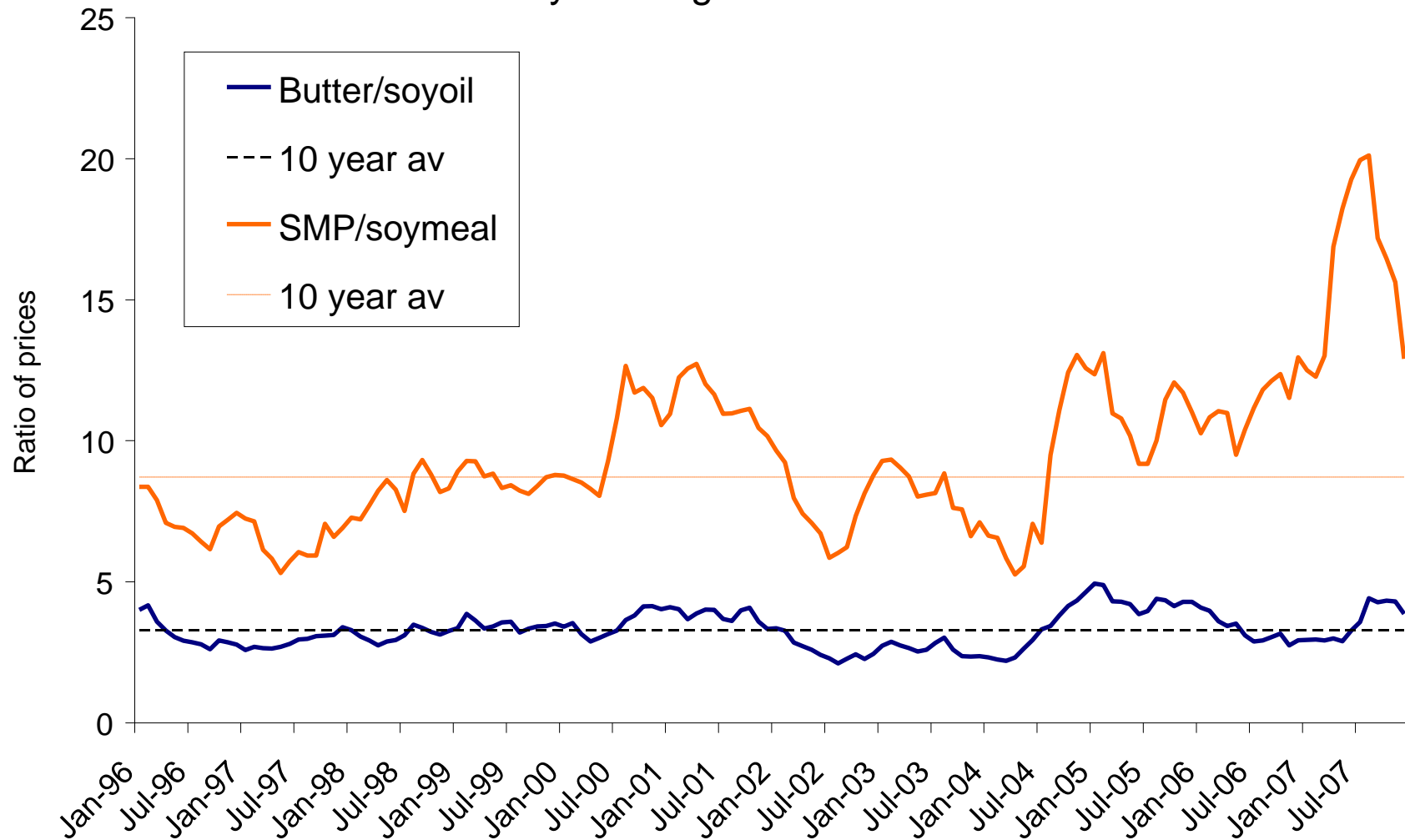
— SMP

— Whey

Competing ingredients are also expensive – limiting incentives to substitute



Dairy v.s Vegetable Substitutes



Governments in some import regions working hard to shield consumers from price rises

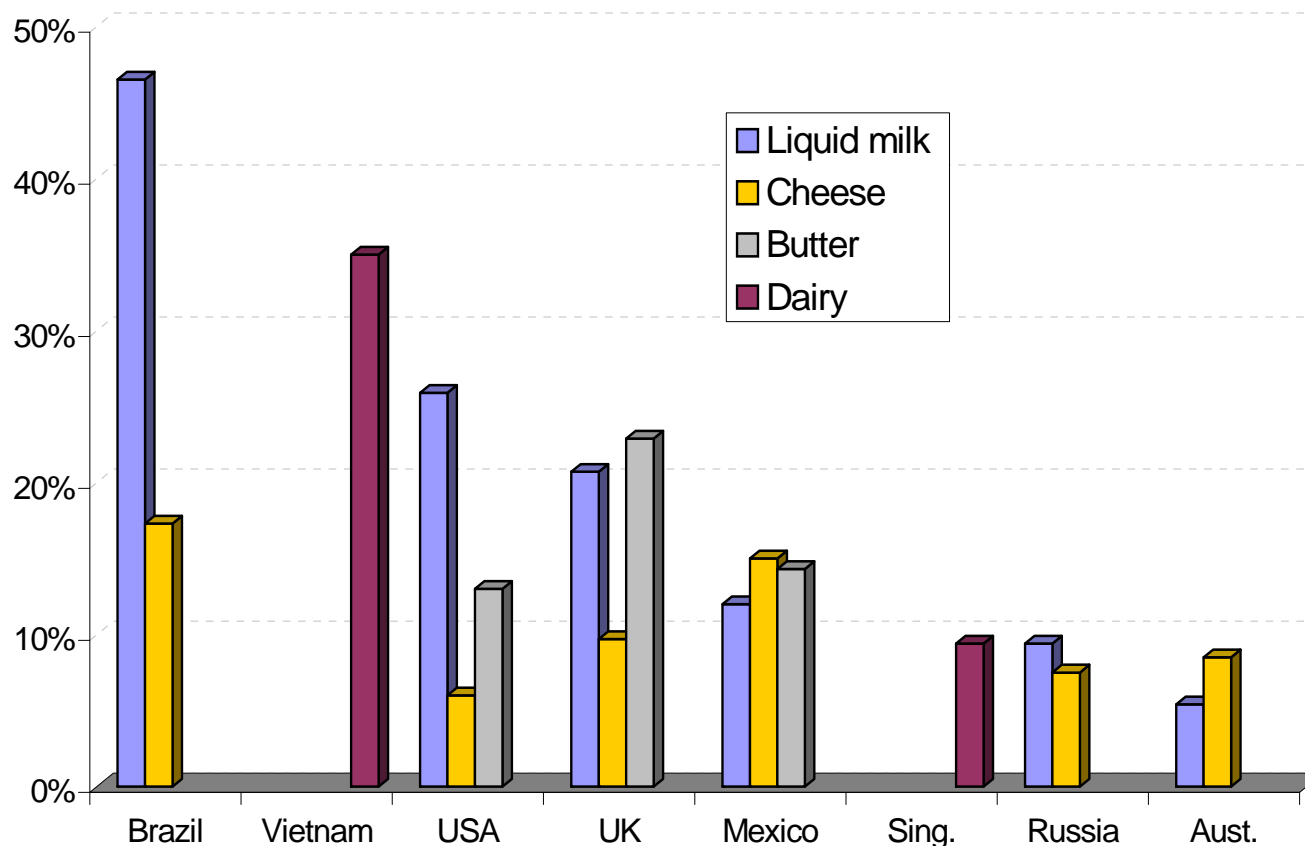


- Tariff barriers have been slashed (eg Russia, Vietnam)
- Prices have been frozen (eg Russia)
- Pace of price increases has been resisted (eg Malaysia, Thailand)
- And subsidies boosted to keep prices level (eg Algeria, Saudia Arabia)

But price increases are still being passed on to consumers



Retail Dairy Inflation
(Year to September 2007 unless otherwise noted)



Source: relevant national statistical agencies

Note: Brazilian data is change since Jan 2007, Vietnam is year to August

Can demand hold up?

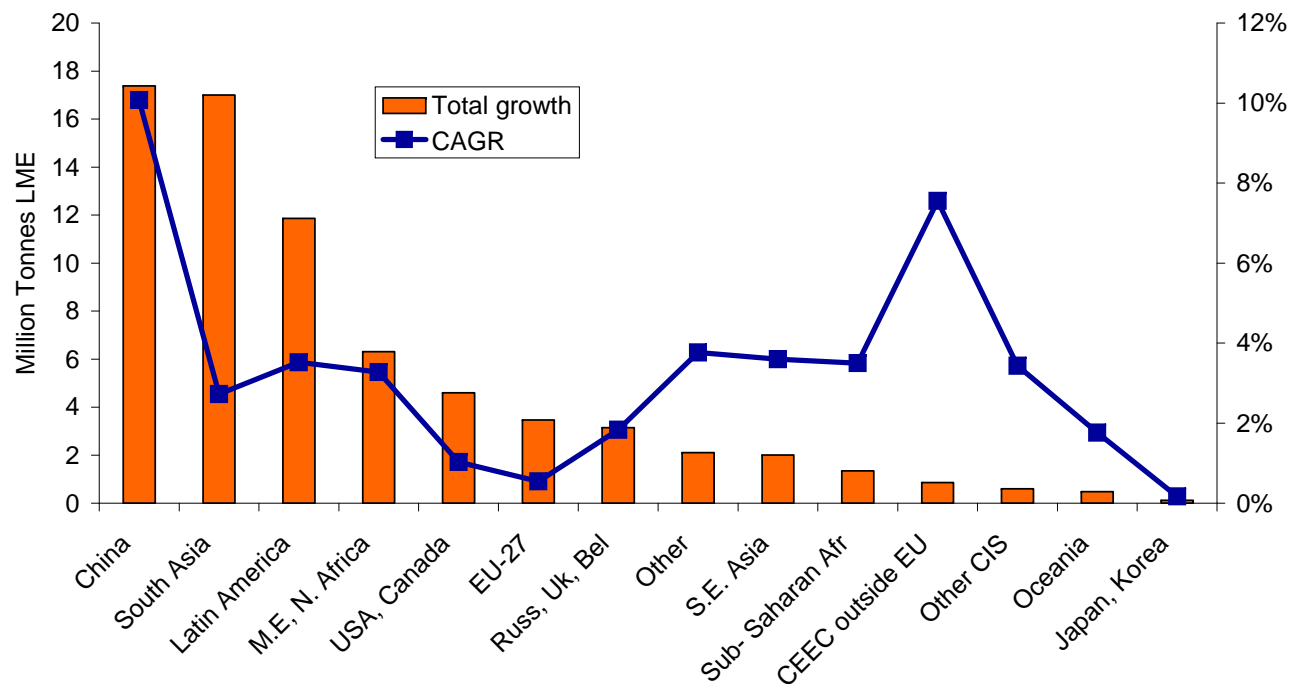


- There has been little impact in the short term
 - Prices take time to flow to end users
 - Short term substitutability is limited
- Medium term expected to bring a noticeable impact
 - Costs will be passed on
 - Buyers will investigate cheaper recipes
 - Investment committed to substitute development
- Impact greater where
 - Closer substitutes exist (incl animal feed)
 - In developing regions (eg South East Asia)
 - Where dairy is a higher share of cost of end product.

But price increases won't completely derail demand growth



Global Dairy Demand: Growth 2005-10



Source: Rabobank/ZMP

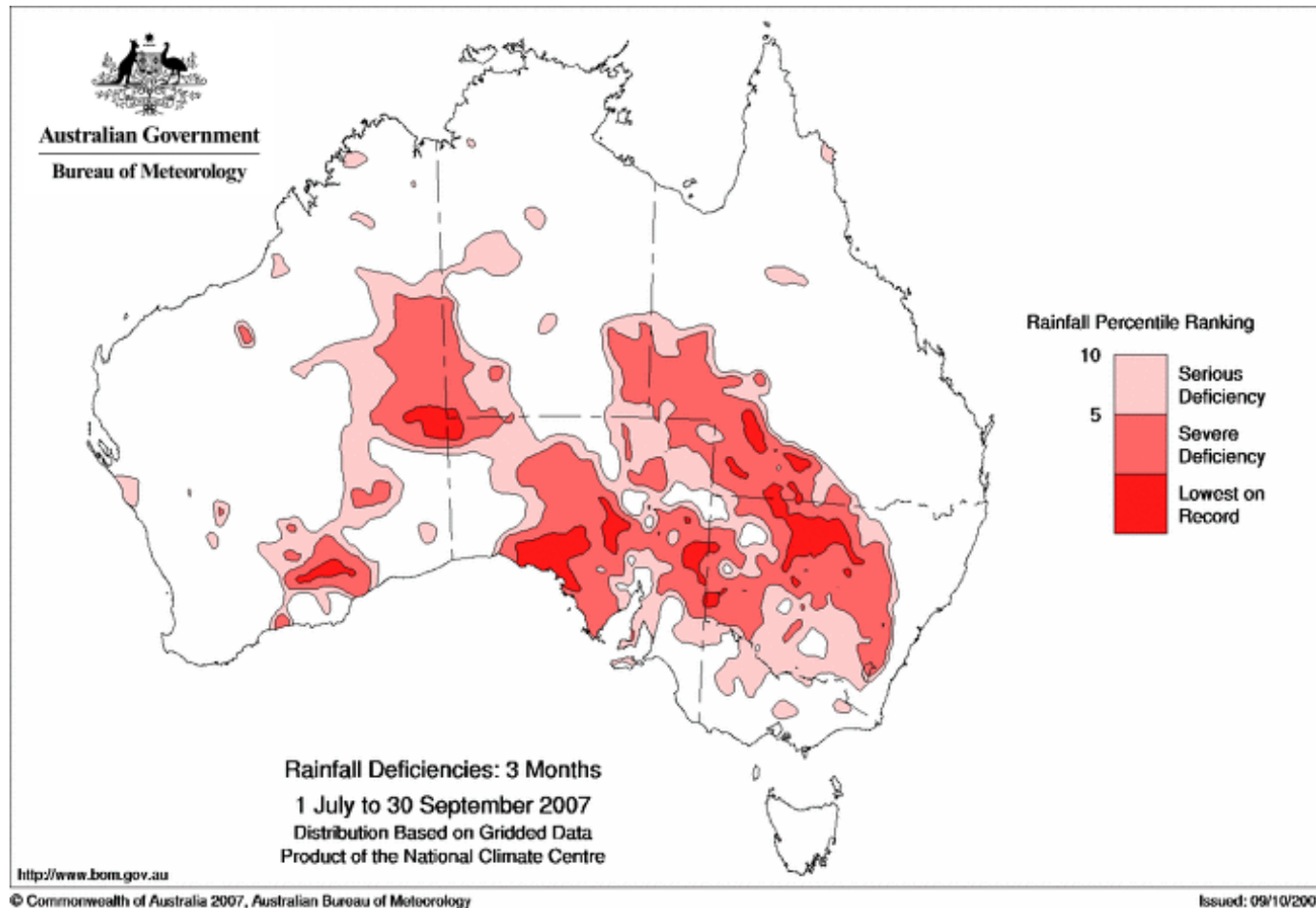
- Dairy still a staple food in many countries
- Not a large share of cost of many end products



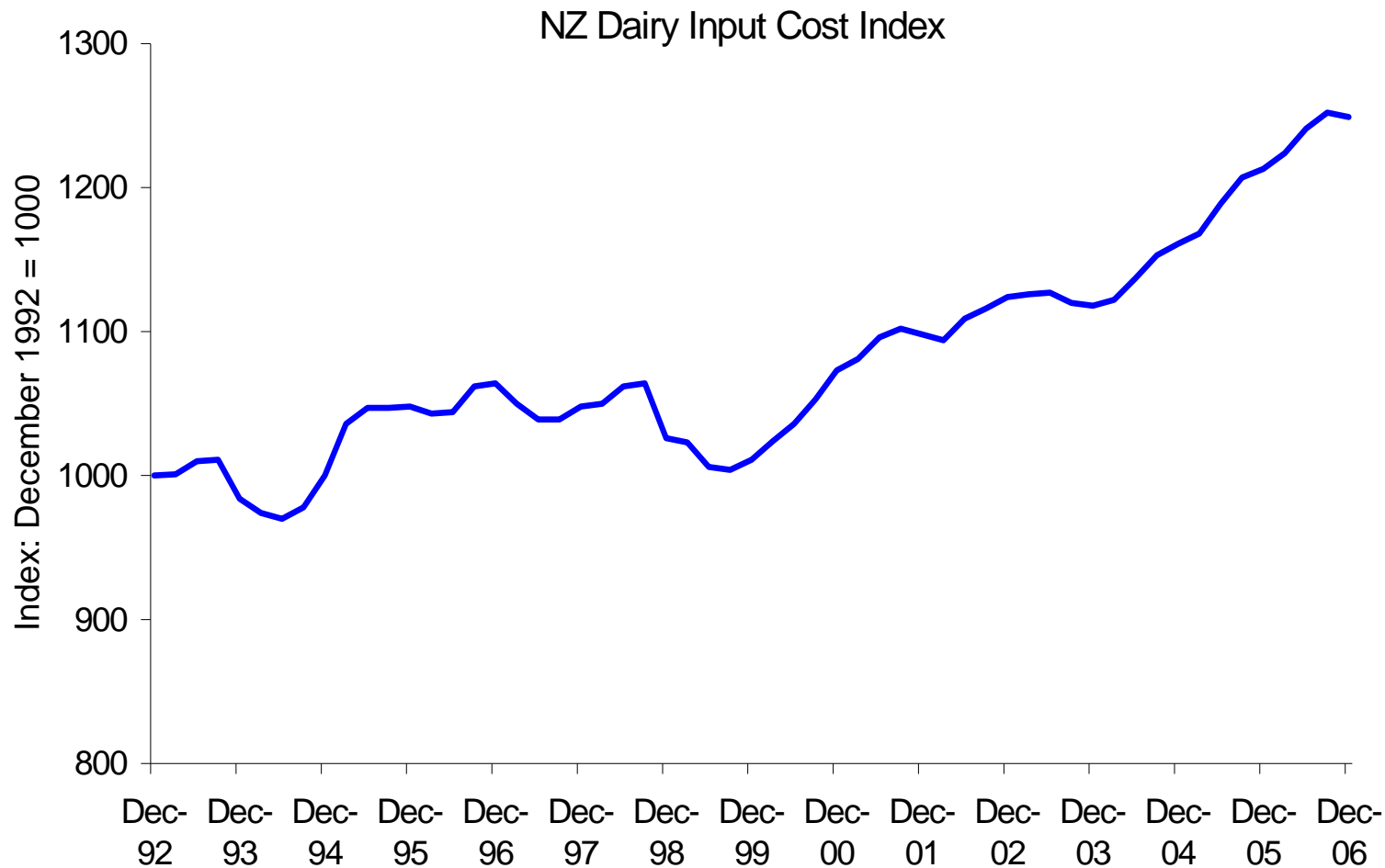
Section I I

International Supply

Australia's production is still being affected by 2007 drought



NZ production is expected to increase as current prices are compensating for the fact that costs of production have risen

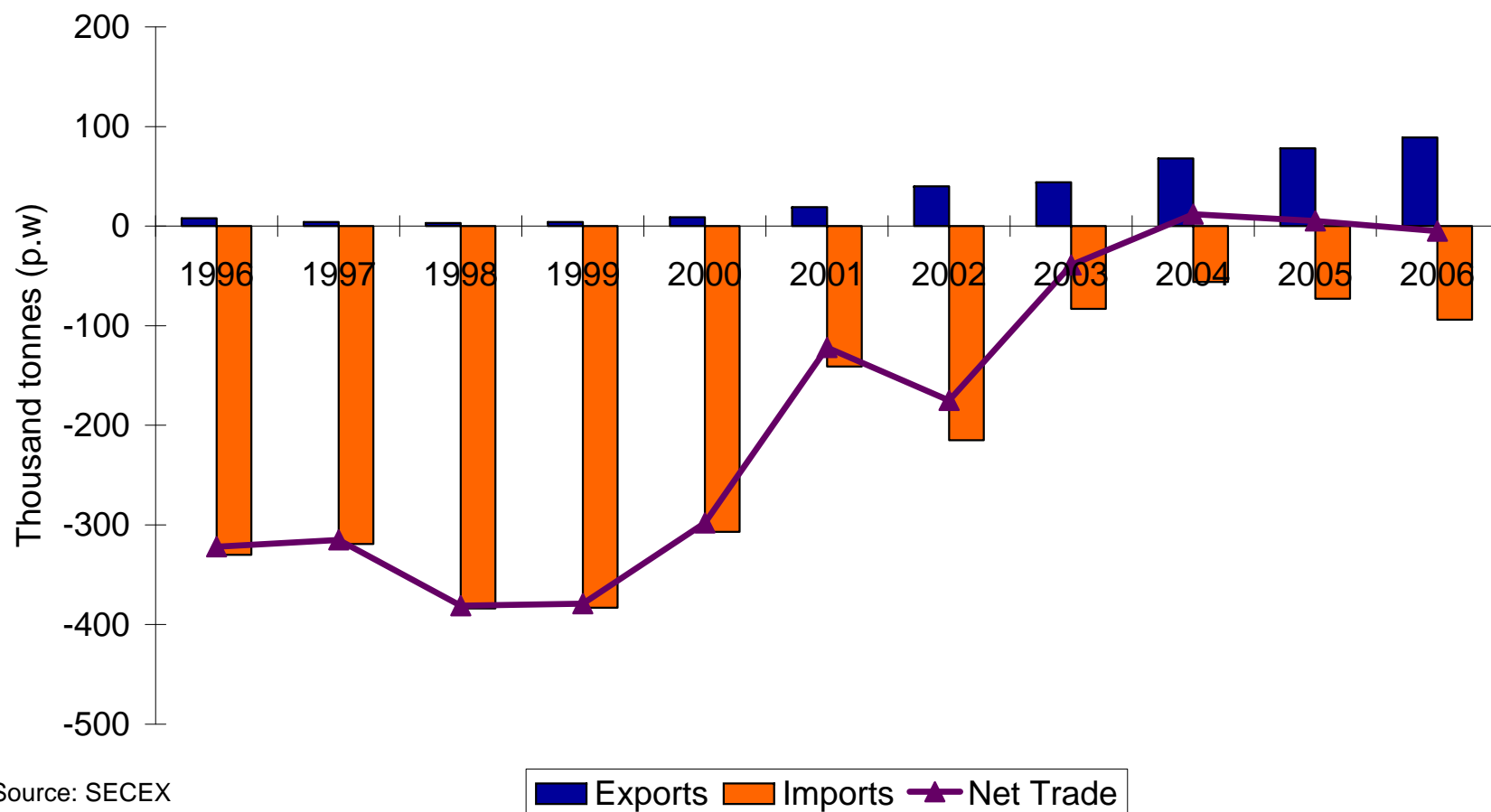


Source: Statistics NZ

Brazil's exports are increasing slowly but domestic demand is also rising



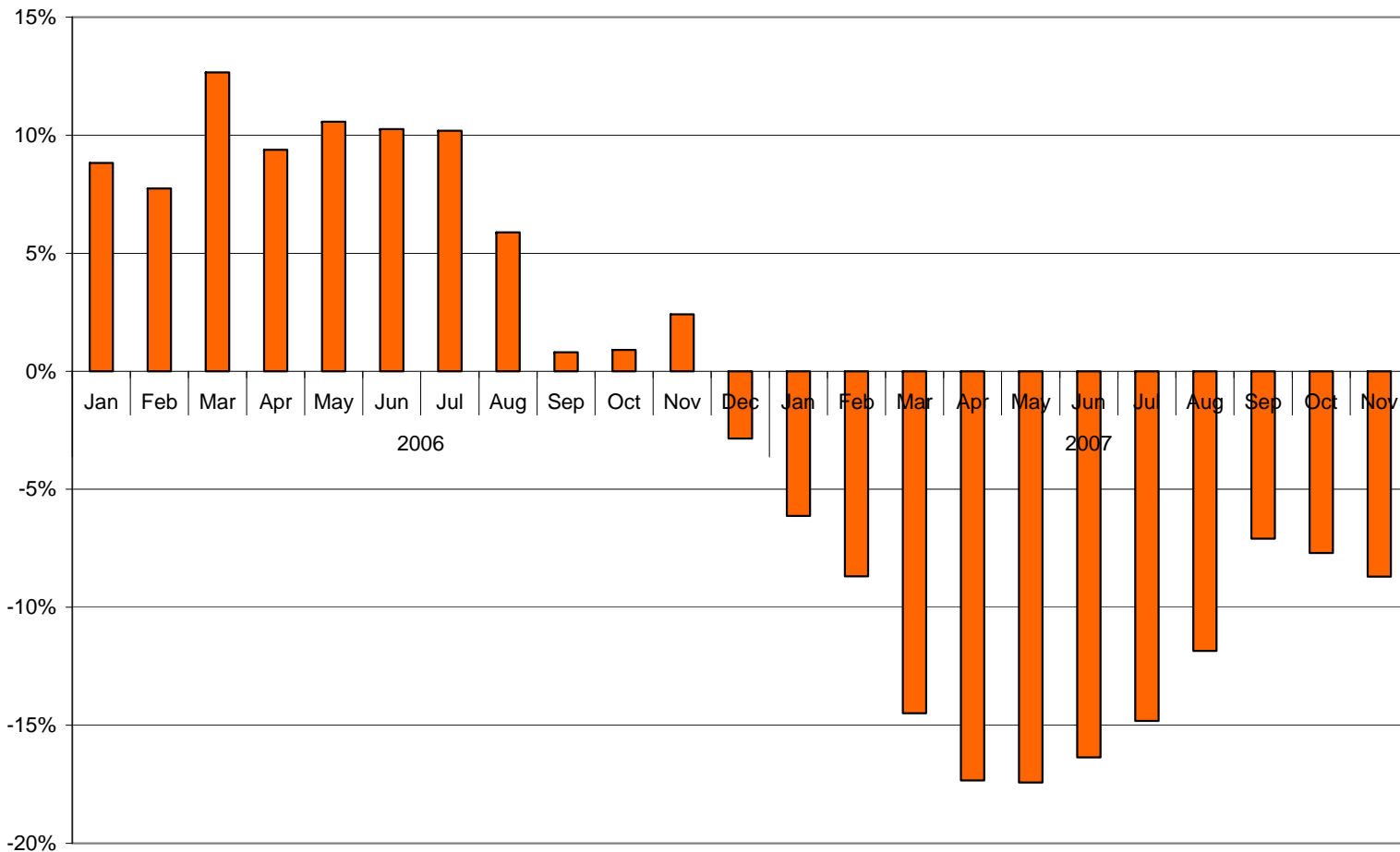
Brazilian Dairy Trade



Argentina is being affected by climatic conditions and government intervention



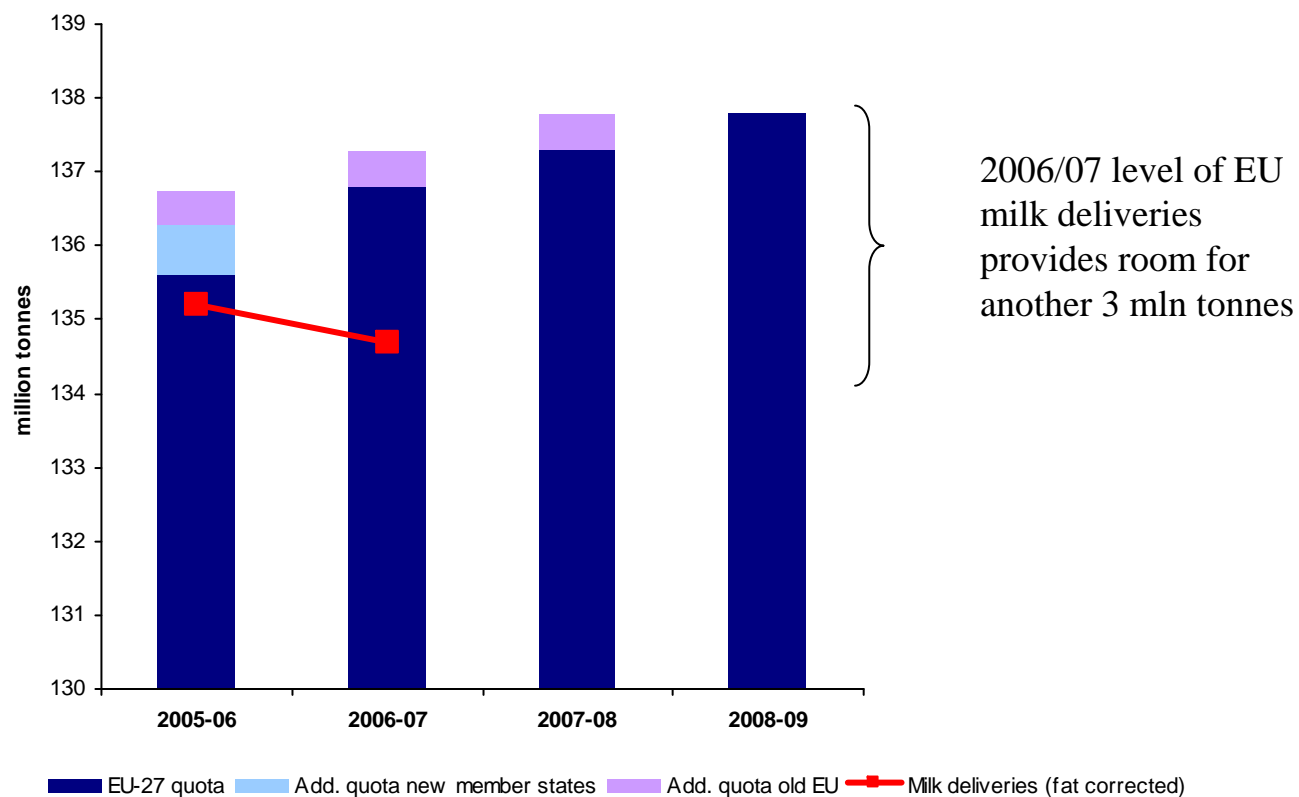
Growth in Argentinian dairy production year over year



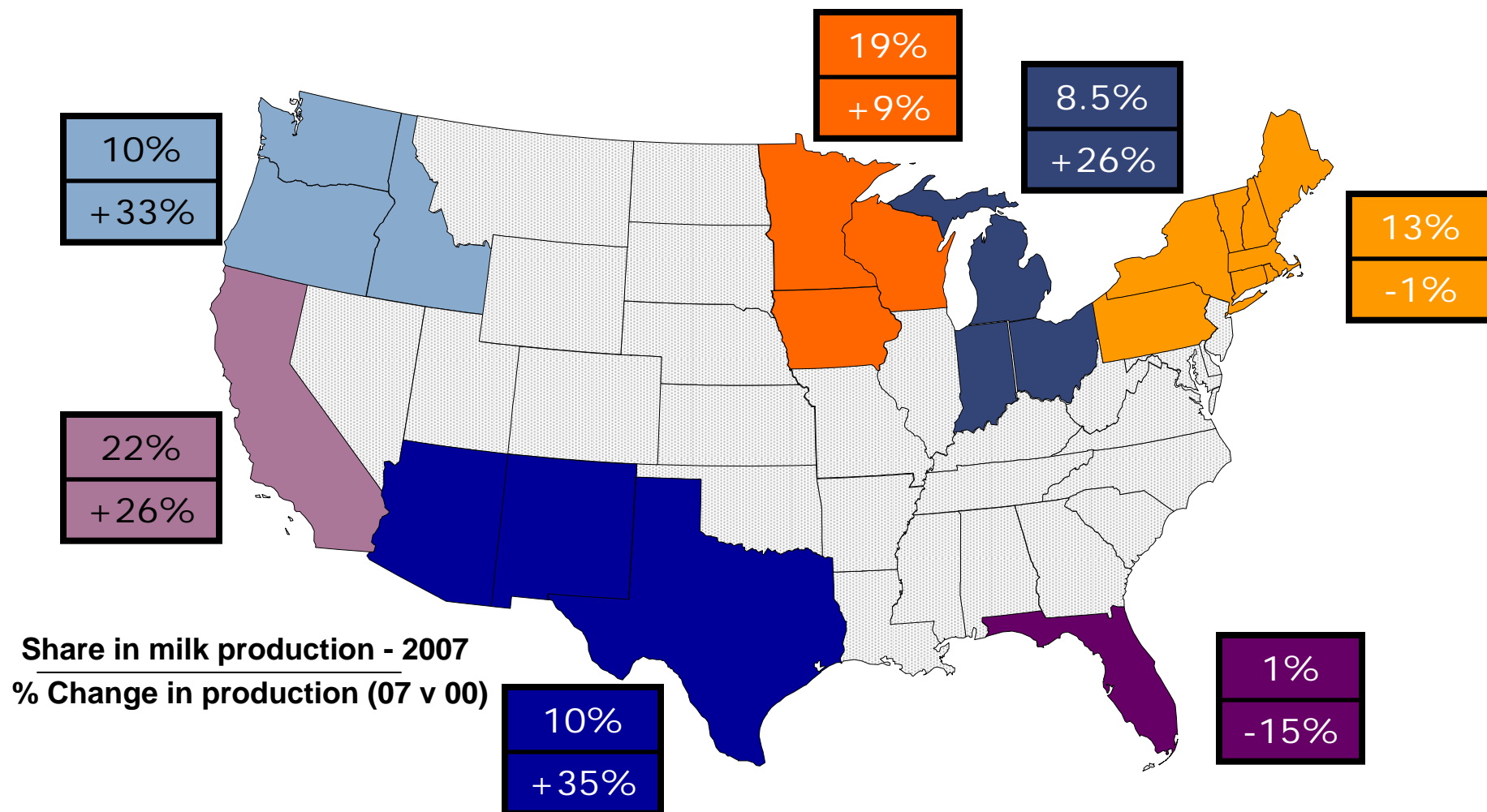
EU has some potential to increase production



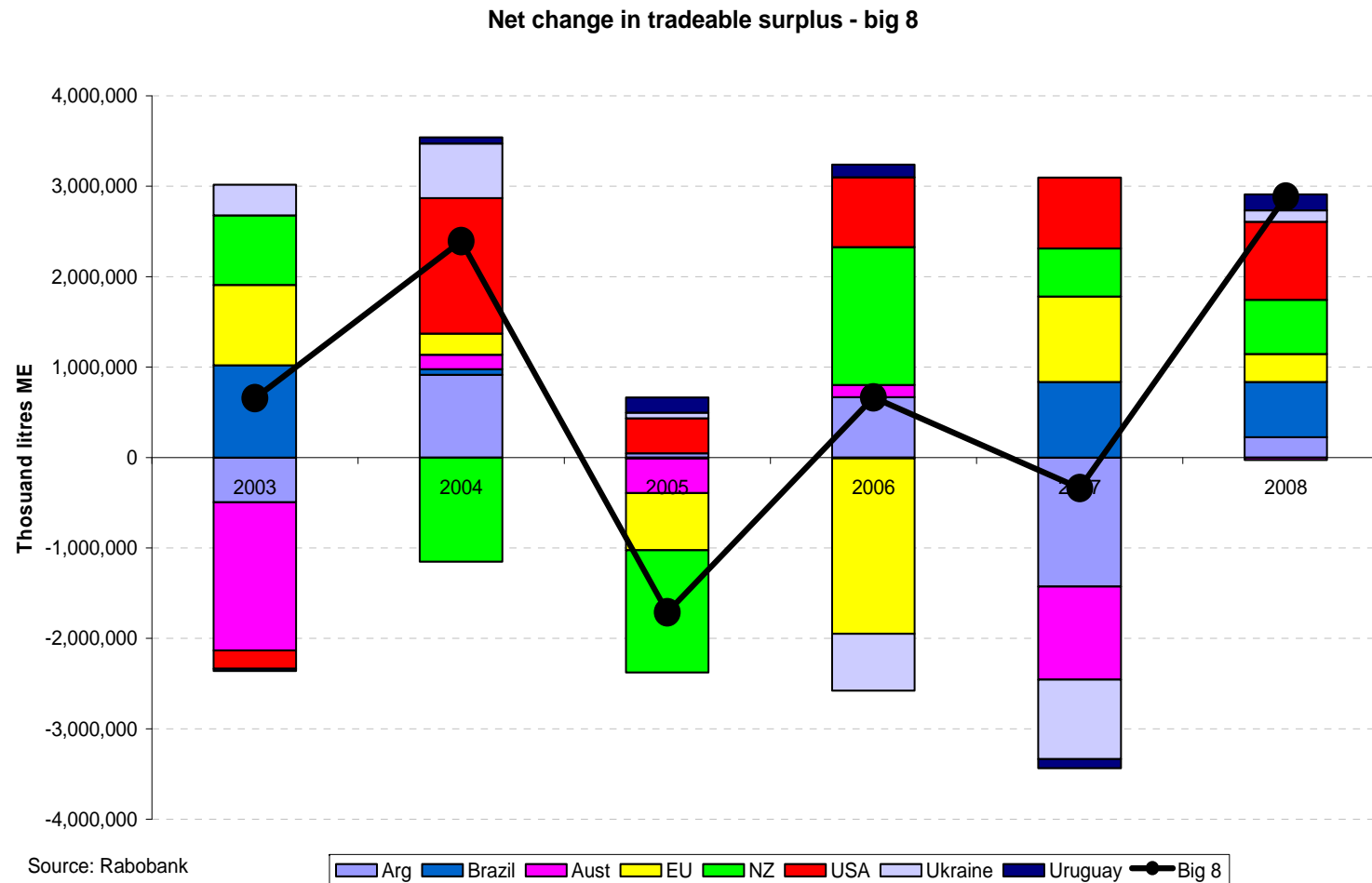
EU 27: production and production quotas



In the US dairy production is becoming more efficient as farmers become larger and relocate away from traditional production regions



Globally, exportable supply will pick up, but not enough to satisfy potential demand at traditional price levels





Section III

International Price Implications

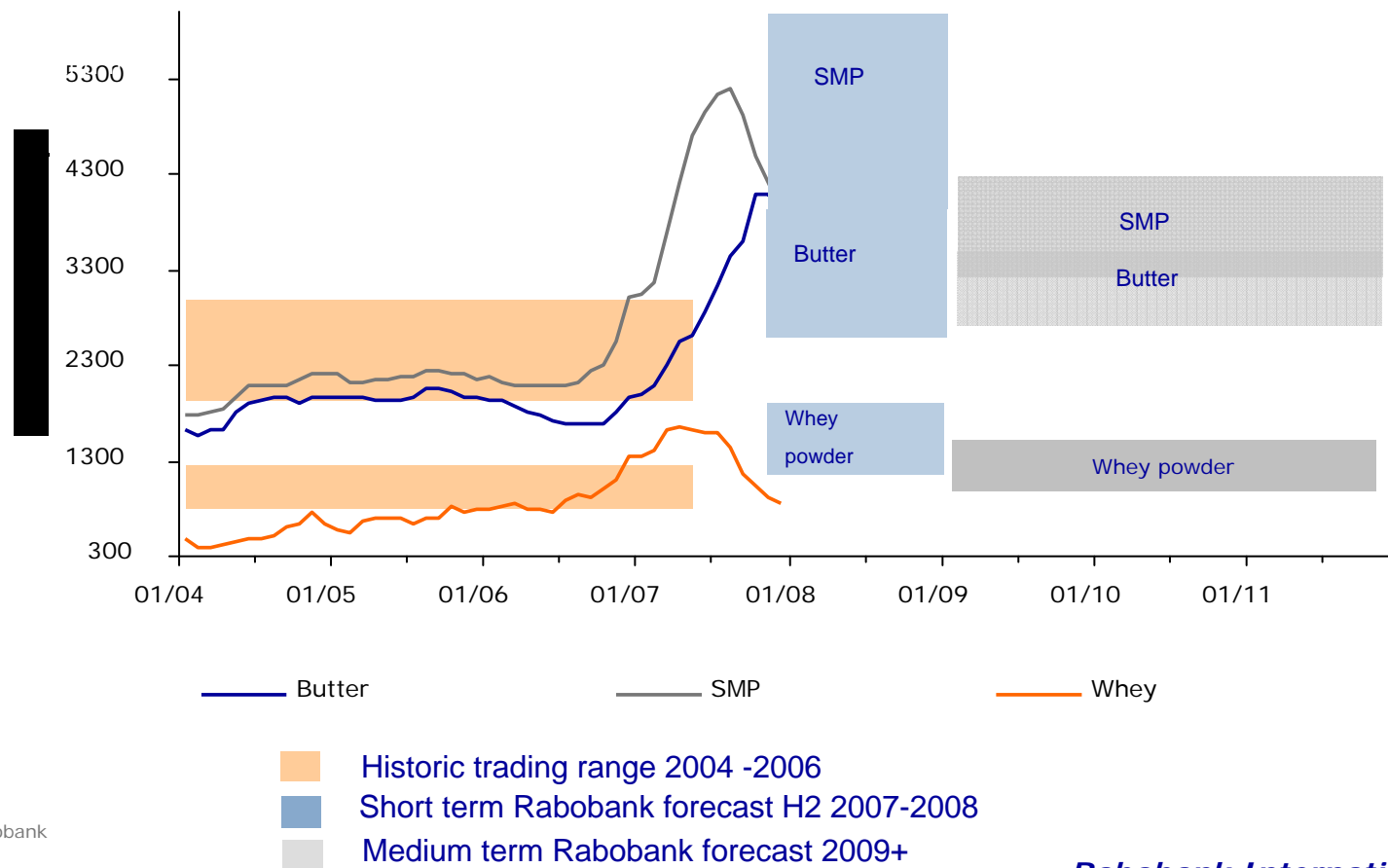
Price implications: levels

- Short term – a modest price fall
- Prices have already come off their peaks
- But limited adjustment expected prior to mid 2008
- Medium term - prices expected to moderate further
- Some demand will be choked off
- Record farmgate prices to encourage Northern Hemisphere supply
- Argentina (and other Latin Americans) will return to growth

But international prices expected to trade significantly above 10 year average in 2008



Western European price forecasts



Source: ZMP, Rabobank

Price implications: risk



The market is thin – so changes can happen fast

Things that would see prices fall faster than currently anticipated:

- A global economic slowdown
- Overshooting in the US market
- Faster than anticipated response from the EU

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the global food
chain"™