Key Developments in the Global Dairy Market

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Rabobank – global analytical coverage of dairy

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## Contents

<table>
<thead>
<tr>
<th>Section 1:</th>
<th>International Demand</th>
</tr>
</thead>
<tbody>
<tr>
<td>Section 2:</td>
<td>International Supply</td>
</tr>
<tr>
<td>Section 3:</td>
<td>International Price Implications</td>
</tr>
</tbody>
</table>
Section I

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

Source: UN, IMF, 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

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Competing ingredients are also expensive – limiting incentives to substitute

Dairy v.s Vegetable Substitutes

- Butter/soyoil
- SMP/soymeal
- 10 year av

Source: CBOT, USDA, Rabobank calculations
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

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

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.

NZ Dairy Input Cost Index

Index: December 1992 = 1000

Source: Statistics NZ
Brazil’s exports are increasing slowly but domestic demand is also rising

Brazilian Dairy Trade

Source: SECEX
Argentina is being affected by climatic conditions and government intervention

Growth in Argentinian dairy production year over year

Source: Alimentos Argentinos
EU has some potential to increase production

2006/07 level of EU milk deliveries provides room for another 3 mln tonnes
In the US dairy production is becoming more efficient as farmers become larger and relocate away from traditional production regions.

Source: Rabobank analysis based on USDA-NASS
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

Historic trading range 2004-2006
Short term Rabobank forecast H2 2007-2008
Medium term Rabobank forecast 2009+
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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