Milk Production

Recent milk production has shown mixed trends in the EU, with some countries curtailing production to reduce the prospect of superlevy in the last year of the quota regime, or as the result of price signals, particularly as communicated through A&B milk pricing systems.

Milk production trends in all other countries with significant exposure to the world market (USA, NZ and Australia) remain strongly positive.

The largest percentage declines in Europe were -2.7% in France, -2.0% in Denmark and -1.7% in Germany. Increases were recorded in Italy (+3.2%), UK (+0.6%), Australia (+4.0%), New Zealand (+2.9%) and USA (+2.4%).

No country reported unfavourable weather conditions although the forecast for the 2015 monsoon of 93% of the long period average may have an impact on Indian output.

Farm Gate Prices

Farm gate price trends in all major exporting countries were strongly negative with price falls in Europe ranging from -10.3% for Poland to -29.0% for Denmark. In the USA the figure was -22.2% and -5.9% in Australia.

In the USA the Federal Order Class prices indicate that the steep slide experienced in the last quarter of 2014 and early part of 2015 may have come to an end.

For the first time in many years industrial milk prices in Canada were cut by -1.8%, but this was as a result of a fall in cost of production indexes.

Wholesale and Retail Milk Prices

Wholesale prices recovered briefly in the early part of the year due to concerns over a possible drought in New Zealand but fell back again to reflect over supply caused by expanding milk production and demand reduction caused by the Russian embargo and weak Chinese buying.

The weakness of the Euro partially offset the impact of falling world prices for some EU countries and Poland reported that their market was showing good resilience in the face of the Russian ban. The strength of the US dollar may impact on the competitiveness of US exports.

Retail price inflation for all food remains weak in the European Union for most countries, ranging from only +0.2% to -0.4%, with the exception of the UK which recorded +2.0%. Weak prices extended to dairy products with declines in retail prices for dairy reported by the majority of EU countries with the
exception of Germany were internal consumption was increasing due to a booming economy and population increase.

The decline in liquid consumption in Japan is regarded as a permanent structural feature of the market.

**Industry Restructuring**

The restructuring of the dairy industry continues, with considerable mergers and acquisitions across the EU and Oceania.

The consolidation of amongst French retailers into three large buying groups is creating pressure on prices in France.

**Policy developments**

Both the EU and the USA have entered into new dairy policy environments.

The Margin Protection Programme created by the new Farm Bill has come into force in the USA. The programme enables farmers to insure various levels of margin for their milk up to $8 per 100 lbs. The impact of the programme on farmers’ responsiveness to price signals remains to be determined.

After 30 years the EU milk quota regime came to an end on the 31st March 2015. In future milk volumes will be principally managed by price signals. In response the financial exchange NYSE Euronext has now joined Eurex in offering futures contracts for EU dairy products.

Bilateral and regional trade agreements are being energetically pursued by Australia and New Zealand. Legislation for Trade Promotion Authority, which requires the US Congress to consider FTAs such as TTIP under a specified timeline and without amendment, was introduced in April 2015. If passed the authority would last beyond the lifetime of the existing US administration.

**Summary**

The world market remains in a situation of oversupply with uncertainty over the short term development of milk production occasioned by the abolition of the EU quota regime and the impact this will have on milk production capacity in the EU over the peak production period and later in the year. In New Zealand lower prices were expected to continue into the start of the 2015/2016 season. In Australia farm gate prices for the 2015/16 are expected to be formulated conservatively. In the USA, whilst prices and volumes were expected to rebound in the second half of the year, (with domestic disappearance generally growing fast than production as consumers switch to higher milk fat products), the extent of the recovery was uncertain.