

## Milk production growth slows down towards 2.7%

Based on a survey and estimates for 59 countries milk production grew at 3.1% (Leap Year adjusted) in the first 7 months in 2012. As it can be seen on the world map below, the biggest growth rates were achieved in Oceania, South America, parts of Eastern Europe, Turkey, and Indonesia. A strong decline was observed in Italy, Iran, and Kazakhstan.

In the first 7 months, milk production growth rates declined from a peak level of +3.7% towards now +2.7%. This declining trend in growth rates was driven by the EU-15 countries, USA, Oceania and also the CIS countries. It seems, that lower milk prices and higher feed prices, and as a result, shrinking farmers' margins are the key drivers for this development.

## World milk prices settle at 35 US-\$/100 kg milk

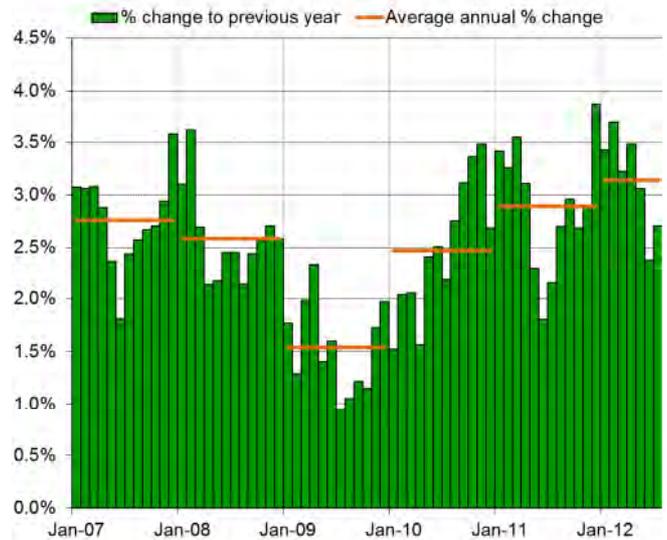
Since May 2012, world market prices have stabilised on a level of 35 US-\$ per 100 kg milk. It seems that either a strong demand, strategic stock-holding or a seasonal decline of milk volumes in June – July 2012 may have helped to reach this result. It is interesting to know, that milk production in the countries covered in this analysis was in July 4.1 mill t less 2012 than in May 2012.

## World feed prices reach new record highs

The world feed price (IFCN Feed Price Indicator, see page 2) continued growth and reached a level of 40 US-\$/100 kg feed in July 2012. This means that the price for feed is 15% higher than the price for milk. Latest price figures and futures indicate a feed price increase to a level above 40 US-\$/100kg, as a result of the drought in the USA. Due to the weak Euro, feed price in the Eurozone reached a level which is 50% higher than the peak price seen in 2008.

The IFCN profit indicator (bottom right next page) illustrates how much pressure this relation of milk and feed prices puts on farmers. Landless and high input farming systems are affected most, but also margins in moderate intensive systems like in the EU reach critical levels, especially once existing feed contracts run out.

## Changes in global milk volumes January 2007 – July 2012



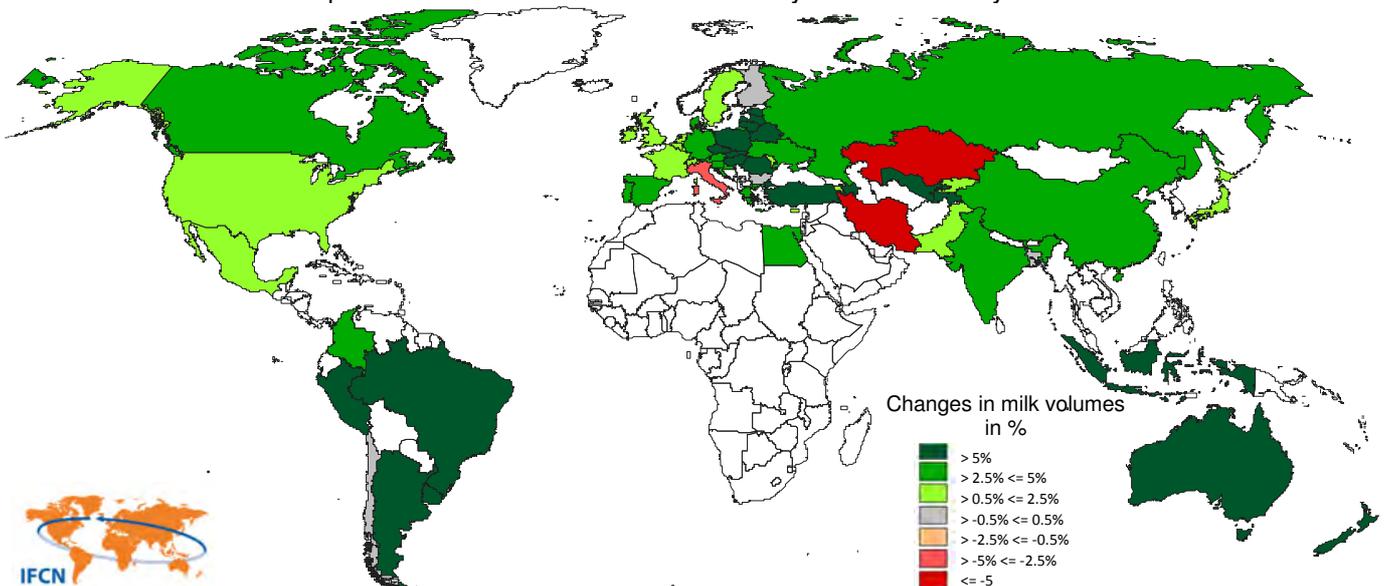
## Perspectives

The devastating drought 2012 in the USA has shifted the feed prices from a level of 32 US-\$ per 100 kg to a level of above 40 US-\$, an increase of more than 25%. Once feed price remains at that level, cost of milk production will increase on average by 3-5 US-\$ per kg milk. The feed price increase and the milk price decrease has reduced dairy farmers margins by 10 – 15 US-\$ per 100 kg milk since January 2012. It can be expected that, with a certain time lag, milk supply growth will decline below the demand growth.

This milk supply trend combined with a strong milk demand can bring the dairy market back in a zig-zag scenario, with milk prices fluctuating +/- 10% around a long-term level. The IFCN, based on its farm comparison analysis, is currently estimating this long-term milk price level. Results will be available in IFCN Dairy Report 2012 and will be presented 17-19 September 2012 at IFCN Supporter Conference, in Cork, Ireland.

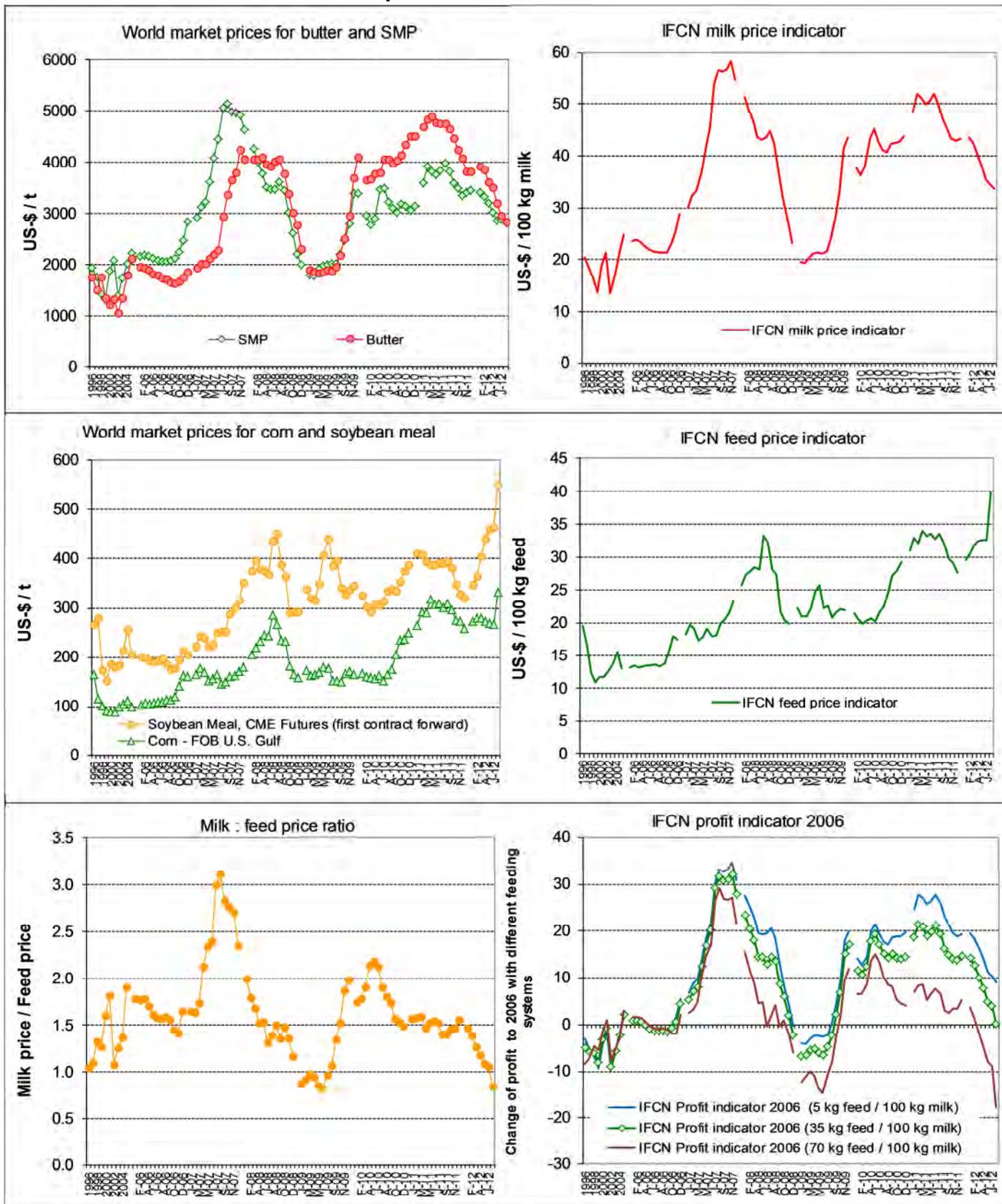
## Changes in regional milk volumes in %, January - July 2012 vs. January - July 2011

Milk produced or delivered in countries analysed. See country list below.



59 countries analysed (p = milk production, d = milk delivery): EU-27: (d), CIS: Armenia (p), Azerbaijan (p), Belarus (p), Kazakhstan (p), Kyrgyzstan (p), Moldova(p), Russia (p), Tajikistan (p), Ukraine (p), Uzbekistan (p), USA & Canada: Canada (d), USA (p), Latin America: Argentina (p), Brazil (d), Chile (d), Colombia (d), Mexico (p), Peru (d), Uruguay (d), Oceania: Australia (p), New Zealand (p), Asia: Bangladesh (p), China (p), India (p), Indonesia (d), Japan (p), Pakistan (p), Africa: Egypt (d). Other: Croatia (d), Switzerland (d), Turkey (d), Iran (p). Countries included represent 92% of world milk production. June-July 2012 data is preliminary or estimated. Figures shown on the chart and the map are adjusted for Leap Year effects (29 days in February 2008 and February 2012).

## World prices and indicators in US-\$



IFCN milk price indicator: Calculation based on world price for butter and SMP (Oceania) and processing costs (butter 311 €/t, SMP 290 €/t)

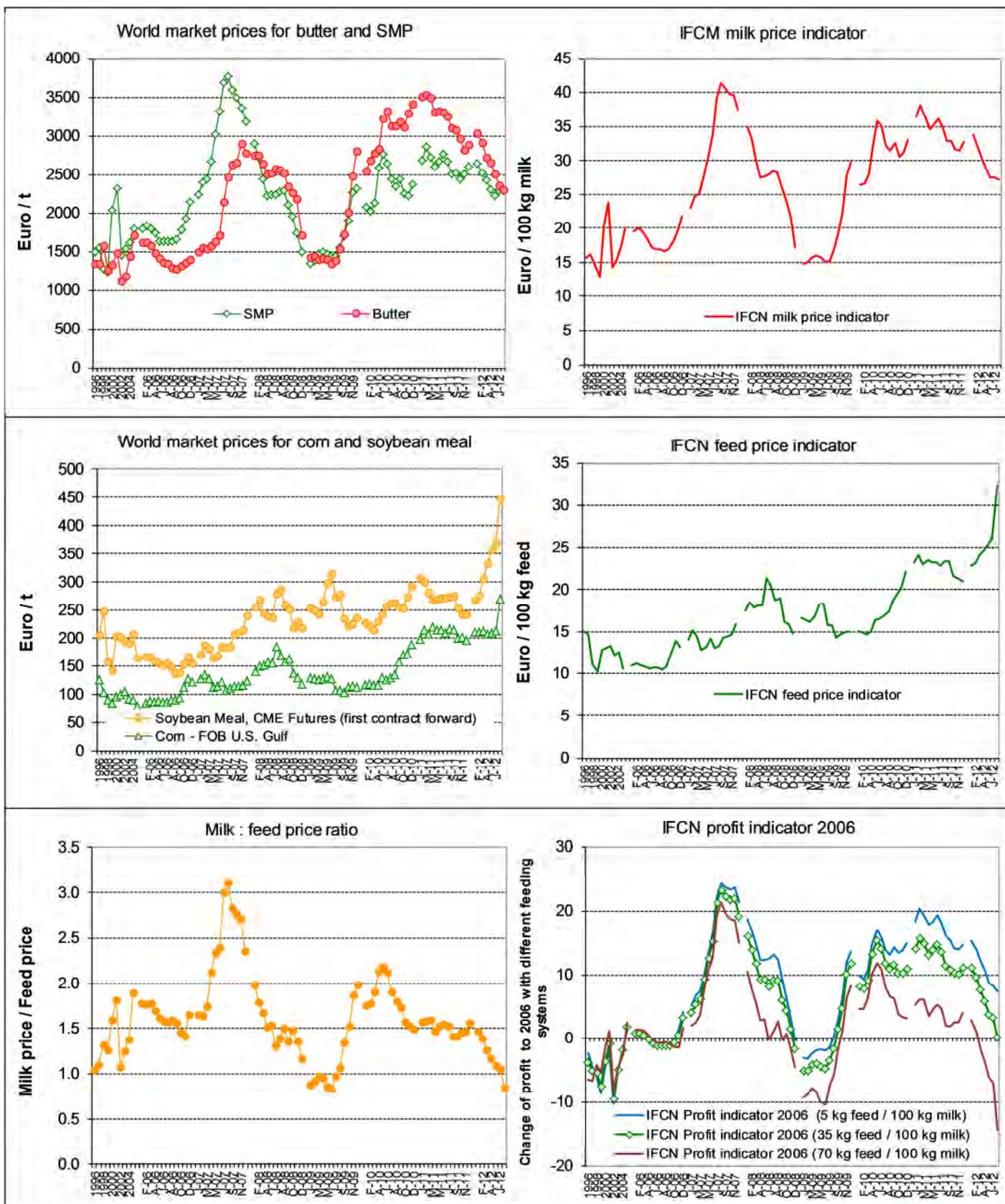
IFCN feed price indicator: Calculation based on feed concentrate with 70% corn and 30% soybean meal.

IFCN Profit indicator 2006: milk price change - (feed price change \* feed ration in kg feed per kg milk).

Annual figures 1996-2005. Monthly figures since January 2006 to July 2012.

Source: IFCN Dairy Report 2011, FAO, Oanda, IMF, USDA, IFCN estimates and calculations. July 2012 preliminary.

## World prices and indicators in Euro



IFCN milk price indicator: Calculation based on world price for butter and SMP (Oceania) and processing costs (butter 311 €/t, SMP 290 €/t)

IFCN feed price indicator: Calculation based on feed concentrate with 70% corn and 30% soybean meal.

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