European Milk Market - The current landscape and future outlook

The fall of milk prices in Europe and the removal of milk quotas has caused the dairy industry to reconsider production methods, best practice and cost of production. Producers in the European Union (EU) produced six billion liters more milk in 2015 than 2014. Increased milk production has caused a change in prices, but other contributing factors have had a major impact on dairy demand, which, in turn, has also affected milk prices.

Russia’s decision to close its borders to the EU has left a void in the market for over two billion liters of milk, and at the same time, China reduced its milk imports by 55%. Also, the US dollar rose, making imports more expensive, and the well-known 3-4 year price cycle was coming to its end. These factors have reduced milk production in some European countries, notably UK, France, Belgium and Spain. In other countries, such as Germany and the Netherlands, production is still increasing. In the EU, there is only a minor correlation between feed cost and milk price as the milk price paid to farmers is correlated to commodity prices and not to the actual costs.

The EU has had the least volatile prices of any major dairy region, at 9% since 2006, this compares with the US and China at about 14-15%, and New Zealand, which unsurprisingly, has the highest volatility of 21%. The EU has had no real price gains in the past decade. In 2015, EU prices were still slightly above the lowest price during the 2009 crisis, but over the course of 2016 the price drop has continued. It appears that the lowest milk prices have been reached and have started to turn for the better, although many prices are still at or below the cost of production.

PRICE VOLATILITY IS HERE TO STAY AND WILL INCREASE IN EU POST MILK QUOTA

The potential for milk demand growth will remain strong in all developing countries for the foreseeable future, but milk production and market access will always be volatile with a cyclical price cycle.

In this landscape, economic gains for dairy producers can only be the results of higher efficiency and better mechanization. This will require an improvement in feeding and feeding technology, greater mechanization and in future improvements in genetics. This will result in an increased trend towards reducing numbers of dairy farmers with larger, more efficient units. Efficiency is a key driver for the future of milk production. EU dairy has tremendous potential for the medium and long-term future, but it is often badly armed to survive the dramatic price falls that characterize the market.

With fluctuating prices being a permanent factor in the market, it is becoming more important for producers to maximize profits when prices are high, and minimize loss when prices are low. The key is to ensure that efficiency is optimized to make sure that milk is produced at the lowest unit cost and efficiency is maximized. It is important to think about new tools and feed additives that can increase the efficiency of feed utilization and milk, and ensure more milk for the same feed or the same milk for less feed. Using feed additives, such as RONOZYME® RumiStar™ from DSM, can help farmers achieve increased milk efficiency.