

Milk Price Crystal Ball 2019

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Milk prices for 2019 are looking very much the same as 2018 with no major improvement in milk prices on the horizon. The European milk flush is fast approaching giving a potential for a dip in milk prices taking into account a number of factors. The dairy hunting cycle indicates that 2019 should see an upswing in milk prices. See 2018 article [here](#) with hunting cycle graph.

Has sufficient changed to stabilise prices?.

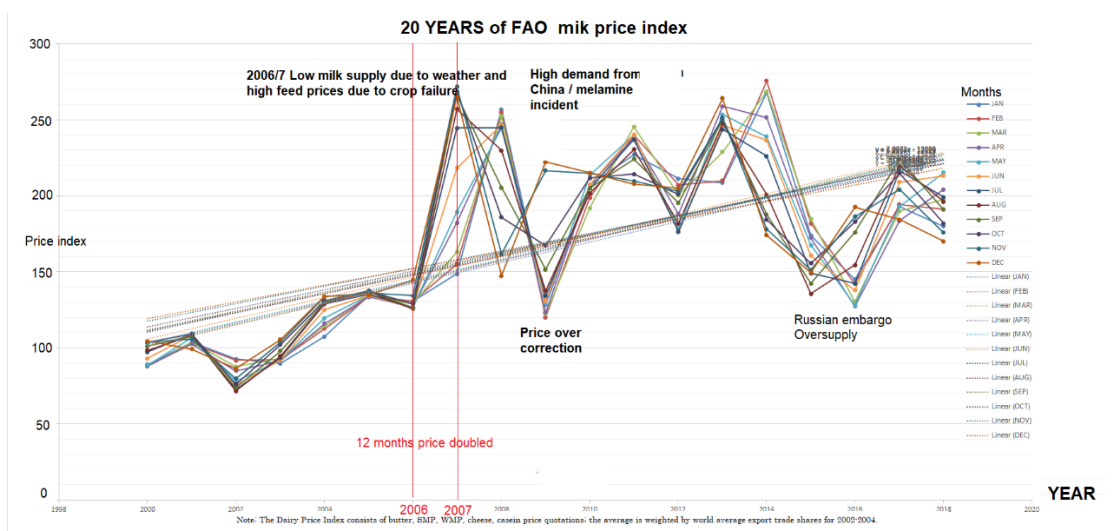
If sufficient has been done then the implication is that there may not be a major upswing in prices in 2019 as predicted by the hunting cycle. (which we all want to stabilise). The EU tends to release more milk powder for sale as dairy market prices increase and this has a dampening effect on global dairy commodity prices. Coming into Feb 2019 the indications are that Intervention stocks of Skimmed Milk Powder are now mostly sold and going forward this should help in maintaining prices by not offering large volumes of discounted product on to the global dairy market.

The latest Global Dairy Trade (GDT) auction prices show an upswing but this may be due to optimising volumes of dairy commodities offered for sale vs known historical / projected demand. The GDT platform assists in stabilizing global markets for dairy products and safeguard interests of farmers to manufacturers, shareholders, investors and consumers by not flooding the market. Is there a conflict of interest with various interests compiling information in order to maximise their own returns?. Should there be a Milk price stability fund in place to have an independent global perspective [as suggested here in 2018? > Link](#)

2018 US dairy products exports to the rest of the world were up at record levels and accounted for 16% of milk production. ref [USDA](#). Loss of dairy sales to China—America's third-largest single-country market—followed mid-year retaliatory tariffs, playing a role in the year-end decline. U.S. sales to China were up 17 percent in the first half of the year but fell 33 percent in the second half—a drop of more than 10,400 tons of product per month. Exports to Southeast Asia also faded toward year-end, sliding 18 percent in November-December, while shipments of dairy products to Japan were down 10 percent throughout the second half. Mexico and Southeast Asia remained the top two overseas destinations for U.S. dairy products in 2018, accounting for 39 percent of total export value. Canada, China and South Korea rounded out the top five markets. Among other markets, U.S. suppliers posted increased sales last year to the Middle East/North Africa (MENA) region and the Caribbean. U.S. exports of **NDM/SMP** totalled 715,491 tons in 2018, up 18 percent from the prior year, as U.S. suppliers took advantage of strong, broad-based global import demand. Dairy products sales to Mexico (up 25 percent, +70,761 tons, to 348,989 tons) reached a record high, and shipments of dairy products to Southeast Asia (up 32 percent, +52,449 tons, to 216,077 tons) were the most ever as well, despite falling 25-percent short in the last two months of the year. These two markets accounted for more than three-quarters of U.S. NDM/SMP export volume. The Philippines remained the top market for dairy products in Southeast Asia, and shipments to Indonesia and Vietnam increased 70 percent. In contrast, other key dairy markets suffered losses: dairy exports to China, Peru, Pakistan, Japan and the MENA region were just 70,561 tons in 2018, down 29 percent (-28,820 tons).

The graph below highlights some significant incidents which affected the milk price. The dairy industry would benefit from a better structured, detailed ongoing study over the long term.

20 years of FAO Dairy (milk) price index figures 1990 - 2018

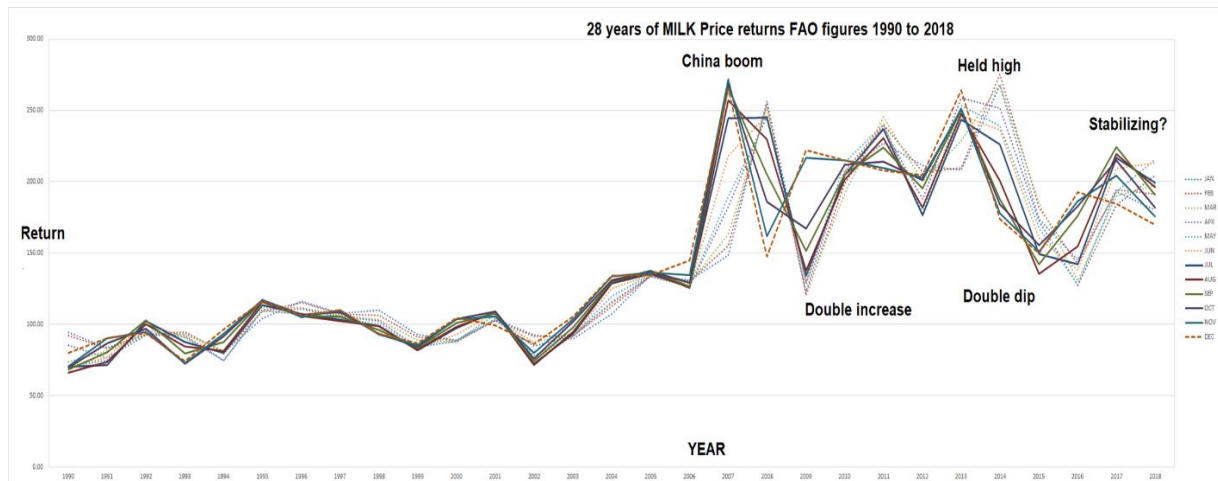


Was the price over correction in 2009 partly a result of buyer over buying at the peak resulting in a harsher impact due to having forward bought stocks as a hedge against further rises. Major buyers could ill afford to be without stocks if there was a sudden surge in demand again. The extended to **28 years graph** below clearly shows that a major change took place to the price pendulum when the price peaked in 2006 / 2007 due to huge demand from China and a Russian grain crop failure (less feed to animals due to very high cost, with resultant reduced yield). Demand outstripped supply during a period when input costs for feed was very high.

In the graph below the December to June months are shown as dotted. The graph tends to indicate that if the price is high entering the flush periods then this may tend to hold up prices for the rest of the year - price vs demand. Price high then supply is likely to be low vs demand. So if demand is greater than supply in the milk flush then it follows that supply will not radically improve after the flush period so prices are likely to remain strong. Are we entering a period of relative stability? - difficult to say but we seem to be going through a period of significant adjustment in the milk price cycle.

Monitoring milk flush periods by continent would assist in predicting global milk price trends.

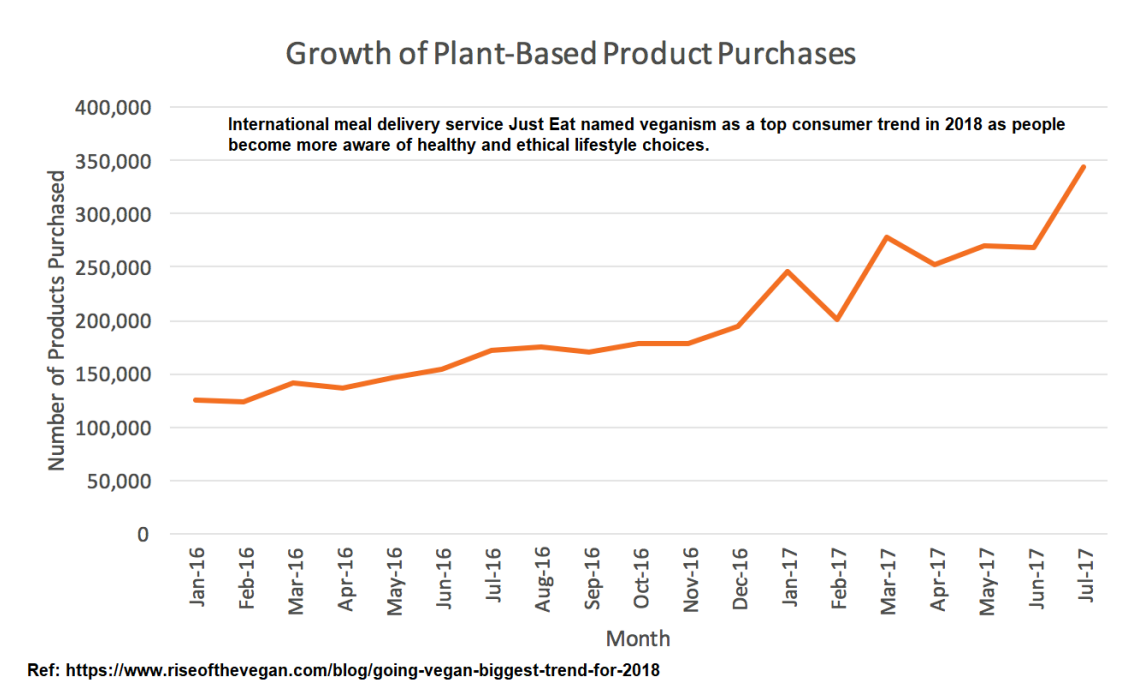
1990 to 2018 Milk price returns



As dairy production and manufacturing capacity increases in China due to large branded manufacturers seeing their future as investing in manufacturing in country rather than continued long term importing, taking account of the threat of tariffs as **local manufacturing capacity and confidence increases**.

Significant additional dairy manufacturing capacity has been built globally (and continuing) and these new plants need to compete for milk so 2019 will likely see yet more dairy plant mergers and rationalisations with older, smaller less efficient plants closing down. Survival of the fittest and fast moving operators with an eye on innovation and branding.

The Millennial generation are very aware of the need for sustainable change and the tendency is for increasing numbers to convert to Vegetarians and also there is a significant growth in the numbers of **Vegans**. With the world population growth increasing from est 7.5 billion in 2019 to over 9 billion by 2050. The animal population needs to grow with the human population to feed them putting yet more strain on the planets renewable resources. Increased pressure from the public to act particularly the very aware / savvy Millennial generation (Gen Z) who are rapidly becoming the largest buying group and we are likely to see some radical shifts in buying habits.



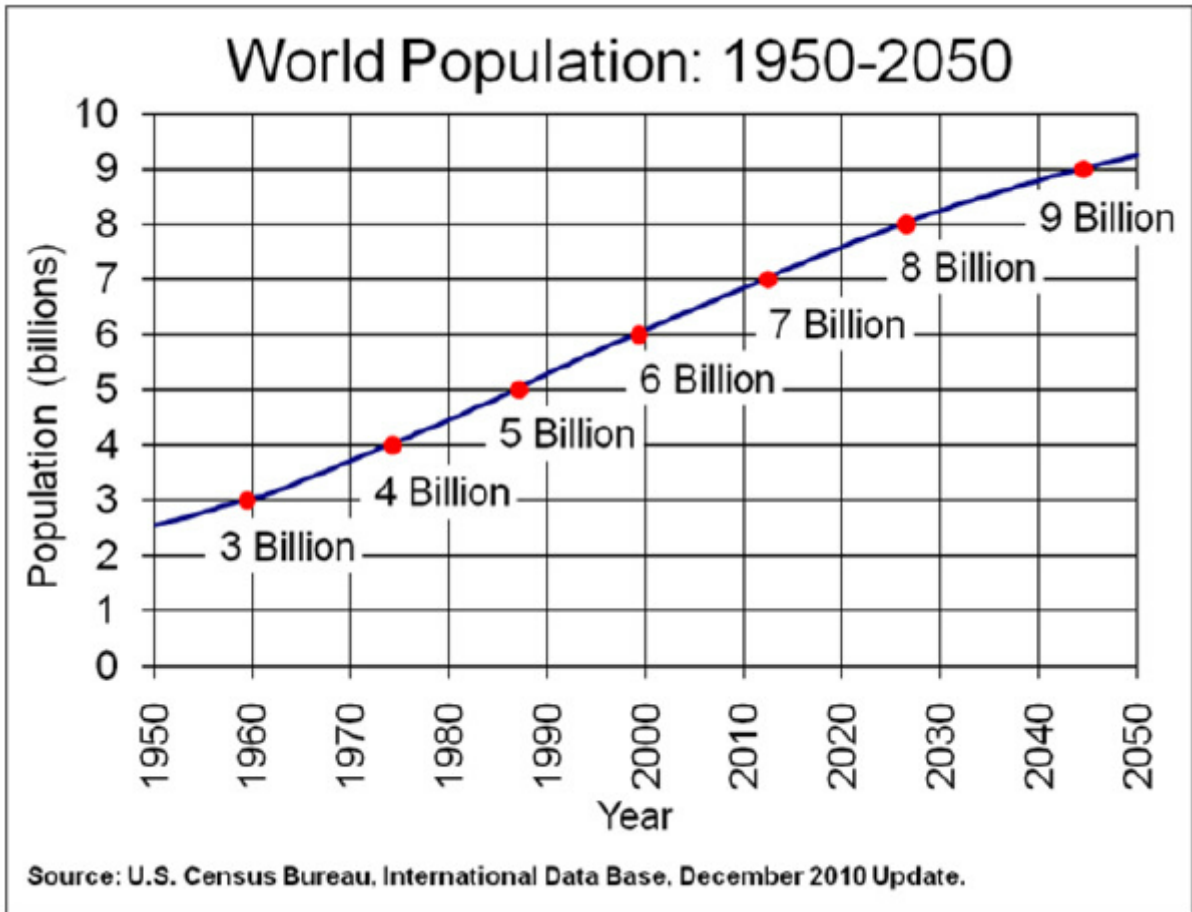
Is Veganism going to be the Dairy Industry's turning point?

Should dairy manufacturers embrace the change (not fight) and develop new non dairy alternatives.

Dairy alternatives are on the increase as can be seen by Danone. Danone has set a global target to grow its plant-based business threefold by 2025. Danone's Dubois factory in North America, a plant based "silk" yogurt production plant has received significant investment making it the largest plant based factory in the USA. Califa Farms have launched their New Uber Milk with pea protein. Chobani have launched new plant based yogurt and yogurt drink. Fonterra is investing in a Boston biotechnology start-up backed by Bill Gates and Jeff Bezos, Motif Ingredients to produce alternatives to milk / animal proteins. An initial investment of USD \$90m. FoMilk in Turkey has established a plant based milk factory for supply to the region and to the middle East commencing with Hazelnut, Almond and Soy milks. There is no immediate major impact on the milk industry with the market share estimated currently (varies greatly by country) at 2% to 13%. Market growth in the sector is running at about 30% / annum. The plant based yogurt market is at about 2% in 2018 but with USA growth of est 54% the market is rapidly changing. Vegan cheese is predicted to have a market share of over 6% by the end of 2019. Global awareness of Lactose intolerance also tends to demonise milk products and encourage change in the social media savvy Z Gen's buying habits.

Dairy Manufacturers and Dairy Boards need to keep a close eye on the rapidly developing plant milks market as innovation and **New Z Gen ethics** drives the sector to a rapidly increasing market share.

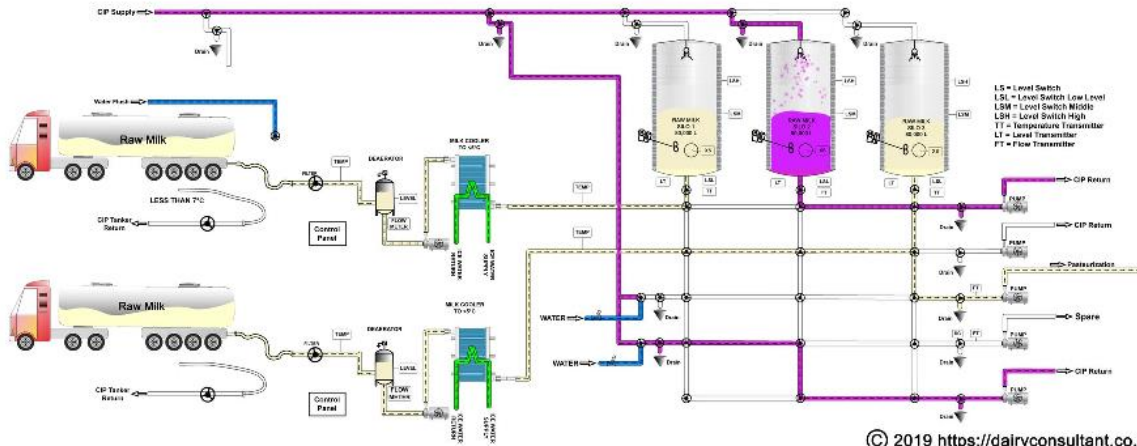
Population Growth - Sustainability



It is difficult to predict which dairy way prices will go in 2019 (barring any major incidents) but my gut feel is that we are in for a tough time over the next 12 months with farmers and manufacturers wanting to produce more but the supply demand balance remaining out of sync due to post Quota production increases and continued demand from manufacturers to optimise their asset utilisation further driving down prices through increased production.



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