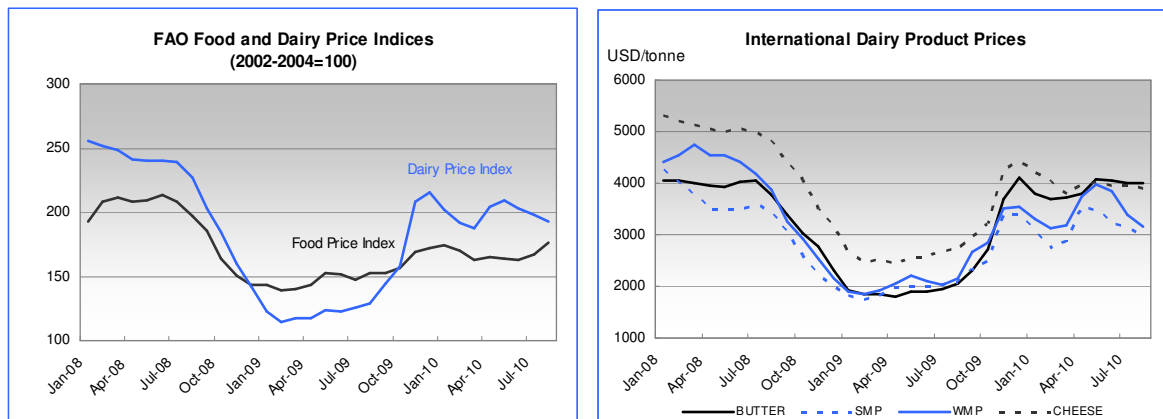


The *FAO Dairy Market Monitor* is a bimonthly update that reports major developments affecting the world dairy market. Its main objectives are to review the latest movements of the major dairy products prices, and to highlight news and events that shape the markets. It is available in English only, and distributed among subscribers of the FAO Dairy Network.

## *FAO Dairy Market Monitor* No. 2, September 2010

### *World Dairy Prices*

The monthly FAO price index of international dairy products remained stable around relatively high levels in the first half of 2010 in contrast with the significant price swings observed in the past two years. The index fell slightly in August 2010 for a third consecutive month, mainly due to a deterioration of milk powder prices. A sharp increase by 17 percent of Fonterra's Global Dairy Trade Index (gDT-TWI) during the first week of September may mark a turning point in the market, towards a strengthening of world milk powder prices. An additional 2 percent increase in the Fonterra index was also noted on 15 September. Demand has been strong this year, notably for WMP from China, whose imports in the first half of 2010 suggest the country will increase its lead as the world's largest importer. The cheese market remains stable and butter prices are firm in a context of low stocks. Farm gate prices in the first half of 2010 climbed consistently in Europe, New Zealand and the United States, while those of Uruguay and Argentina showed an erratic behaviour. In the first eight months of the year, the FAO dairy price index was up ... percent compared with the same period last year.



Milk production in the second half of the year is expected to expand in the major Southern Hemisphere exporting countries, which will boost world availability for trade in the short term. Strong growth is expected in New Zealand and Uruguay, where output may reach record levels, while more limited increases are anticipated in Australia and Argentina. These countries have predominantly grass-based production systems, which are heavily influenced by weather, in particular this year, by La Niña weather anomaly. They will also resort to feed concentrates, if the price relation between milk and feed concentrates is favourable to milk. A moderate to strong "La Niña" is currently underway in South America, where it is usually associated with below average rains. As for feed prices, prospects for lower cereal production in the Russian Federation and the ensuing export ban imposed by the government, are underpinning international feed prices, all of which may limit the increase in world dairy production over the next few months.

PERIOD	International Prices (USD per tonne)				FAO Dairy Price Index
	Butter <sup>1</sup>	Skim Milk Powder <sup>2</sup>	Whole Milk Powder <sup>3</sup>	Cheddar Cheese <sup>4</sup>	(2002-2004=100)
<b>Annual</b> (January/December)					
2007	2959	4291	4185	4055	212
2008	3607	3278	3846	4633	220
2009	2335	2253	2401	2957	142
<b>Monthly</b>					
2010 – January	3800	3063	3300	4200	202
2010 – February	3688	2750	3125	4013	191
2010 – March	3725	2875	3175	3800	187
2010 – April	3800	3550	3750	3963	204
2010 – May	4075	3500	3963	4025	209
2010 – June	4050	3225	3850	3950	203
2010 – July	4000	3138	3375	3950	198
2010 – August	4000	2982	3150	3900	193

<sup>1</sup>Butter, 82% butterfat, f.o.b. Oceania; <sup>2</sup> Skim Milk Powder, 1.25% butterfat, f.o.b. Oceania, indicative traded <sup>4</sup> Cheddar Cheese, 39% max. moisture, f.o.b. Oceania, *Source*: FAO for indices. Product prices: Mid-point of price ranges reported by USDA (DairyMarketNews).

## Country and industry news

**Argentina:** Following years of progressive decline, the industry anticipates a good performance for 2010 ([www.portalechero.com/4779](http://www.portalechero.com/4779) and [www.caprolecoba.com.ar/panorama.php](http://www.caprolecoba.com.ar/panorama.php))

**Australia:** Dairy Situation and Outlook 2010 (September update). Australian milk production is set to increase by 1 to 2 percent in 2010/11. Potential for higher growth exists if seasonal conditions remain positive and grain prices soften following the Australian harvest. Follow the evolution of Australian dairy here [www.dairyaustralia.com.au](http://www.dairyaustralia.com.au)

**Brazil:** The industry is cautious about the possible effects of “La Niña”, a weather phenomenon that could bring below average rains to the region this summer. Follow the evolution of Brazilian dairy here [www.cepea.esalq.usp.br/leite](http://www.cepea.esalq.usp.br/leite)

**Chile:** The National Federation of Milk Producers (FEDELECHE) reacts swiftly to the sudden increase of Fonterra’s gDT-TWI of 1 September with a Press Release. [www.fedeleche.cl/pub](http://www.fedeleche.cl/pub)

**India:** The National Dairy Development Board (NDDB) gears up for the country's second White Revolution. [economictimes.indiatimes.com/news/politics/nation/NDDB-gears-up-for-2nd-White-Revolution/articleshow/6174541.cms](http://economictimes.indiatimes.com/news/politics/nation/NDDB-gears-up-for-2nd-White-Revolution/articleshow/6174541.cms)

**International:** The World Dairy Summit 2010 will be held in Auckland, New Zealand, from 8 to 11 November 2010. [www.wds2010.com/programplus.html](http://www.wds2010.com/programplus.html)

**International:** CME Group launches in August the International Skimmed Milk Powder futures and options (ISMP), based on a physically delivered product based on the international standard for dry milk. Delivery points include Los Angeles, Newark, Seattle, Auckland, Melbourne and Rotterdam. [www.cmegroup.com/trading/agricultural/international-skimmed-milk-powder.html](http://www.cmegroup.com/trading/agricultural/international-skimmed-milk-powder.html)

<sup>1</sup> The FAO Dairy Price Index is used for monitoring monthly changes in world dairy prices. It is a monthly weighted average of a basket of representative dairy product prices (butter, SMP, WMP and casein), indexed relative to a baseline period 2002-2004.

**New Zealand:** Fonterra announced that the gDT-TWI index was up by 17 per cent in the 2 September, and up by 2 percent in the 15 September global Dairy Trading events. In addition, it informs that from September trade events will be held every two weeks. [www.globaldairytrade.info/default.aspx](http://www.globaldairytrade.info/default.aspx)

**New Zealand:** NZX launches on 8 October a Global Whole Milk Powder Futures, with cash settled contracts. [www.nzx.com/markets/NZSX/NZX/announcements](http://www.nzx.com/markets/NZSX/NZX/announcements)

**Pakistan:** International workshop on dairy science, 18th-20th October, will look at developing a hub of dairy enterprises in flood affected regions [www.thedairysite.com/news/31757](http://www.thedairysite.com/news/31757)

**Uruguay:** The *Instituto Plan Agropecuario* informs that despite erratic winter pasture growth, a favourable ratio of milk/concentrate prices fostered an intensification of feed supply. Production levels are satisfactory, and cow performance better than last year. [www.planagro.com.uy/docs/info\\_stuacion/info17.pdf](http://www.planagro.com.uy/docs/info_stuacion/info17.pdf)

**Uruguay:** Investors from Argentina want to set up a mega dairy farm in Uruguay. [www.infocarne.com](http://www.infocarne.com)

### **News from FAO**

Global Supply and Demand Update (1 September 2010). Expectations of higher feed use of wheat in the Russian Federation because of an extremely tight domestic barley situation. [www.fao.org/giews/english/shortnews/GlobalSD\\_update\\_01092010.pdf](http://www.fao.org/giews/english/shortnews/GlobalSD_update_01092010.pdf)

**Pakistan:** floods resulted in severe localized crop damage and losses to household food reserves (13 August 2010) [www.fao.org/economic/est](http://www.fao.org/economic/est)

### **From the Dairy Outlook List**

Follow **producer prices in Argentina, Brazil and Uruguay** with the below URLs. This and other relevant information is generated at the Dairy Outlook List network. Join the forum by typing "Subscribe" in the subject line of an email to [fao-dairy-outlook@fao.org](mailto:fao-dairy-outlook@fao.org).

- [www.alimentosargentinos.gov.ar/lacteos](http://www.alimentosargentinos.gov.ar/lacteos)
- [www.cepea.esalq.usp.br/leite](http://www.cepea.esalq.usp.br/leite)
- [www.inale.org/innovaportal/v/22/1/innova.front/uruguay.html](http://www.inale.org/innovaportal/v/22/1/innova.front/uruguay.html)

**World School Milk Day** - It's never too late to start preparing for the 11th World School Milk Day, scheduled for 29th September. For more information please contact [Barbara.Senfter@fao.org](mailto:Barbara.Senfter@fao.org).

*For comments or enquiries please contact: [PedroMarcelo.Arias@fao.org](mailto:PedroMarcelo.Arias@fao.org)*