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International Agri-business Show

Dairy scenario - Fieragricola analysis of Clal data

2013 MARKET: MILK AND CHEESE PRICES UP PROVIDED WORLD EXPORTS REMAIN POSITIVE

Production costs are under pressure, with maize and soy respectively up by 23% and 28% compared to 12 months ago. In Italy, prices are falling back for mature PDO cheeses (-10% in just one year) and butter (-8.5%). Inasmuch, retail chains are cutting price lists, admittedly by just 3 percentage points.

Verona: 22 January 2013. Higher prices and lower production: these trends are expected in the dairy sector during 2013, provided that export volumes by the main world players – another important variable – remain positive. With the help of Clal, the portal dedicated to the field followed assiduously in more than 200 countries, Fieragricola (<http://www.fieragricola.it>) attempts to indicate how the next few months may develop.

The legacy of 2012, first and foremost, certainly seems not to smile on milk producers. The table on the Clal homepage suggests that producers of mature PDO cheeses saw revenues drop by 10% and for butter by 8.5%. "Pay-outs by cooperatives processing milk into parmesan cheese will be lower than in 2011," Clal emphasises.

At the same time, large-scale retail prices have not seen the same downturn in terms of prices, that fell only by 3.1% for mature PDO cheese and 2.8% for butter.

On the other hand, costs for raw materials needed for animal farming are soaring. Maize prices leapt by +22.7% over January 2012 and soy by an amazing +27.3%. This has a very negative impact on production costs.

As for milk prices, compared to 12 months ago milk at source fell by 3.8% in the EU-27, while there are some signs of recovery in Italy (+1.8% on spot milk prices over January 2012) and in the United States, where a 7% improvement was seen.

The outline cannot but include the trend for milk production by the main world players (EU-27, Australia, New Zealand, USA, Argentina, Ukraine, Belarus, Chile, Uruguay and Turkey). Between January and October 2012 (the latest data processed by Clal), milk production was from 0.4% to 6.9% higher on a monthly basis over the same period in 2011. Only September and October saw a turnabout in this trend (-0.3% and -0.1%).

This downturn is nevertheless continuing and explains why the spot price for milk has remained at satisfactory levels. Dairy output is suffering precisely because feed prices are still high, the drought that hit the United States and parts of Central-Southern Europe and even the heavy rains affecting northern Europe with an adverse impact on fodder quality.

Understand how 2013 may develop also requires taking a look at the export trend. Since the law of supply and demand still governs market trends. How are things going?

Clal analysis highlights that exports – referred to the main countries (Argentina, Australia, New Zealand, USA, Switzerland, Eu-27, Ukraine) – got going again, with an average of +8.97% between October 2011 and November 2012 and an acceleration of nearly 14 percentage points in the six-month period May/October 2012.

Will this positive signal suffice or will the slowdown seen recent months have more impact: +1.09% between September and October 2012? Another question: in the second half of 2013, will the market be able to absorb the expansion in milk production of the United States?

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