

Global context and Dairy market outlook

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Agenda

- FAPRI and the outlook process
- March 2014 FAPRI baseline update results
- FAPRI Dairy outlook

Get full report from:

<http://www.fapri.missouri.edu>



FAPRI: Analyzing policy since 1984

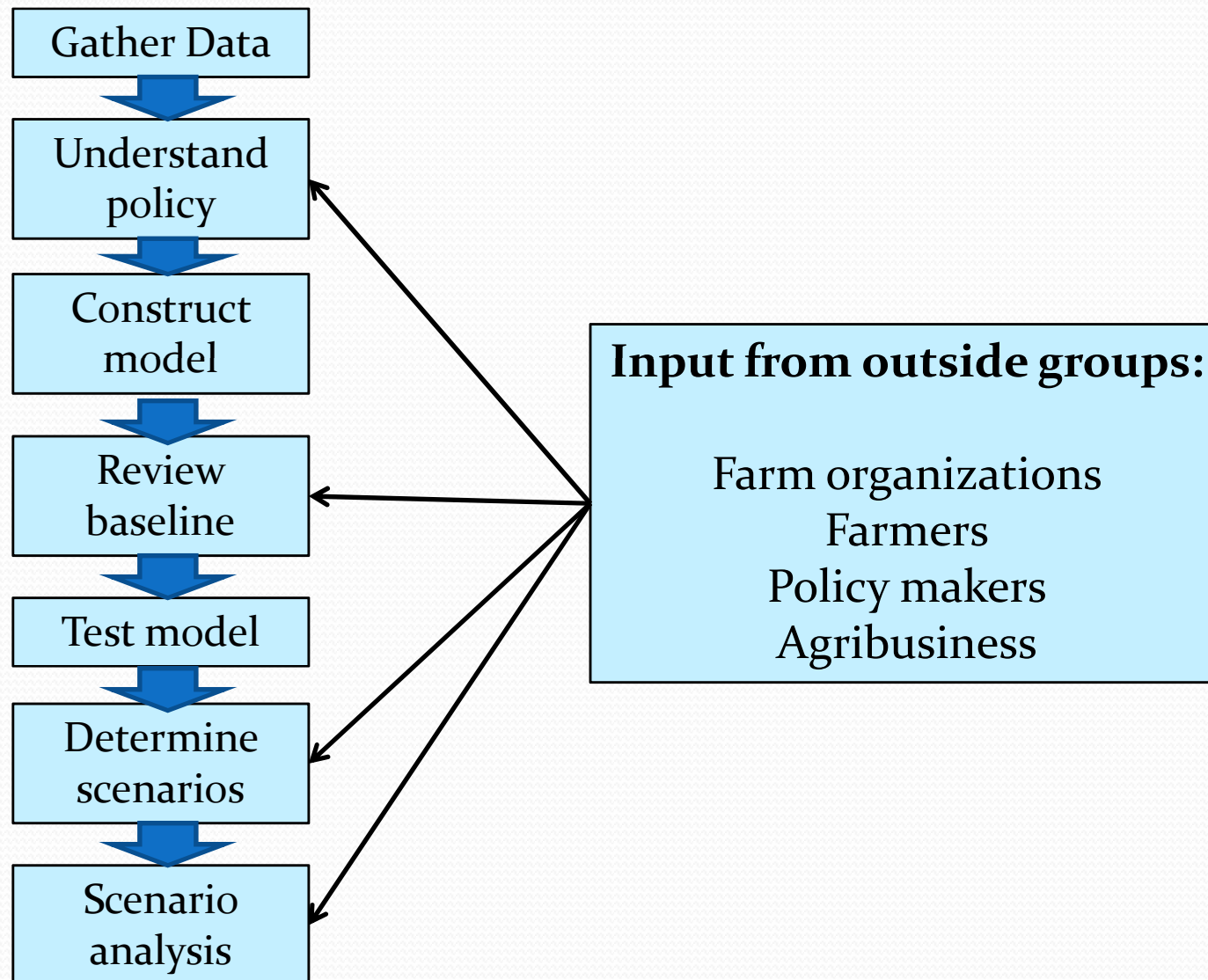
Mission

- Provide **objective policy impact analysis** on contemporary issues related to agricultural markets and policies.

Clients

- **US Congress**, US Government, agribusiness firms, farmers, NGOs, public, other modelers and other governments

The process





What is a baseline and how is it used?

- It is **not a forecast**
- It is a projection based on a set of reasonable assumptions about
 - Macroeconomic outlook
 - Technology outlook
 - Policy outlook

Things happen quickly.....



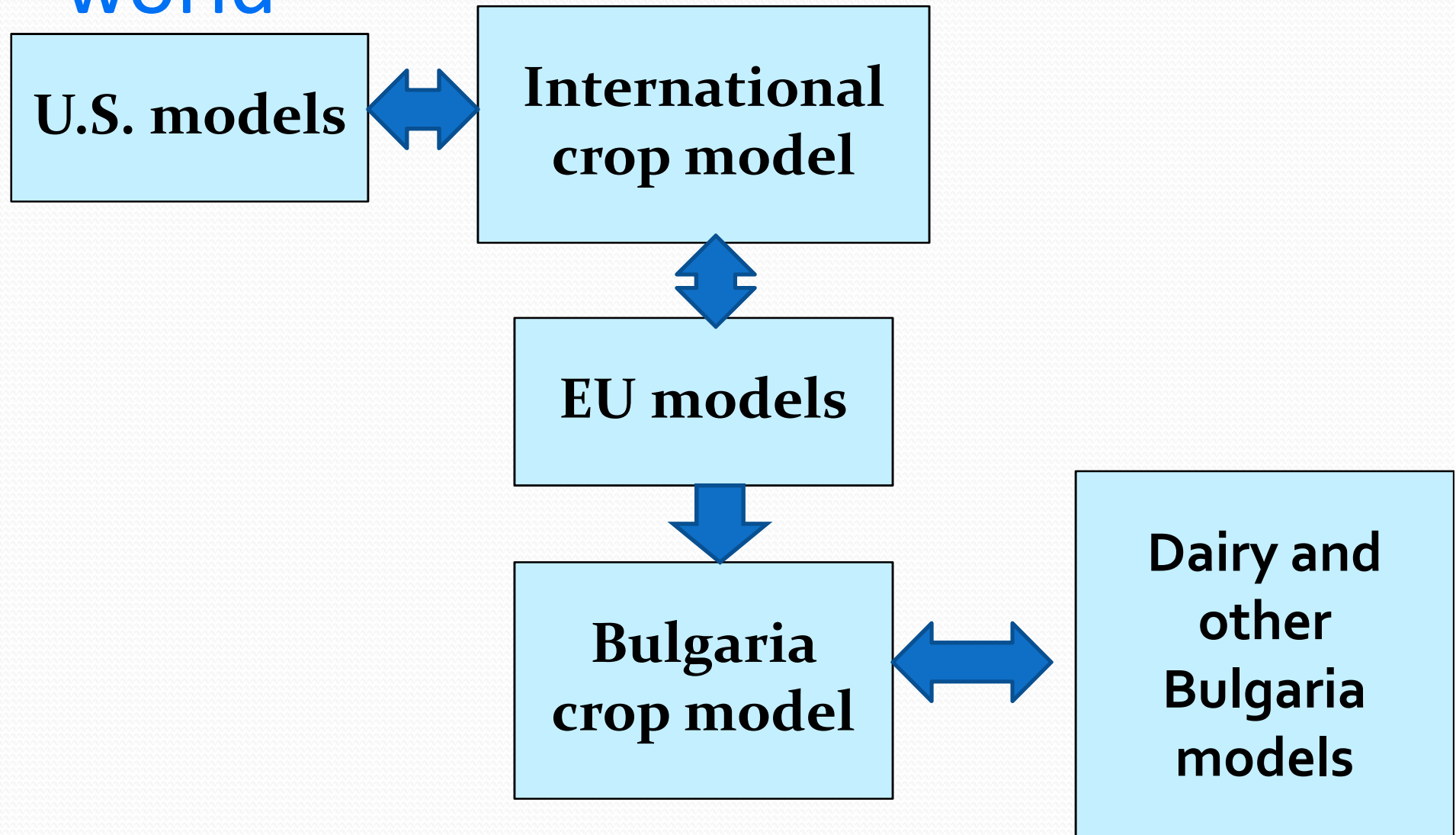
Source: Great Pacific Trading Company, March 12, 2014



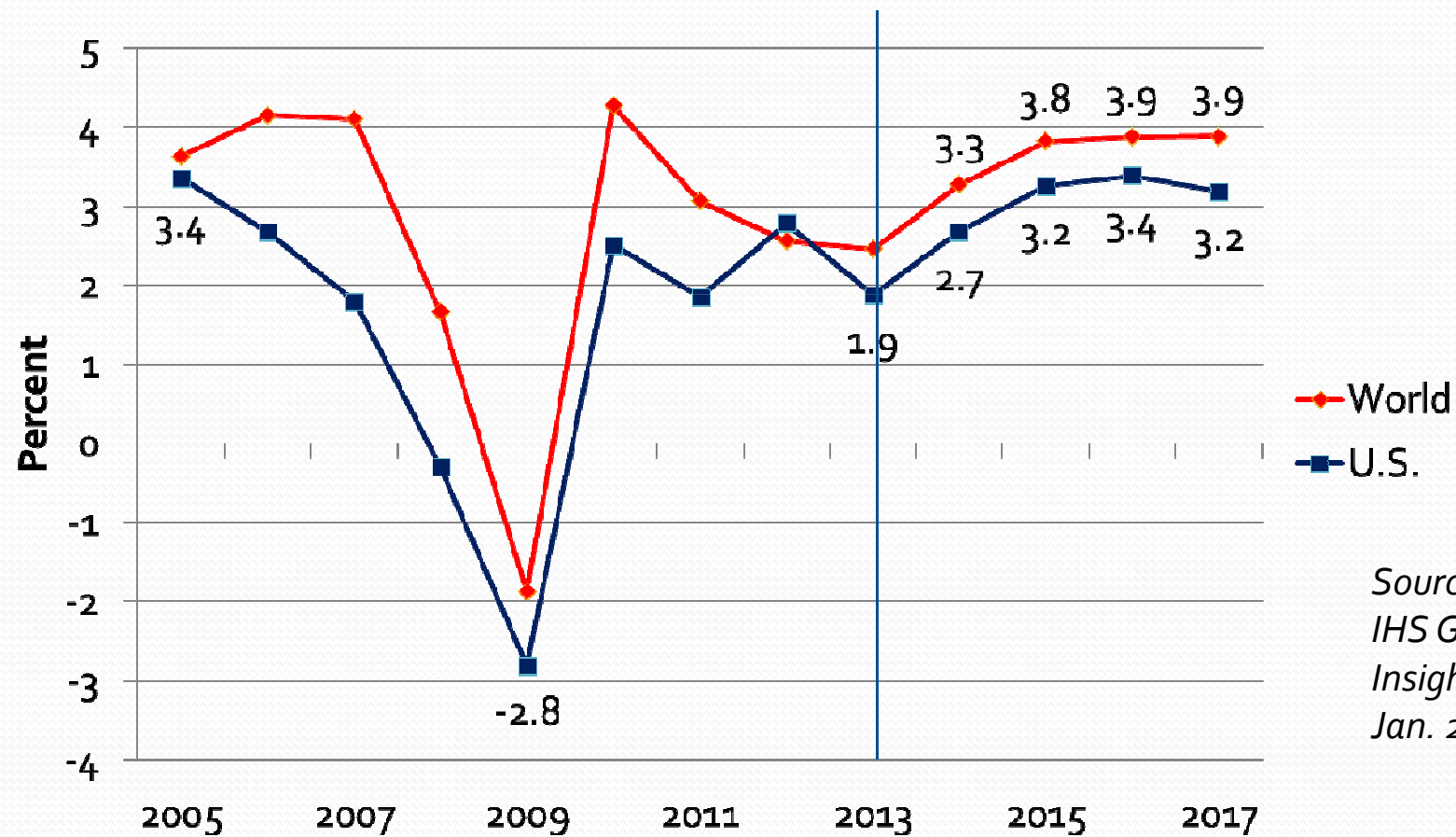
So what use is the baseline

- A good summary of recent history
- Provides a set of consistent figures for medium term projections
- BUT the main objective of baseline is to do scenario analysis

Linking Bulgaria to the rest of the world

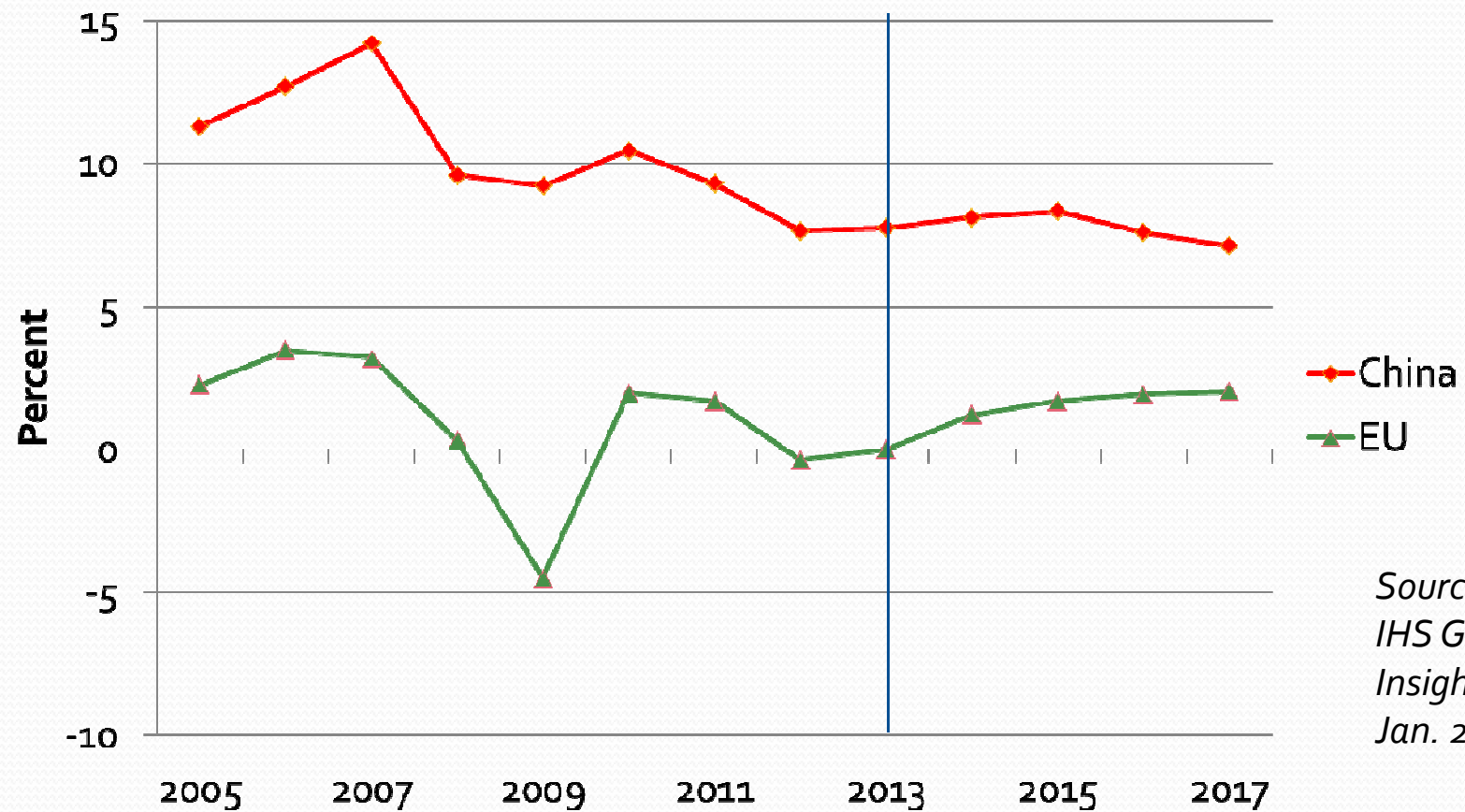


U.S. and world economic growth



Source:
IHS Global
Insight,
Jan. 2014

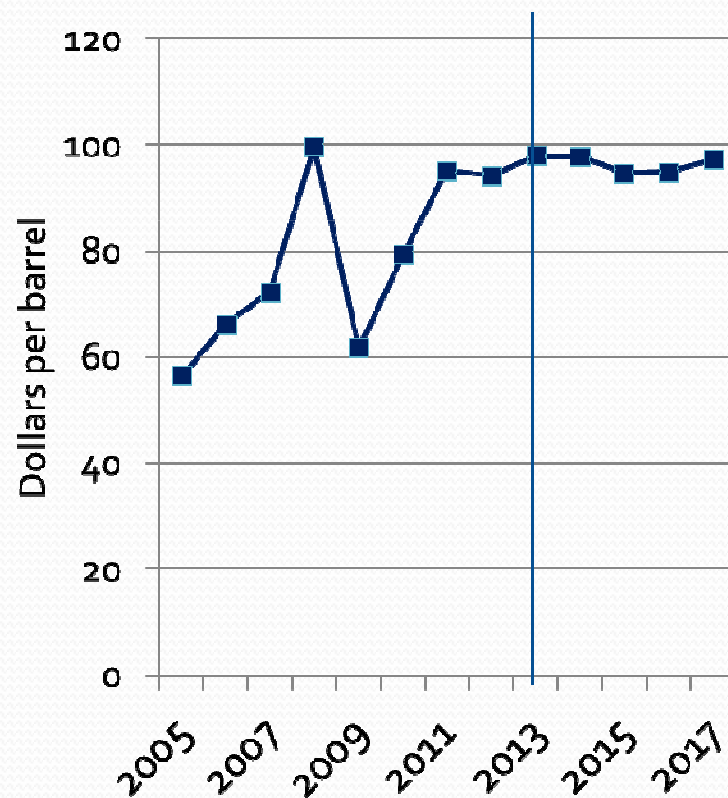
Economic growth in China and EU



Source:
IHS Global
Insight,
Jan. 2014

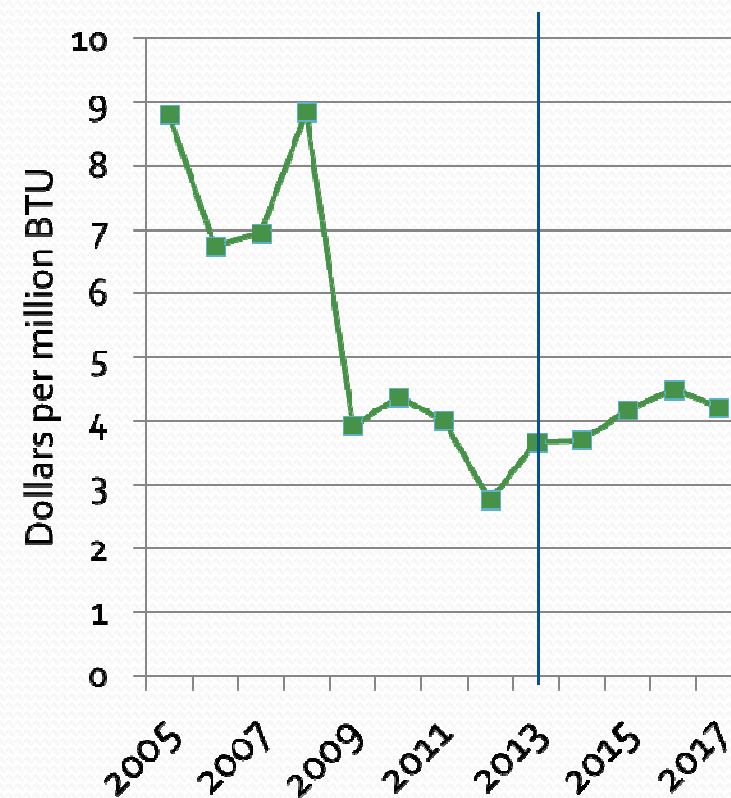
Energy prices

W. Texas intermediate oil



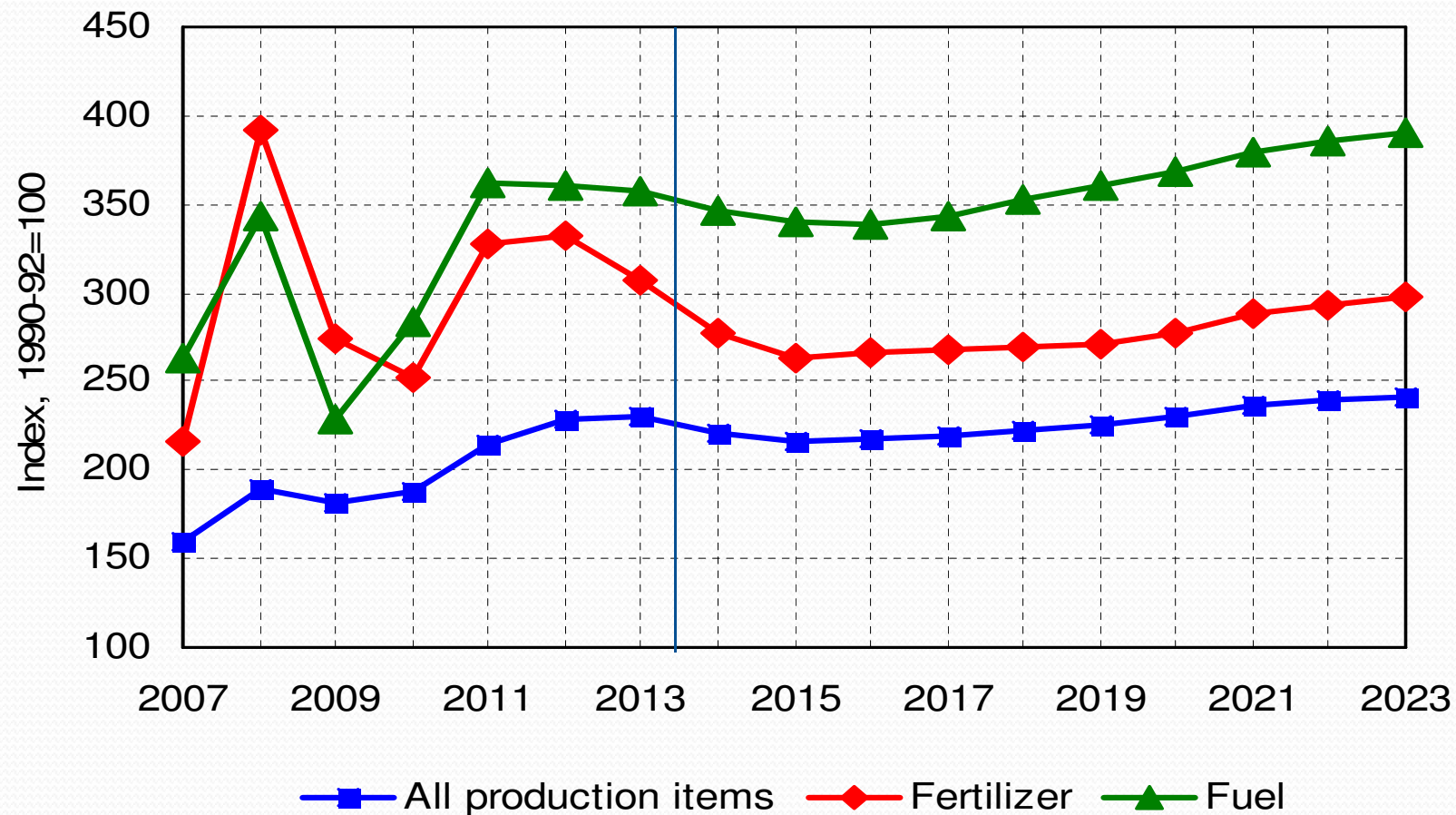
Source: IHS Global Insight, Jan. 2014

Henry Hub natural gas

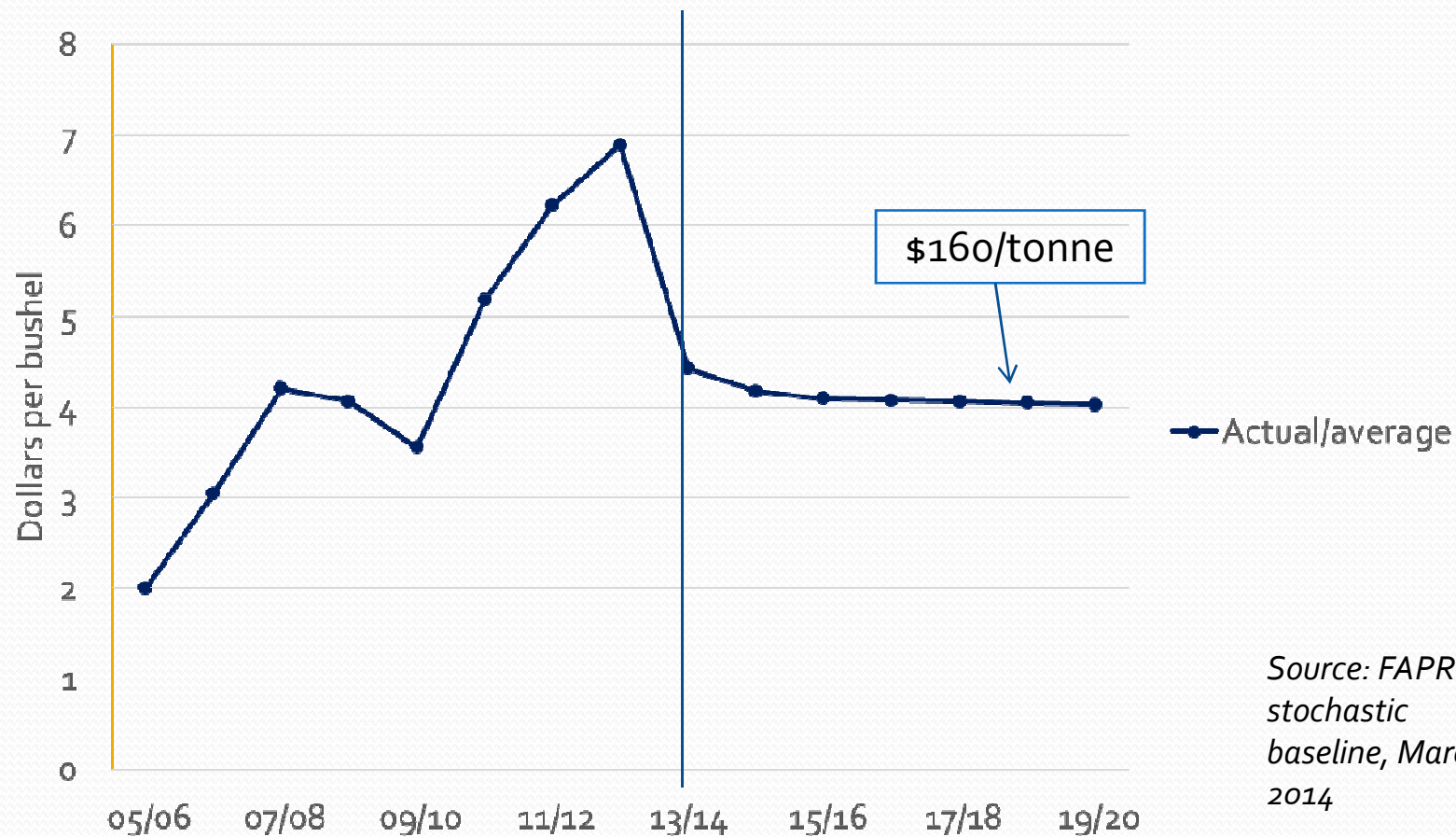


Source: IHS Global Insight, Jan. 2014

Lower fertilizer prices reduce farm production costs (p. 11 of Outlook)

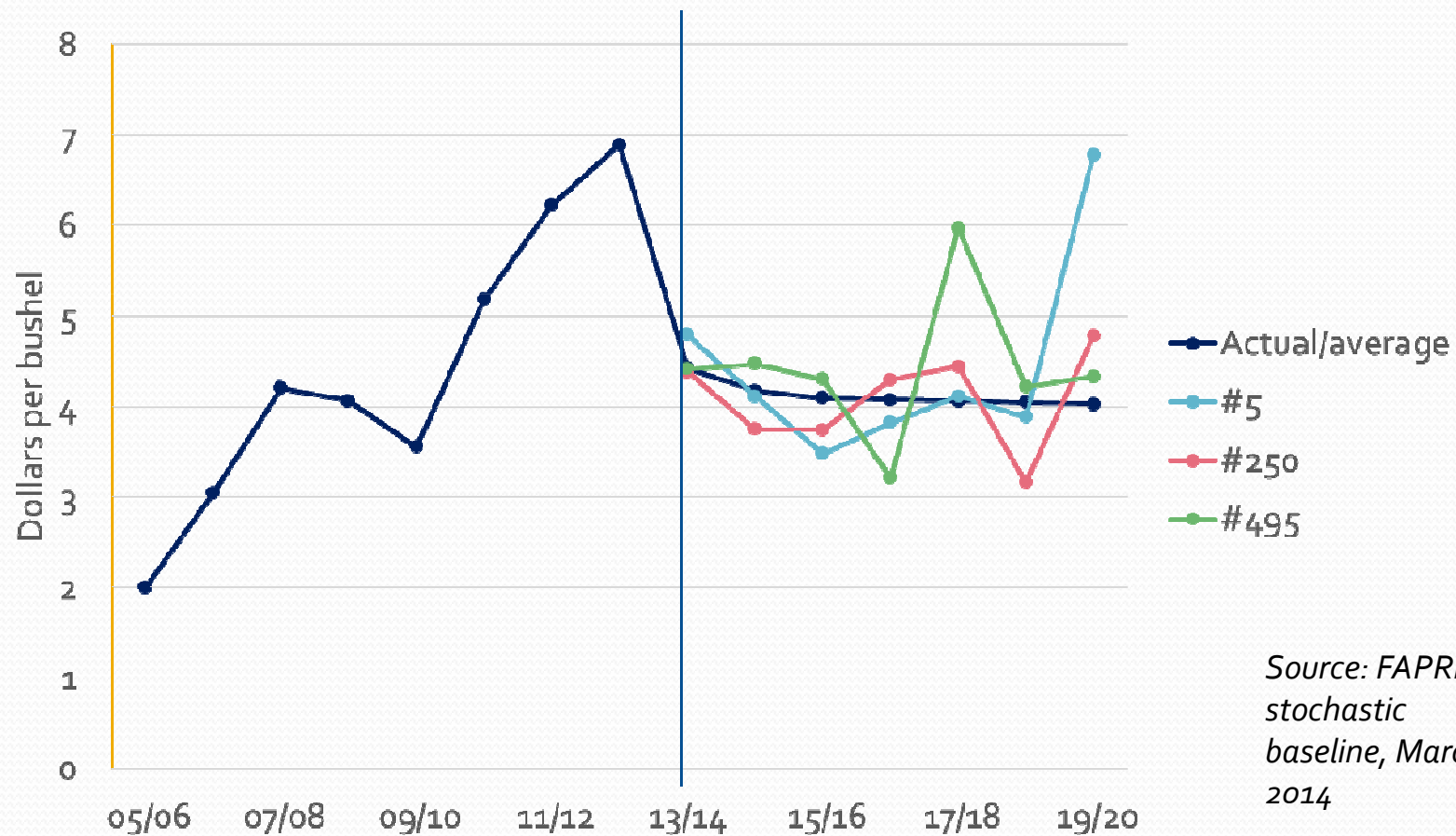


U.S. farm prices for corn



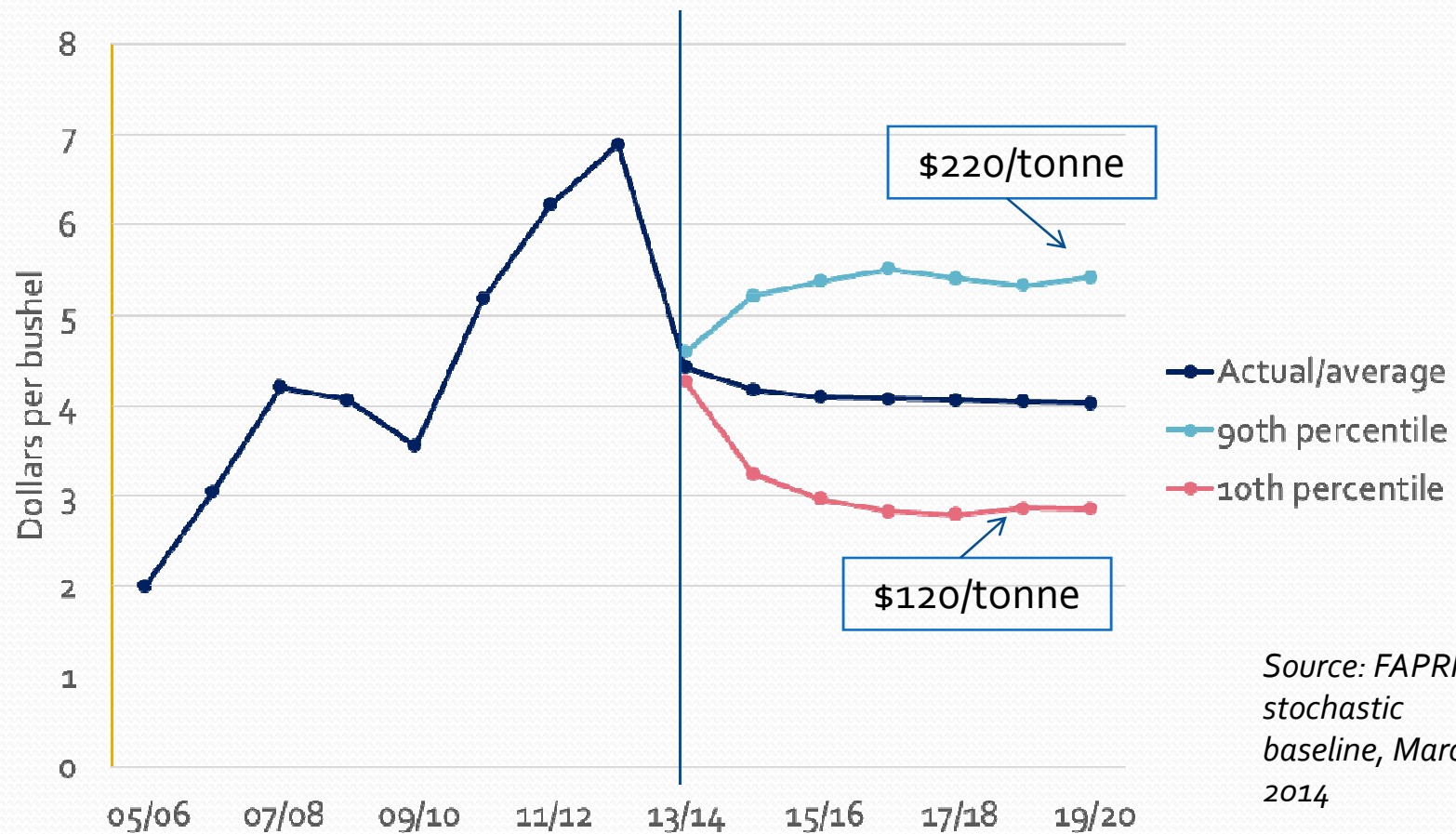
Source: FAPRI-MU
stochastic
baseline, March
2014

U.S. farm prices for corn



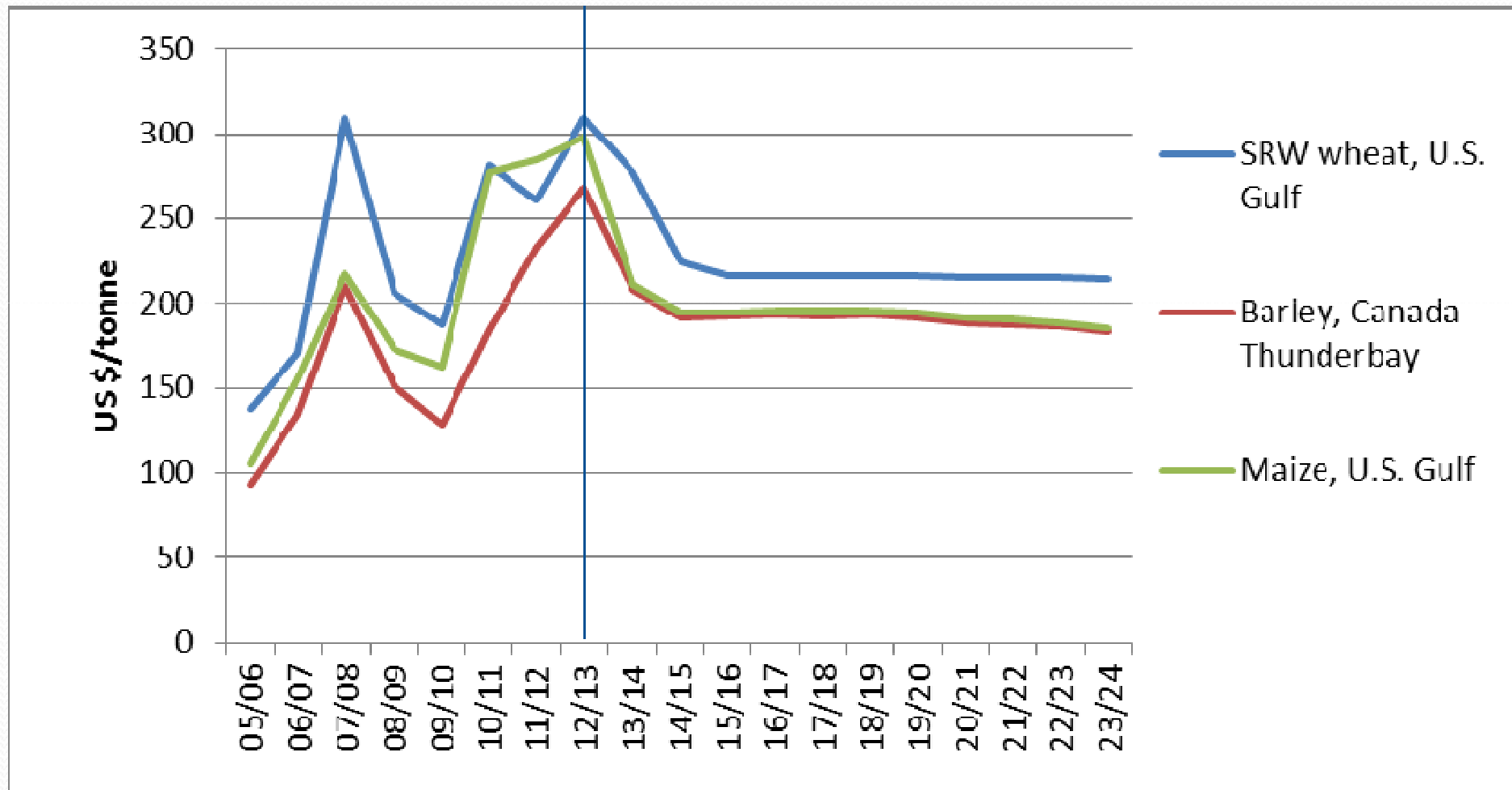
Source: FAPRI-MU
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baseline, March
2014

U.S. farm prices for corn



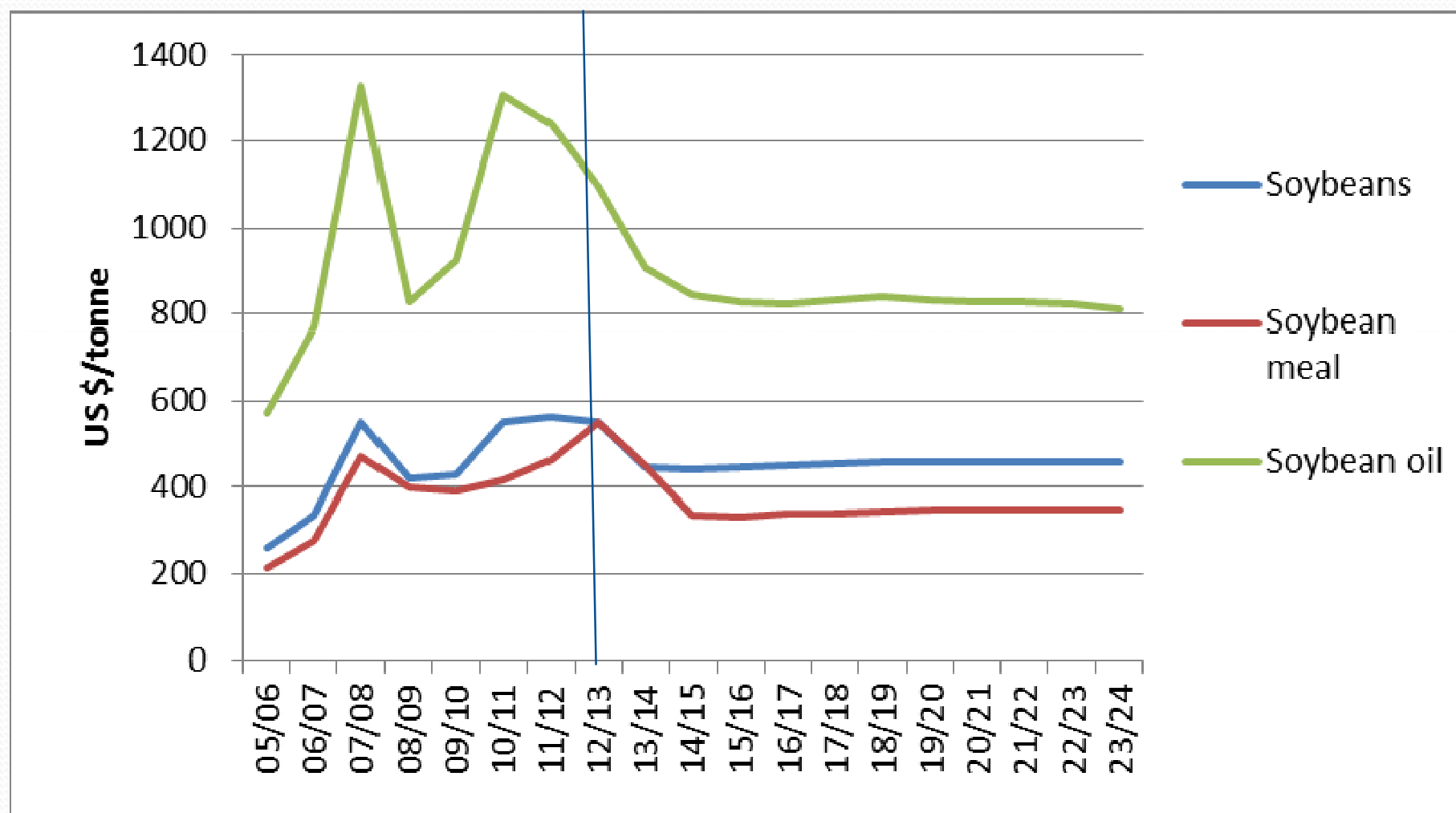
Source: FAPRI-MU
stochastic
baseline, March
2014

Outlook for world cereals prices



Source: FAPRI-MU deterministic baseline, January 2014

Outlook for world oilseed prices (Rotterdam)



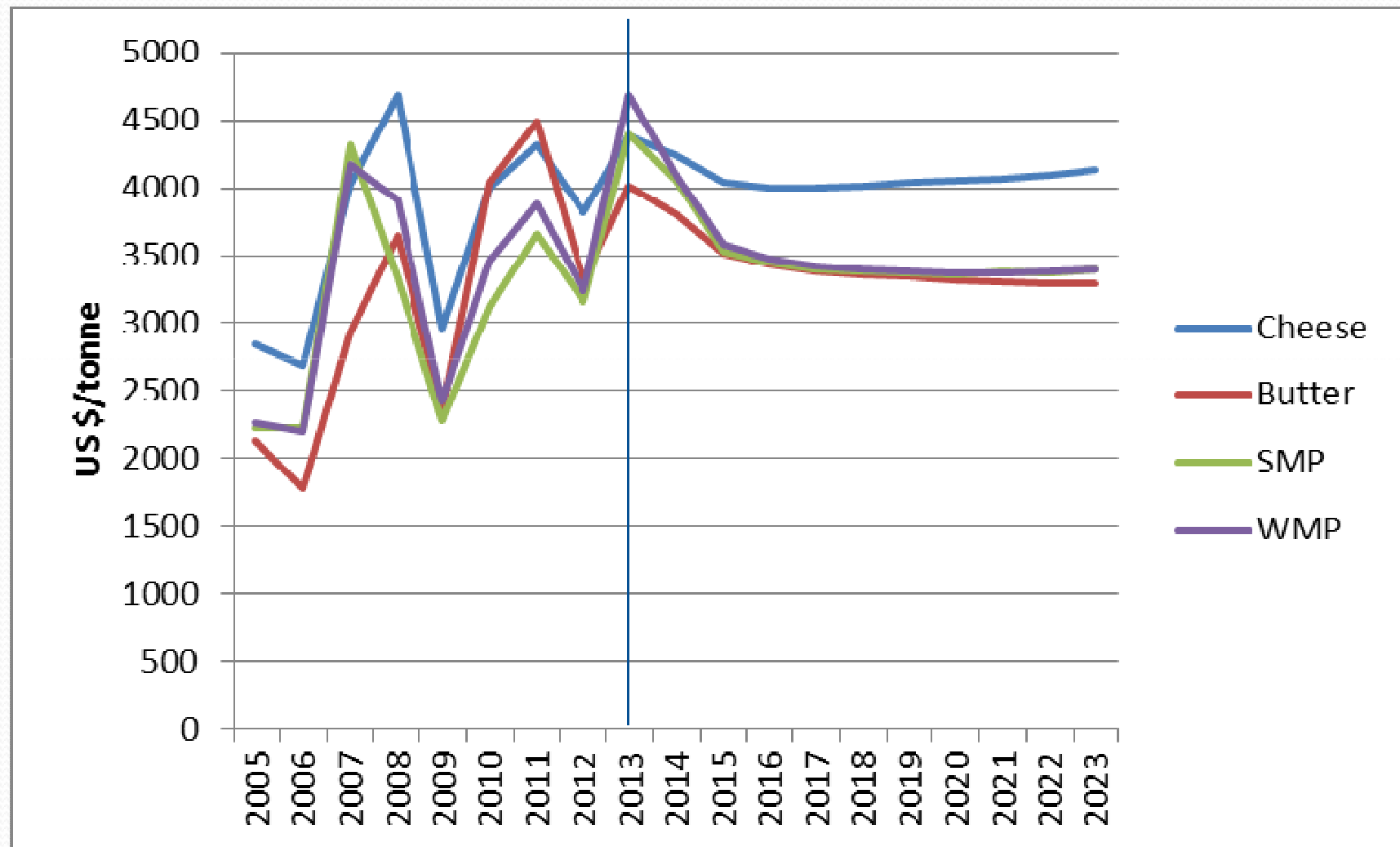
Source: FAPRI-MU deterministic baseline, January 2014



Main drivers of global dairy prices

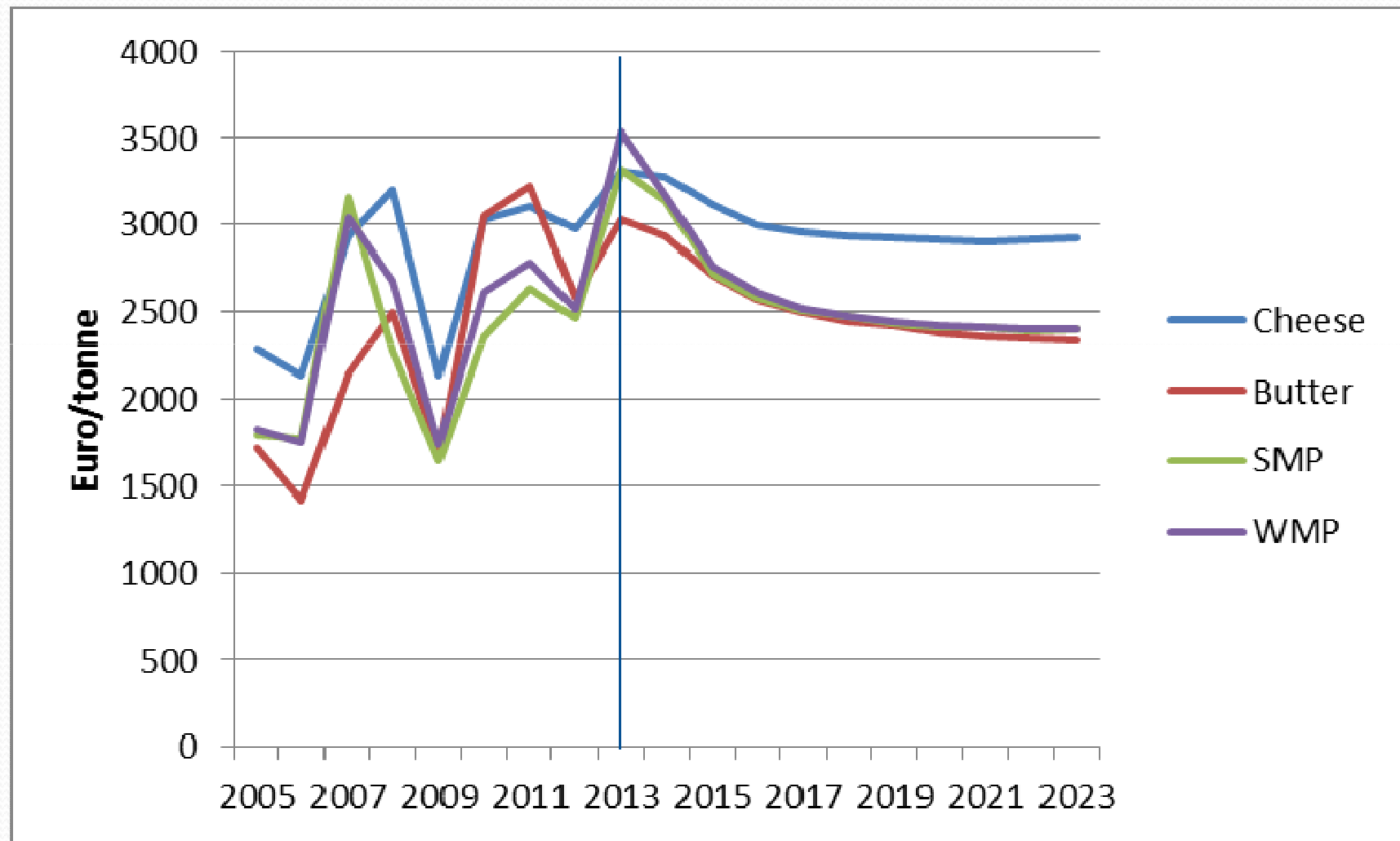
- In short run, weather will lead to volatility, as will China's actions in markets
- Margins improve in short run, as crop prices fall, production increases where it can
- Populations continue to grow, incomes grow
- BUT, the rate of growth of population will slow
- Productivity increases are enough to keep prices stable

Global dairy situation - Oceania



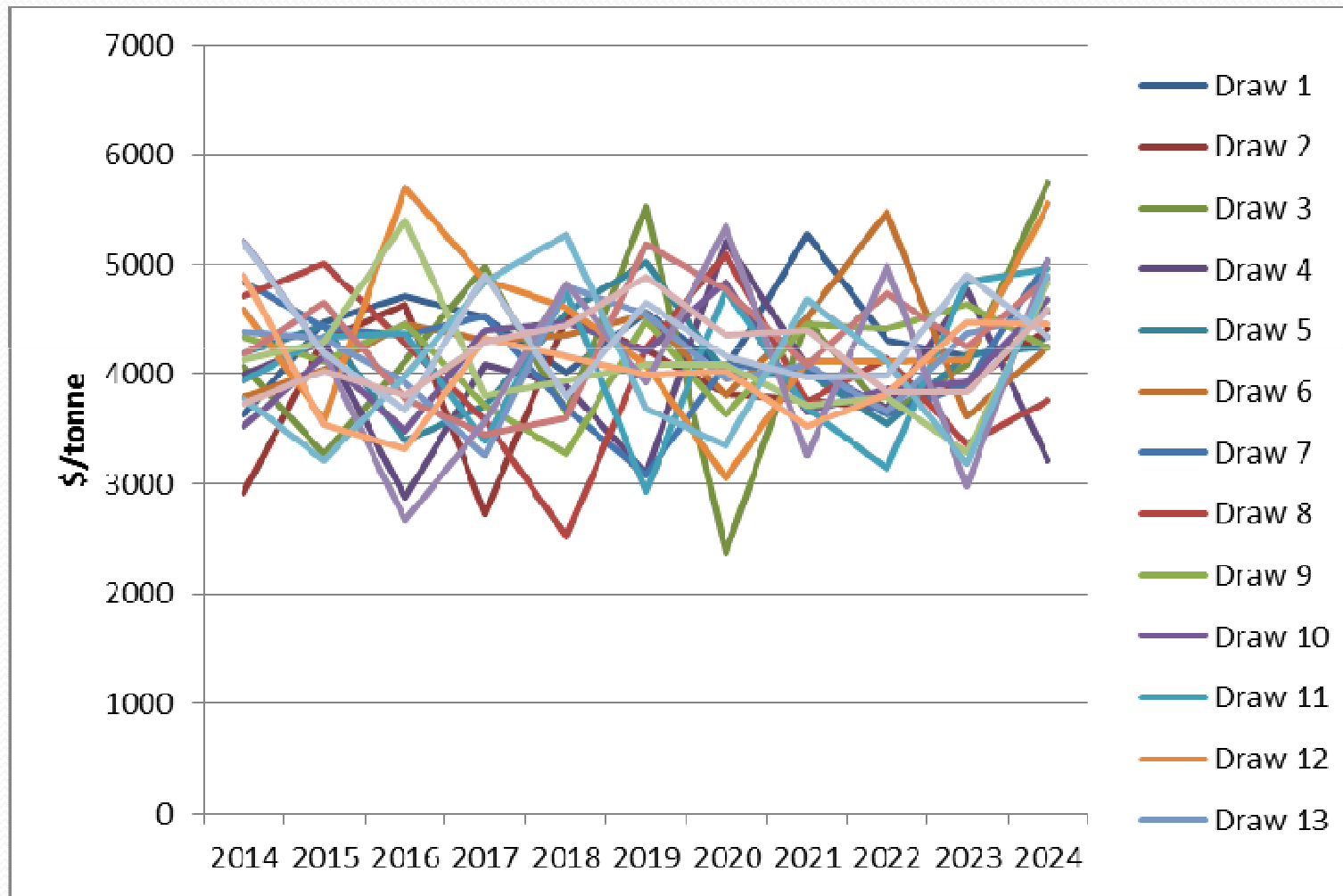
Source: FAPRI-MU deterministic baseline, January 2014

Global dairy situation – Oceania



Source: FAPRI-MU deterministic baseline, January 2014

Volatility in world cheese price



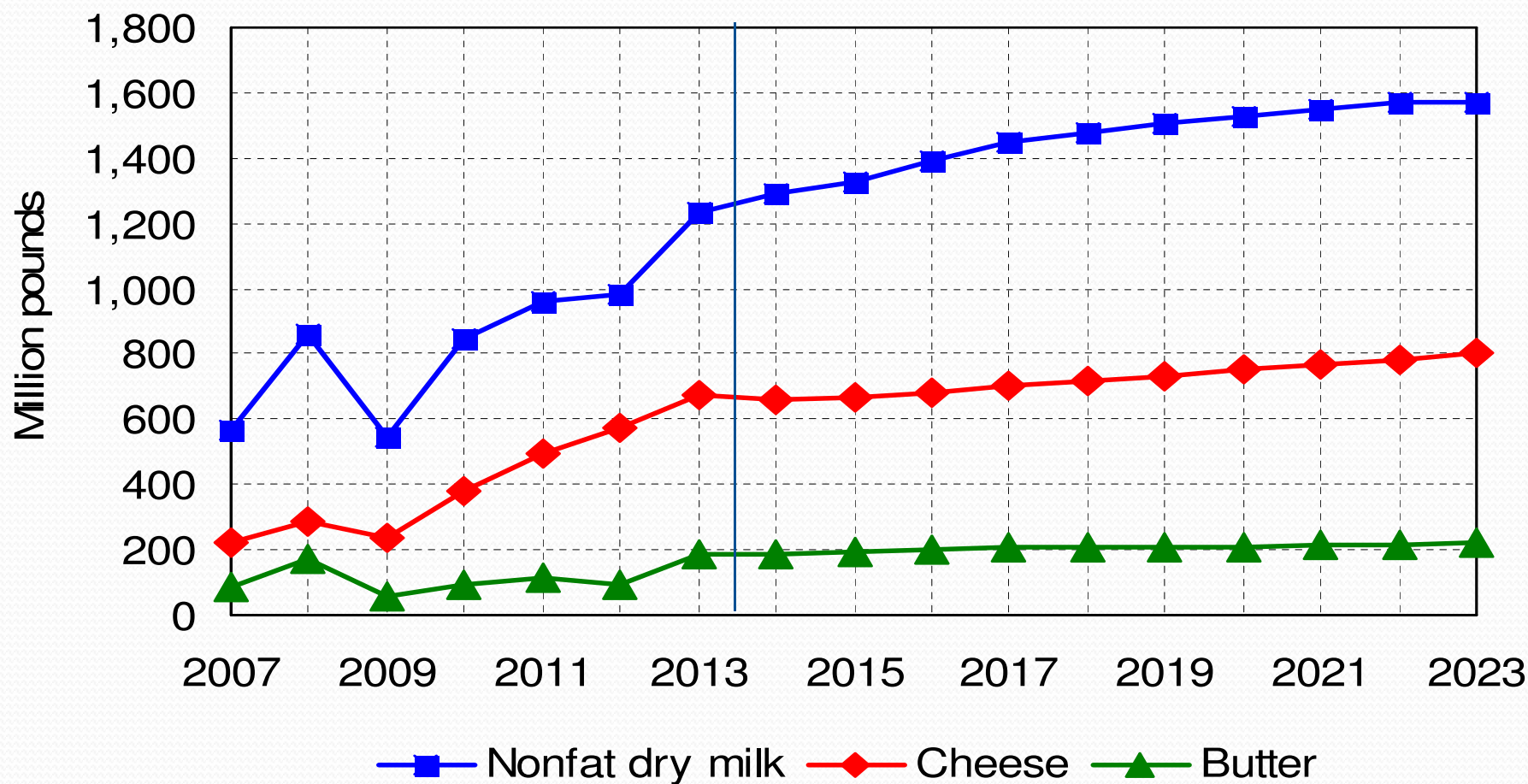


Dairy outlook in the US

- Feed prices falling and strong dairy prices should keep margins strong
- After the drought reduced production growth rate, but growth of about 2.5% in 2014 and 2015
- Trade in dairy products from the U.S. increases
- U.S. has introduced a margin protection scheme for the dairy sector

U.S. Dairy product trade

High international prices fuel dairy product exports



Source: "U.S. Baseline Briefing Book," March 2014, page 43



Dairy sector in the EU

- As in U.S., lower feed prices should improve margins
- In short run production increase constrained by quota
- Ending quota will lead to restructuring, with efficient regions expanding at the expense of those who have been supported by quota
- Production levels will depend on margins
- Likely to be more volatile in the future



Outlook for EU

- If feed prices fall, and world dairy prices remain strong, then EU production will likely expand when quotas end
- But, likely to be volatility in margins and therefore production levels
- Volatility from weather events impacting both dairy and crop yields
- Also from China's actions in markets

БЛАГОДАРЯ!

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Analysis of outlook and
US farm bill impacts at:

www.fapri.missouri.edu