



Outlook for Dairy

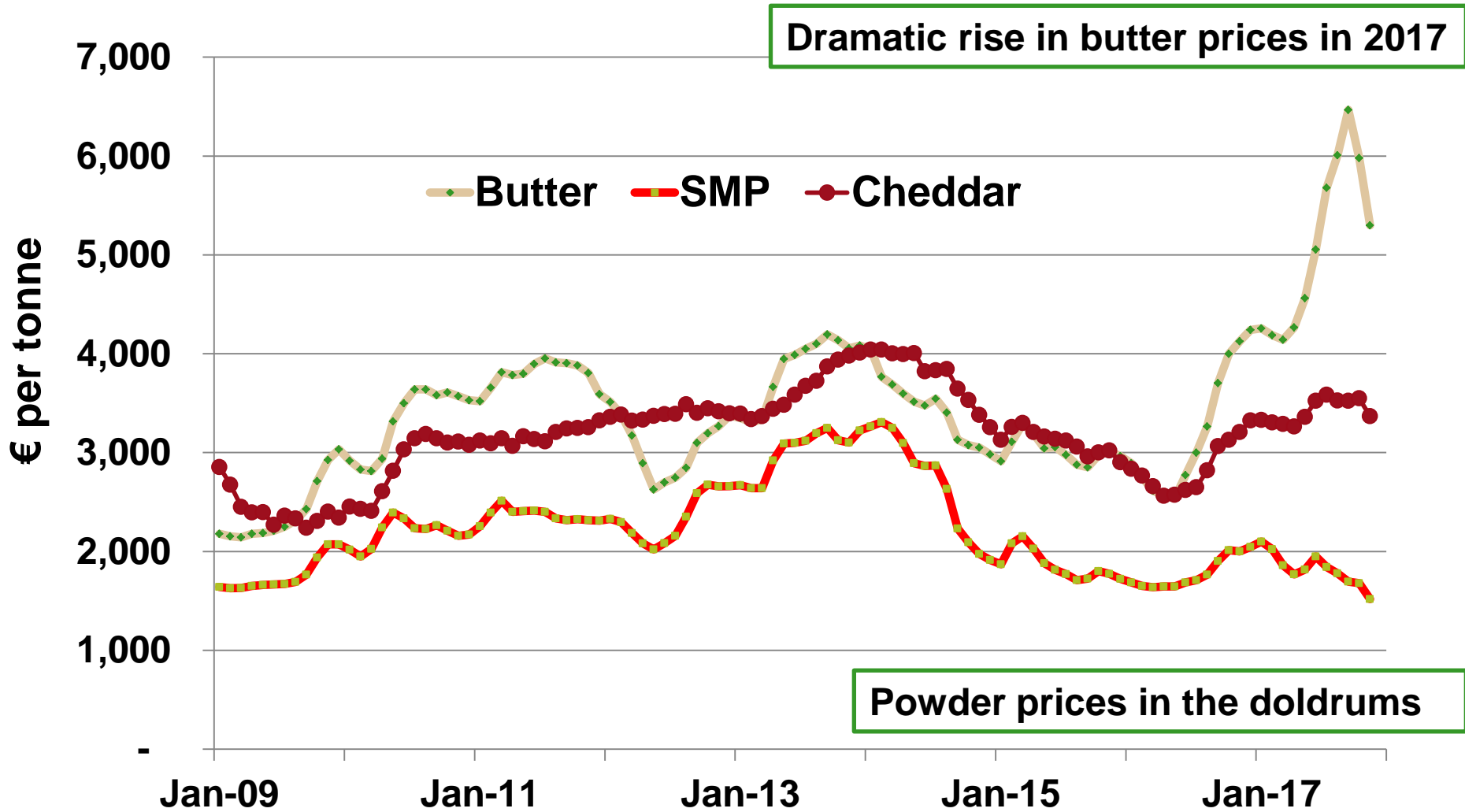
Emma Dillon, Trevor Donnellan & Brian Moran



Strong Recovery in Prices

- Global dairy market better balanced in 2017
 - Slight recovery in rate of milk production growth
 - Dramatic rise in European butter prices
 - SMP prices below EU intervention level
 - Unprecedented divergence in fat and protein prices
 - Strong recovery in farm milk prices internationally
- Higher rate of milk production growth in 2018
 - Milk supply growth likely to run ahead of demand growth
 - Weaker butter and cheddar prices with SMP prices remaining in the doldrums

EU Dairy Product Prices



Source: USDA

Milk Production Growth (year to date) 2017

European Union

- Production growth returned in Q2 2017
- SMP stocks remain very high

United States

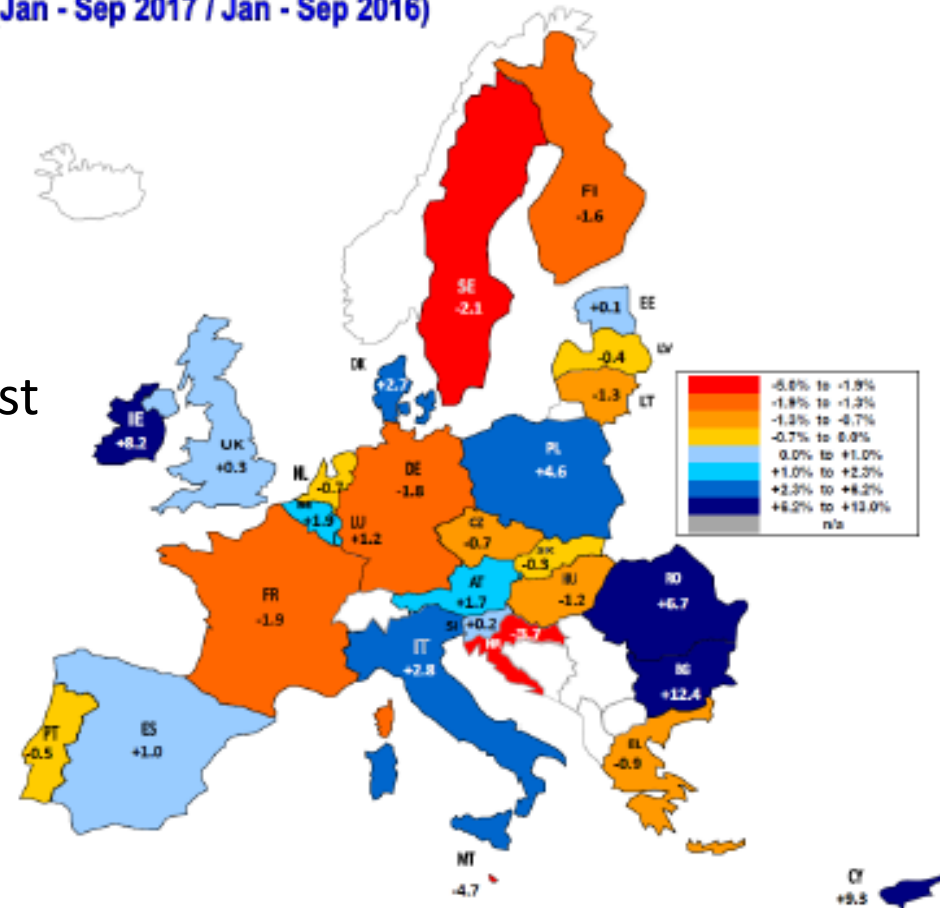
- Growth predominantly in Mid West
- Stocks building up

New Zealand

- Signs of a recovery in production growth in 17/18 season

EU Milk Deliveries compared to last period (in %)

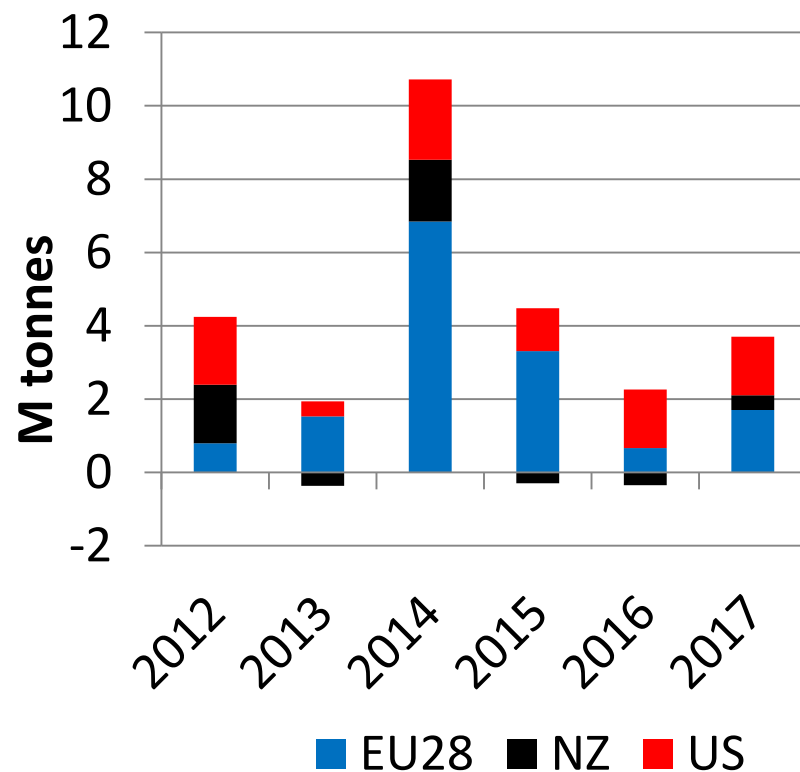
(Jan - Sep 2017 / Jan - Sep 2016)



Source: European Commission

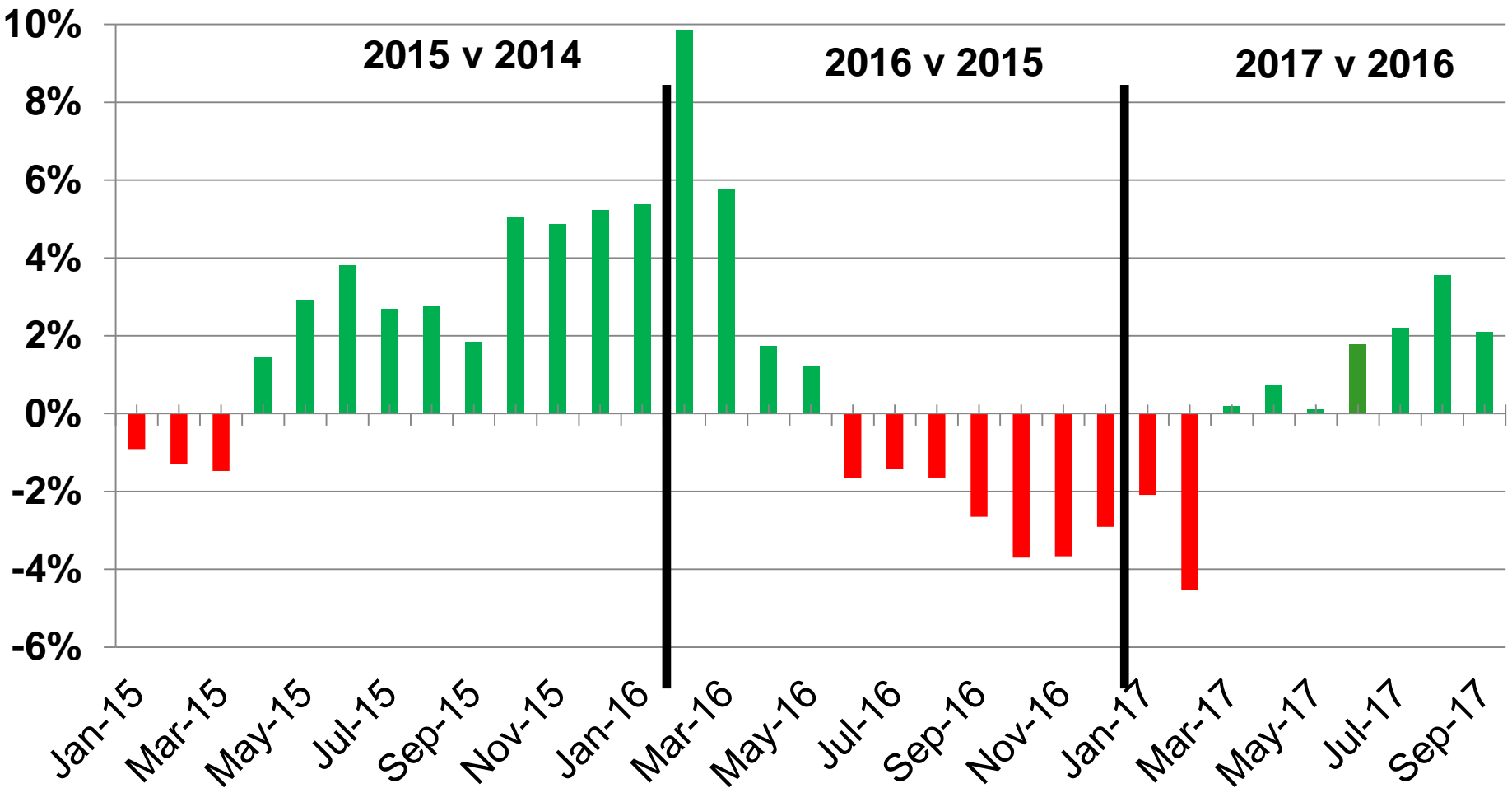
Annual Change in Milk Production among key exporters

	2012	2013	2014	2015	2016	2017e
Million tonnes						
EU28	0.8	1.5	6.8	3.3	0.66	1.7
NZ	1.6	-0.4	1.7	-0.3	-0.35	0.3
US	1.8	0.4	2.2	1.2	1.69	1.5
Total	4.2	1.6	10.7	4.2	2.0	3.5



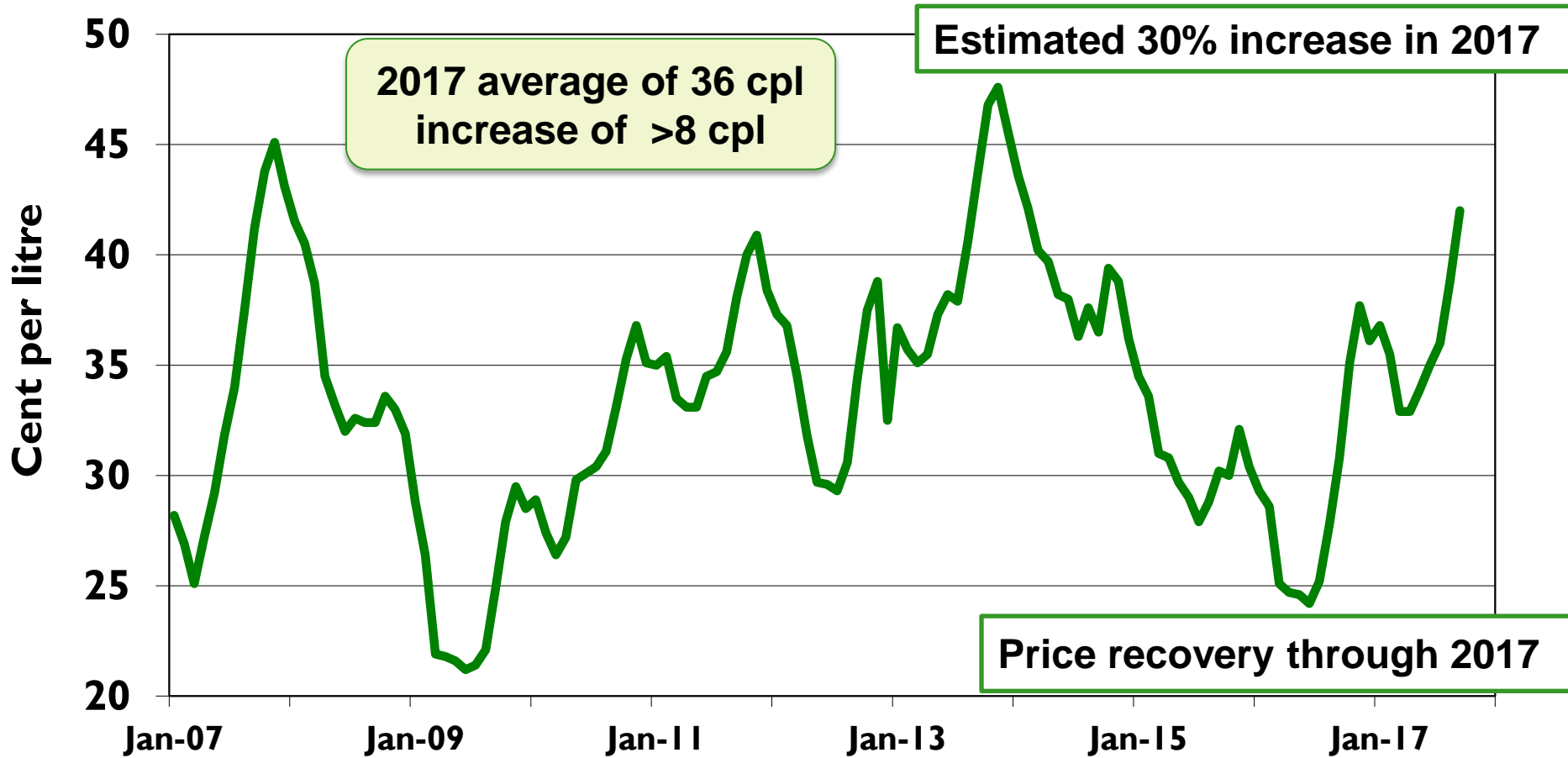
Source: Eurostat, DCANZ USDA and author estimates

% Change Monthly EU Milk Production (versus same month previous year)



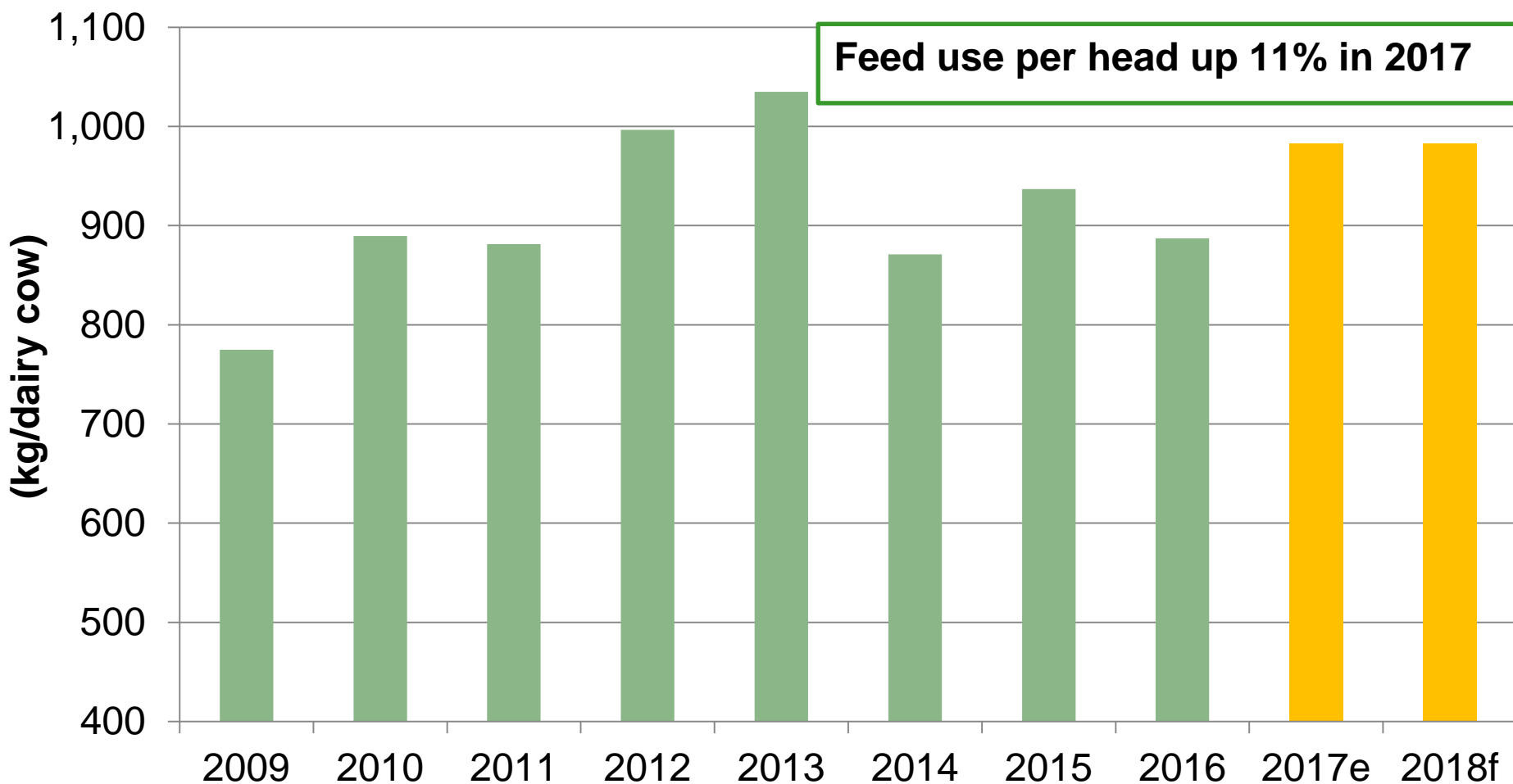
Source: Eurostat

Monthly Irish producer milk prices 2007 to 2017



Source: CSO Actual fat and protein

Dairy Compound Feed Usage 2009 to 2018f

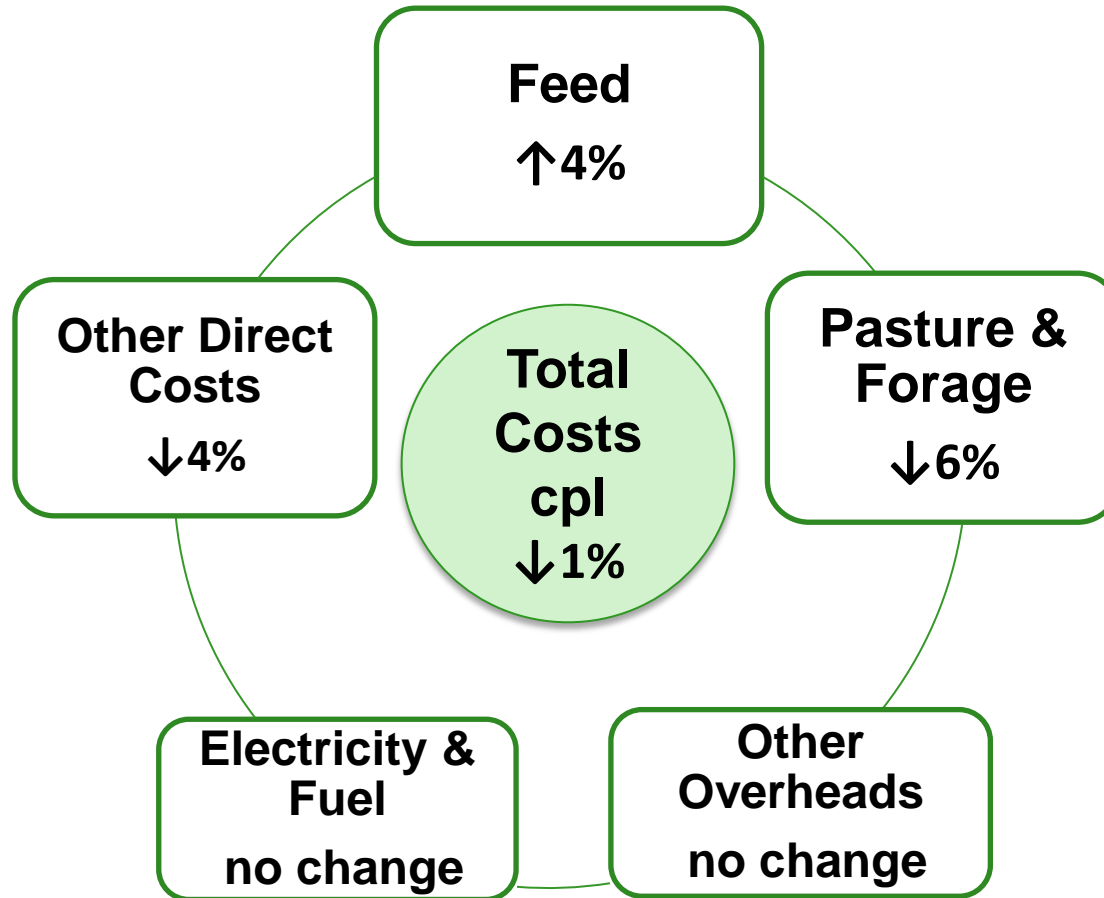


Source: FAPRI-Ireland (adapted from DAFM and CSO data)

2017 figure is an estimate. 2018 figure is a forecast

Dairy Input Costs per litre 2017e

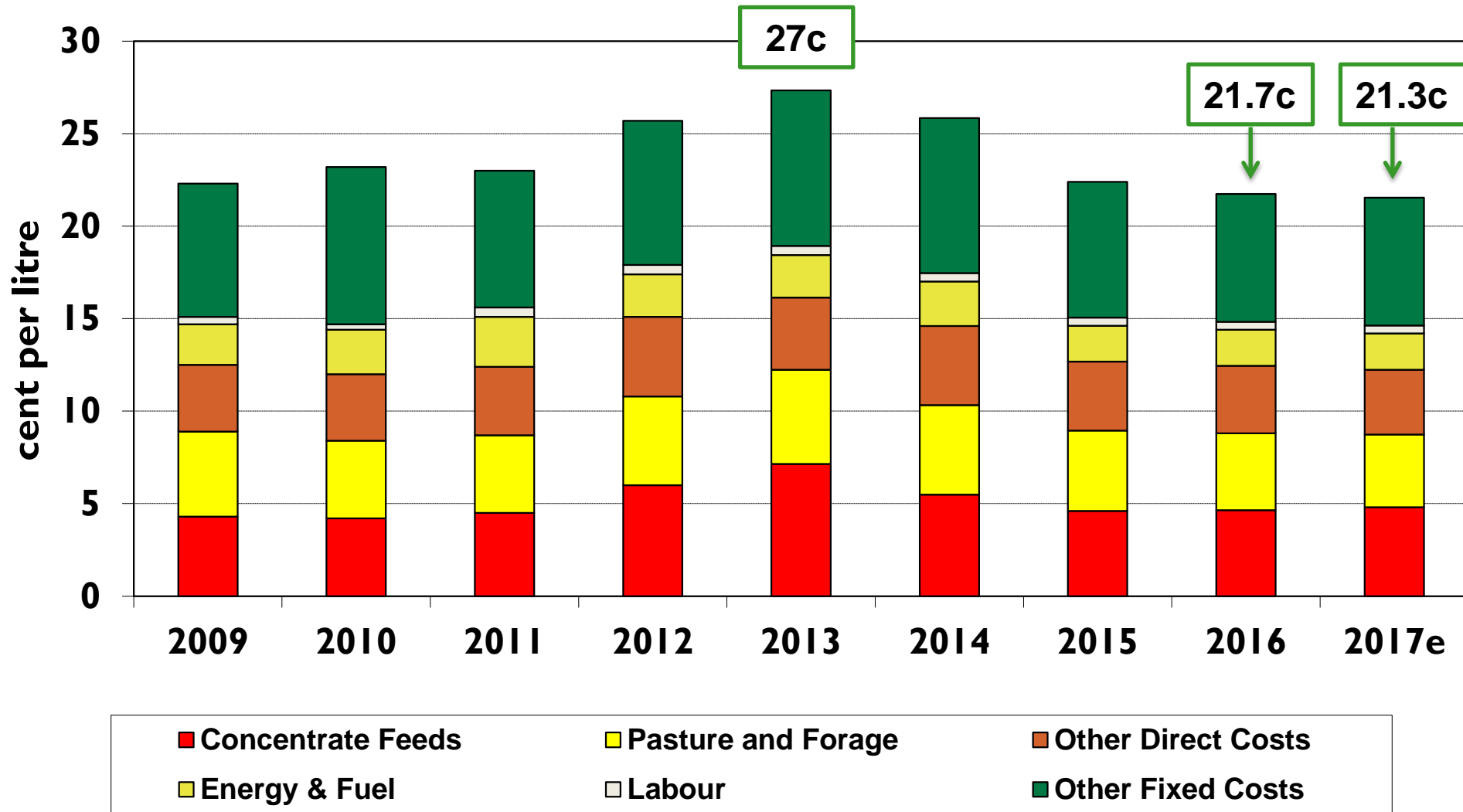
Expenditure change relative to 2016
based on average farm with 8% expansion in 2017



Source: Authors' estimate for 2017 and forecast for 2018

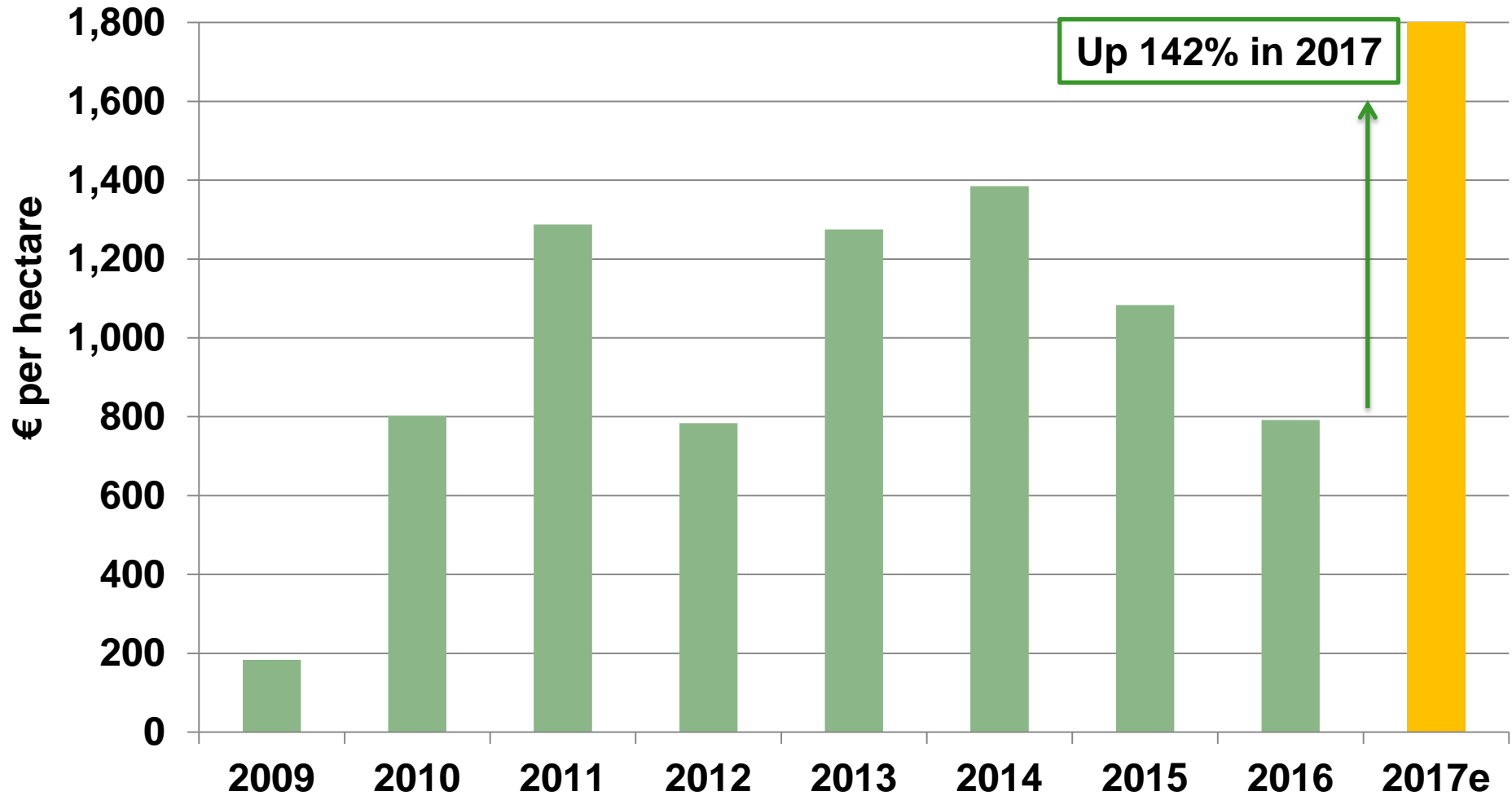
Teagasc Outlook 2018 – RDS, December 5th 2017

Costs of Dairy Production (cpl) 2009 to 2017e



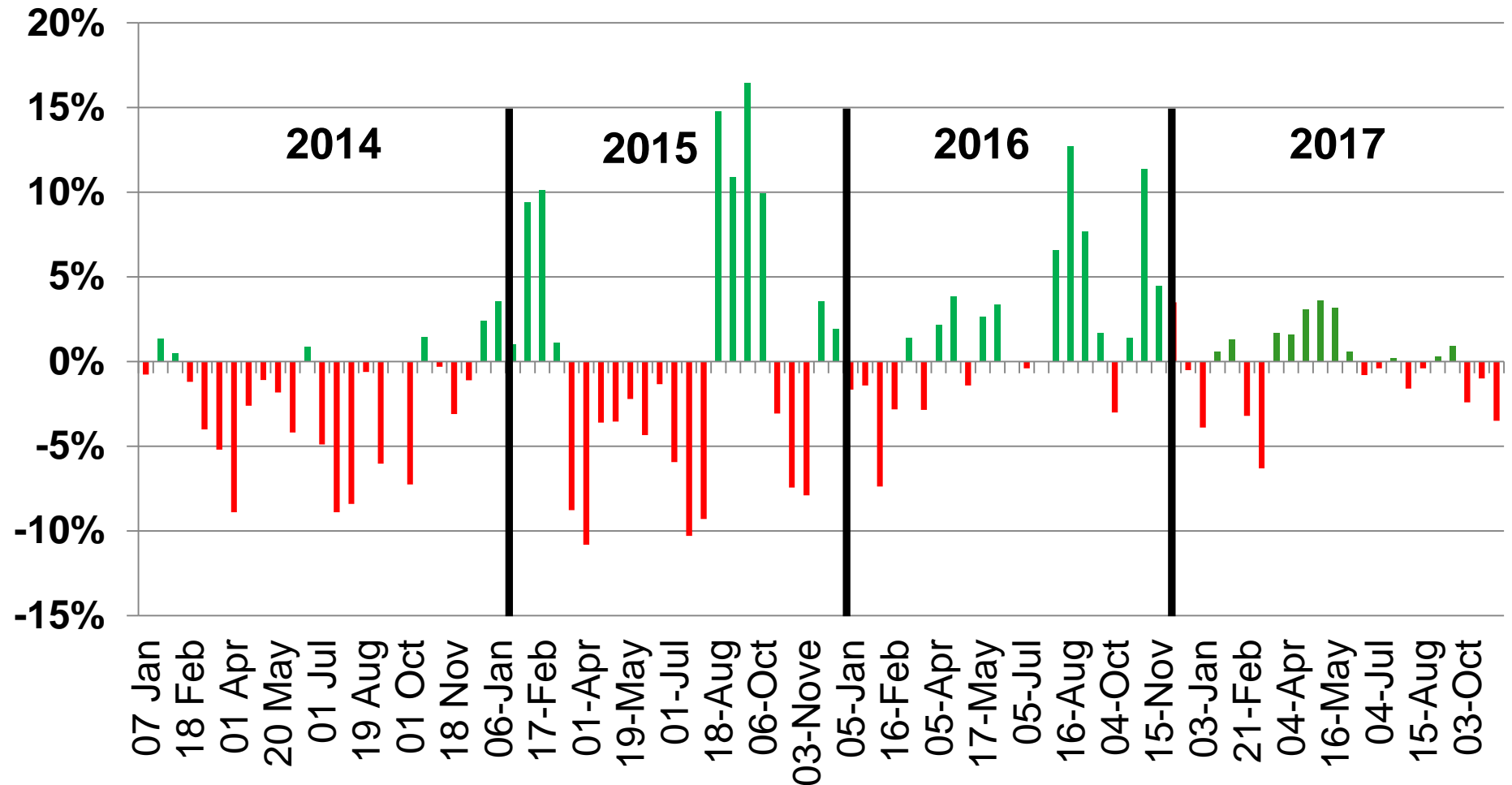
Source: Teagasc NFS (Various Years) and Authors' estimate for 2017 and forecast for 2018

Net Margin per hectare 2009 to 2017e



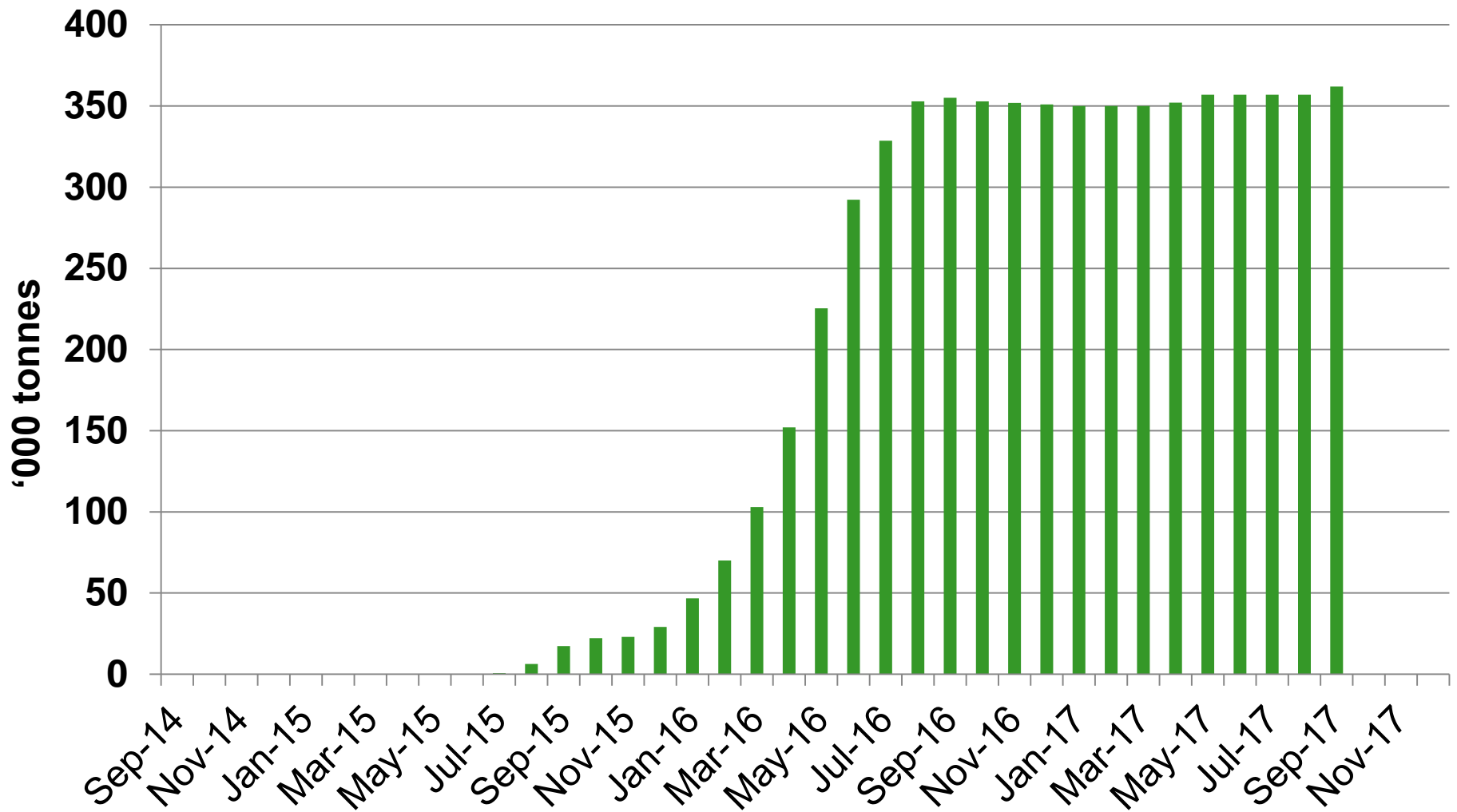
Source: Teagasc NFS, Authors' Estimate 2017, Forecast 2018

GDT Auction Price Index Movements 2014-17



Source: GDT Platform

SMP Stocks Continue to Overhang Market



Source: Milk Market Observatory

Dairy Markets in 2018?

- Production growth is picking up in the main export regions
 - NZ, EU and US
- Global milk supply growth to run ahead of demand growth
 - But in EU SMP stocks need to be disposed of
 - » For food use or animal feed?
 - » When and how much?
- Irish milk prices to move downwards in 2018
 - Average price to fall by 10% in 2018 (relative to 2017)

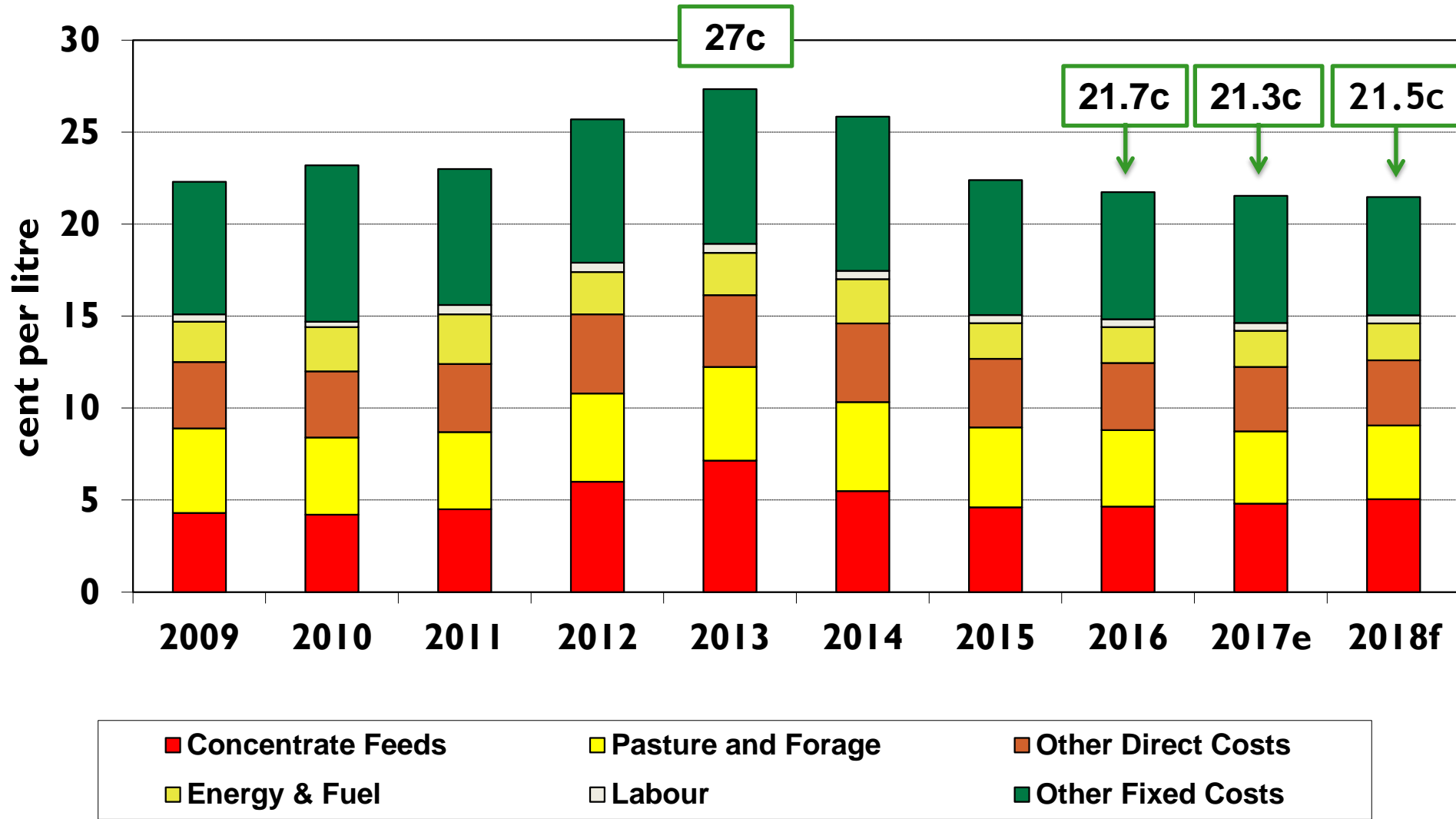
Dairy Input Costs per litre 2018f

Expenditure change relative to the previous year
- based on average farm with 8% expansion in 2017 & 4% in 2018

	2017	2018
Feed	↑4%	↑5%
Pasture & Forage	↓6%	↑2%
Other Direct Costs	↓4%	↑1%
Electricity & Fuel	no change	↑3%
Other Overheads	no change	↓7%
Total Costs (cpl)	↓1%	no change

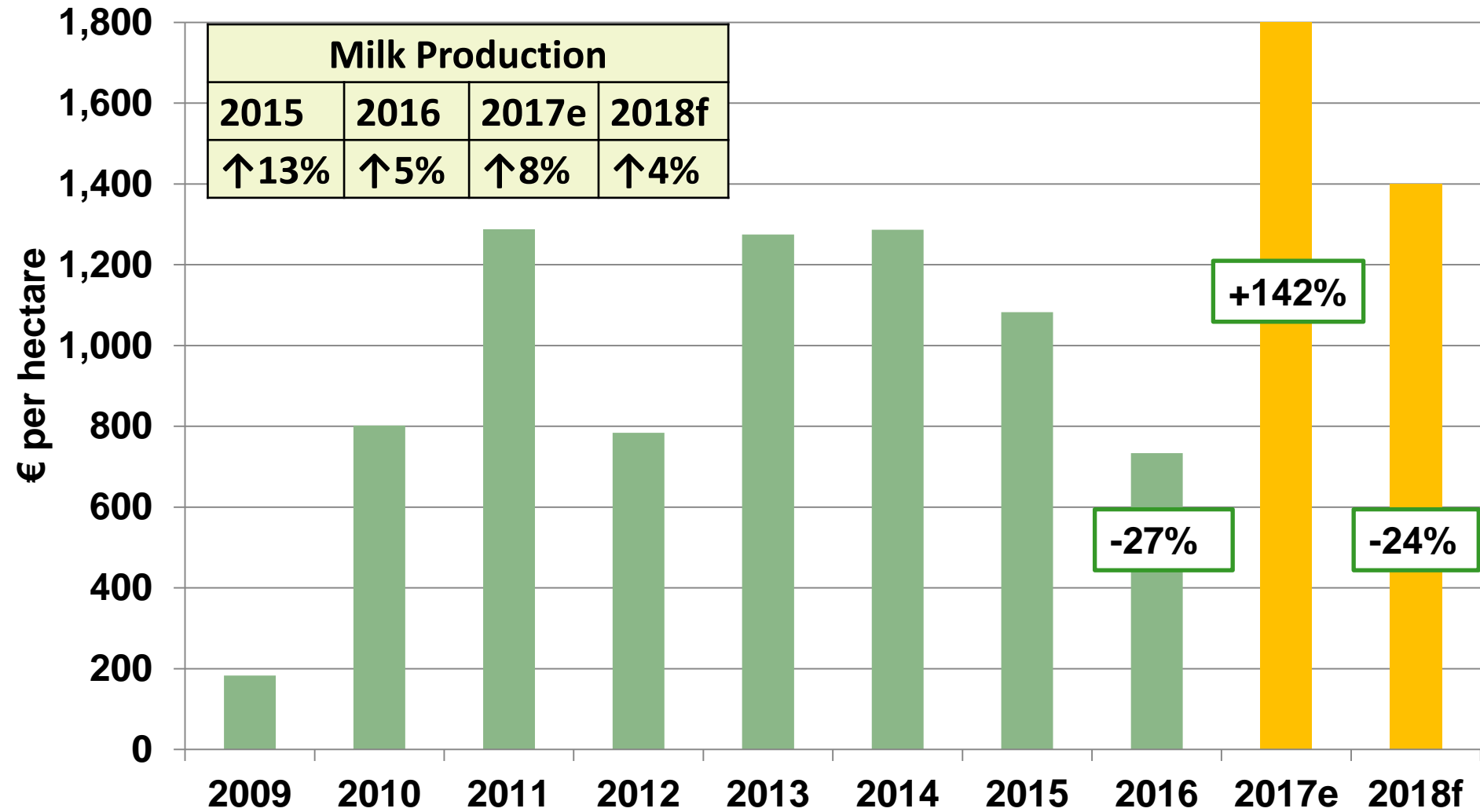
Source: Authors' estimate for 2017 and forecast for 2018

Costs of Dairy Production (cpl) 2009 to 2018f



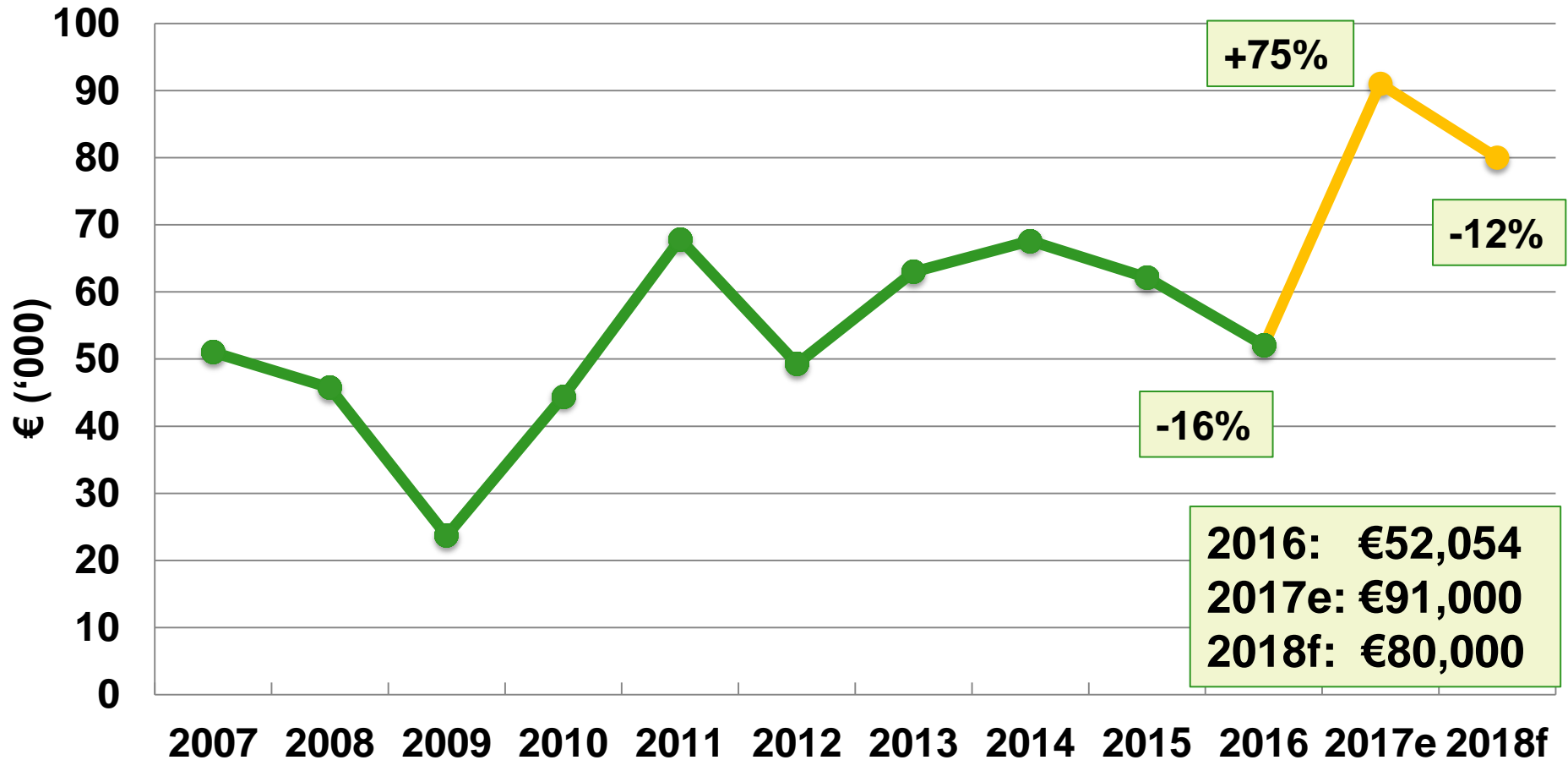
Source: Teagasc NFS (Various Years) and Authors' estimate for 2017 and forecast for 2018

Net Margin forecast for 2018f



Source: Teagasc NFS, Authors' Estimate 2016 and Authors' Forecast 2017

Average Dairy Farm Income 2007-2018f



Source: Teagasc NFS, Authors' Estimate 2017 and Authors' Forecast 2018

Dairy Summary

- Strong growth in margins and income in 2017
 - Milk price improved through the season
 - Little change in costs per litre
 - Capacity to produce more milk also boosted income
- Recovery in global milk supply growth in 2018
 - Weaker butter and cheddar prices
 - SMP prices to remain in the doldrums
 - Further increase in Irish milk production
 - Relatively stable total costs of production per litre
 - Margins and incomes to fall from very high 2017 levels

Thank You