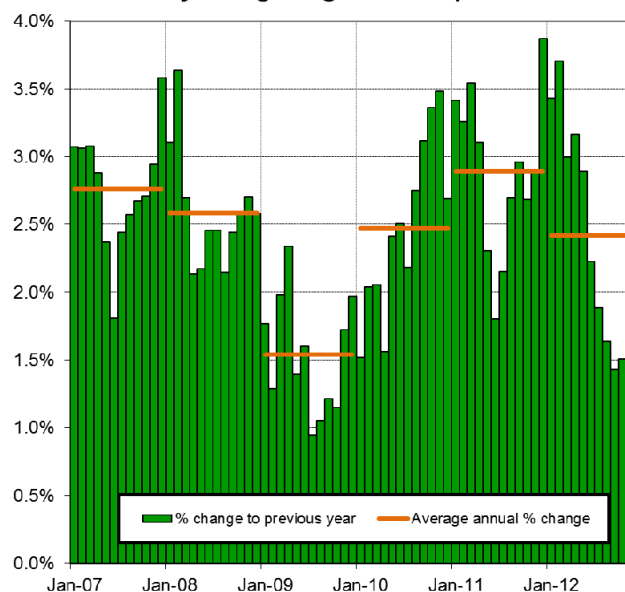


### Global milk supply growth weaker

The growth of milk production in the 59 major dairy nations (see list below) has slowed down significantly in 2012. After a strong first quarter (Q1) with an average milk production growth at 3.3% (leap year adjusted), the supply side responded to declining milk prices and the sharply increasing feed prices in Q2 due to the severe drought in the USA and some CIS regions. This reaction of the milk producers came along with the weaker months in the global supply seasonality between May and August.

The consequence was a cut back in milk production growth touching bottom at 1.4% in September 2012. This development has pulled down the year to date production growth rate to 2.4% until November 2012 compared to the same period in the previous year. The declining trend was mainly driven by falling growth rates of the EU-15 countries (+0.8%), the USA (+1.7%) and Iran (-8.3%). Despite the fact that milk-feed-price-ratio on global level has been still in unfavourable range (<1.5 since January 2012) the milk production growth slightly picked up and milk output grew 1.7% in November 2012 (yoy). The main influence came from the positive season opening of Oceania's milk production in Q3 which is again ahead of last year's record growth (Q3:+ 6.0% yoy). This optimistic trend development would have been stronger, if South American countries had maintained their output growth levels as usual production is seasonally increasing in this period.

### Monthly change of global milk production \*



### World price development: feed easing – milk stable

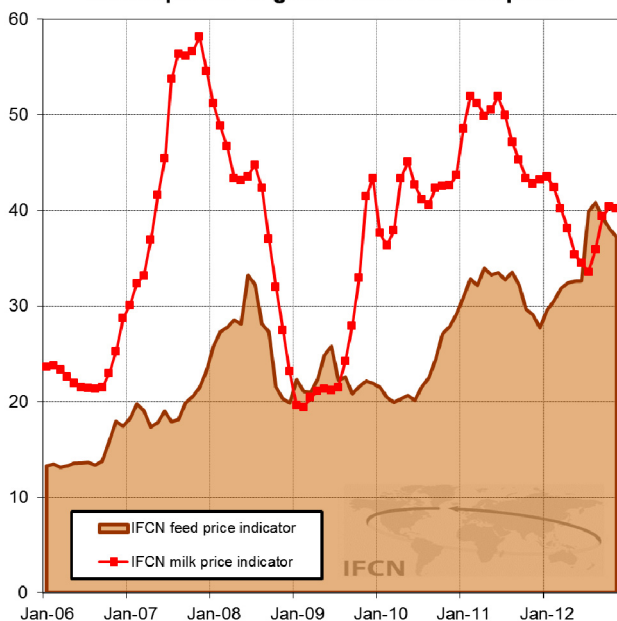
The development of the feed market of the last month restores hope for milk producers worldwide. Since the IFCN feed price indicator peaked at 40.8 US-\$ in August 2012, the world feed prices eased by 8.8% during the last 3 months. It indicates 37.2 US-\$ for November 2012, still above price peaks in 2008 (32.3 US-\$) and 2011 (34.0 US-\$). The year to date average level is still high at 35.0 US-\$ and milk-feed price ratio stays at 1.1 for November 2012. Looking at trends at the future market, feed prices could continue to ease gradually during the next year. Nevertheless corn quotations show a certain stability at current level for 2013 compared to soybean meal futures which indicate a low but steady downward trend.

The IFCN milk price indicator stayed stable at 40.2 US-\$ for November 2012. Nevertheless this is a recovery of +20% over last 4 months when milk price found this year's bottom at 33.5 US-\$ in July.

### IFCN Outlook

Assuming a stable milk demand growth at 2.7% like in the previous years (IFCN estimate 2010-2012), a continuous milk production growth at current level at 1.7% would imply a significant supply shortage in 2013. Therefore the milk price could increase by 20% or more underlying an almost stable feed price development as indicated at CME for 2013. The equilibrium milk price could increase to 47 US-\$ if feed prices stayed at current level. Due to the timelag in market response, milk prices could temporarily exceed 50 US-\$ in 2013.

### Development of global milk and feed prices



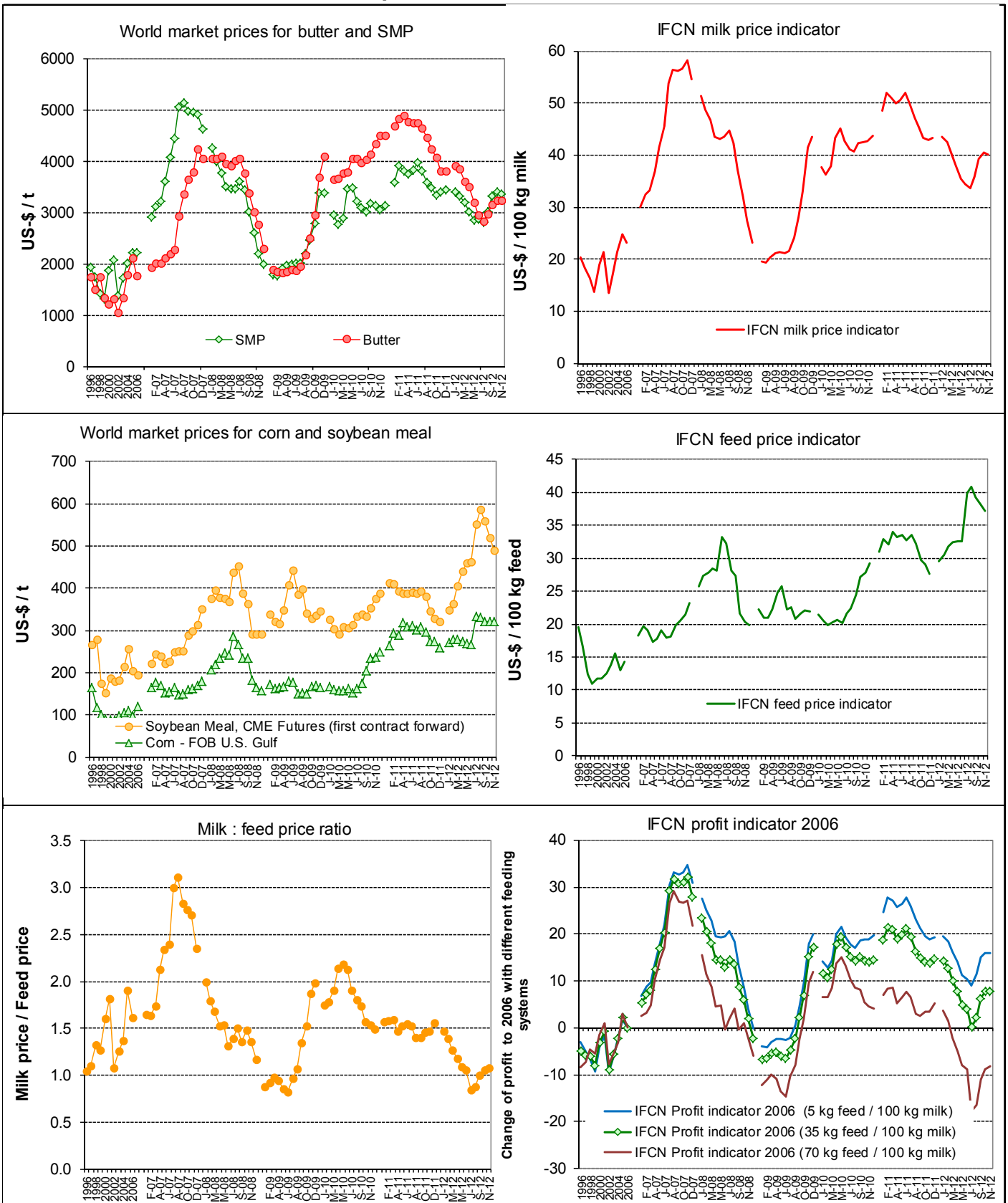
\* The data of this graph is content of IFCN product 3.4: Monthly milk production, milk and feed price estimates (real time data for >50 countries) Countries included (p = milk production, d = milk delivery): EU-27: (d), CIS: Armenia (p), Azerbaijan (p), Belarus (p), Kazakhstan (p), Kyrgyzstan (p), Moldova(p), Russia (p), Tajikistan (p), Ukraine (p), Uzbekistan (p), USA & Canada: Canada (d), USA (p), Latin America: Argentina (p), Brazil (d), Chile (d), Colombia (d), Mexico (p), Peru (d), Uruguay (d), Oceania: Australia (p), New Zealand (p), Asia: Bangladesh (p), China (p), India (p), Indonesia (d), Japan (p), Pakistan (p), Africa: Egypt (d), Other: Croatia (d), Switzerland (d), Turkey (d), Iran (p). Countries included represent 92% of world milk production. Figures for February 2008 and February 2012 are adjusted for Leap Year. Oct. & Nov. 2012 data is preliminary or estimated.

### IFCN calendar 2013

Event	Host	Location	Date
IFCN outlook 2013 discussion at IDFA event		Florida, USA	28 Jan 2013
IFCN Dairy Conference	Turkish Dairy Council	Turkey	3 – 5 June 2013
IFCN Supporter Conference	Arla UK	United Kingdom	16 – 18 Sept 2013
IFCN Regional Workshop	DeLaval and others	India	19 – 21 Nov 2013



## World prices and indicators in US-\$



IFCN milk price indicator: Calculation based on world price for butter and SMP (Oceania) and processing costs (butter 311 €/t, SMP 290 €/t)

IFCN feed price indicator: Calculation based on feed concentrate with 70% corn and 30% soybean meal.

IFCN Profit indicator 2006: milk price change - (feed price change \* feed ration in kg feed per kg milk).

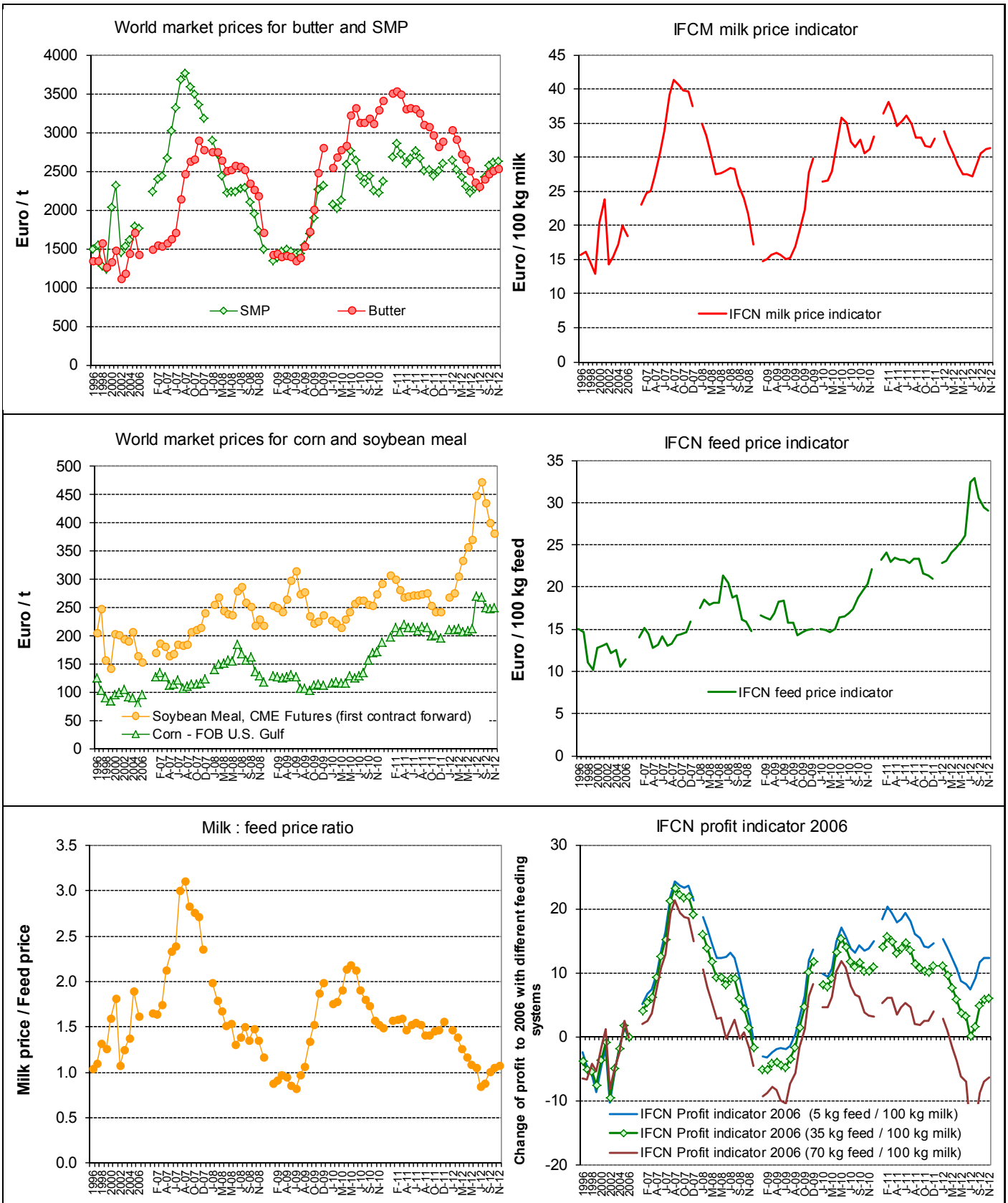
Annual figures 1996-2006. Monthly figures since January 2007 to November 2012.

Source: IFCN Dairy Report 2011, FAPRI, Oanda, IMF, USDA, IFCN estimates and calculations. November 2012 preliminary.





## World prices and indicators in Euro



IFCN milk price indicator: Calculation based on world price for butter and SMP (Oceania) and processing costs (butter 311 €/t, SMP 290 €/t)

IFCN feed price indicator: Calculation based on feed concentrate with 70% corn and 30% soybean meal.

IFCN Profit indicator 2006: milk price change - (feed price change \* feed ration in kg feed per kg milk).

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