



Importance of contractual relations, futures markets and extension of rules in the milk sector

Hungarian Interbranch Organization

Velence - November 14, 2017

G rard Calbrix

Head of Economic Affairs

French Dairy Processing Association ATLA

The Futures markets in the European dairy sector



- When an operator signs a contract with a customer, it locks its **SELLING PRICE**.
- Therefore, he creates a **PRICE RISK** or risk of position for him: if the input price increases, its margin will decrease and can even become negative.
- To eliminate this price risk, the operator can lock its **PURCHASING PRICE** through the purchase of a futures contract on a financial market.
- Whatever will be the evolution of the **INPUT PRICE**, its purchasing price will not change

The Futures markets in the European dairy sector

- Futures financial market for dairy products: EEX in Leipzig (Germany)
- Futures contracts available → 3 commodities:
 - SMP
 - BUTTER
 - WHEY POWDER
- Current users of the EEX dairy Futures markets:
 - Food companies using dairy ingredients for their processing
 - Traders of dairy commodities
 - Quite none dairy processors
 - No dairy farmers

The Futures markets in the European dairy sector

| EEX Butter | | | | | | | | | |
|---------------------------------------|-------|-------|--------|----------|----------|--------|----------|-------|-------|
| Settle = Prior Day's Settlement Price | | | | | | | | | |
| Name | Bid | Ask | Settle | Net.Chng | Pct.Chng | Volume | Open.Int | Low | High |
| FABT NOV7 | 5,000 | 5,175 | 5,350 | €0 | 0 | 0 | 417 | - | - |
| FABT DEC7 | 4,800 | 5,250 | 5,200 | €0 | 0 | 0 | 705 | - | - |
| FABT JAN8 | 4,500 | 4,950 | 4,588 | €0 | 0 | 12 | 575 | 4,600 | 4,600 |
| FABT FEB8 | 3,500 | 4,850 | 4,500 | €0 | 0 | 12 | 397 | 4,600 | 4,600 |
| FABT MAR8 | 4,064 | 4,700 | 4,400 | €0 | 0 | 0 | 348 | - | - |
| FABT APR8 | 3,500 | 4,350 | 4,368 | €0 | 0 | 0 | 201 | - | - |
| FABT MAY8 | 3,500 | 4,350 | 4,310 | €0 | 0 | 0 | 185 | - | - |
| FABT JUN8 | 4,000 | 4,300 | 4,150 | €0 | 0 | 0 | 166 | - | - |
| FABT JUL8 | 3,950 | 4,350 | 4,125 | €0 | 0 | 0 | 68 | - | - |
| FABT AUG8 | 3,900 | 4,350 | 4,100 | €0 | 0 | 0 | 67 | - | - |
| FABT SEP8 | 3,850 | 4,350 | 4,075 | €0 | 0 | 0 | 67 | - | - |
| FABT OCT8 | 3,700 | 4,350 | 4,050 | €0 | 0 | 0 | 49 | - | - |
| FABT NOV8 | 3,700 | 4,400 | 4,025 | €0 | 0 | 0 | 46 | - | - |
| FABT DEC8 | 3,700 | 4,400 | 4,000 | €0 | 0 | 0 | 46 | - | - |
| FABT JAN9 | - | 4,400 | 3,975 | €0 | 0 | 0 | 0 | - | - |
| FABT FEB9 | - | 4,400 | 3,950 | €0 | 0 | 0 | 0 | - | - |
| FABT MAR9 | - | 4,400 | 3,950 | €0 | 0 | 0 | 0 | - | - |
| FABT APR9 | - | - | 3,950 | €0 | 0 | 0 | 0 | - | - |

The Futures markets in the European dairy sector

| EEX SMP | | | | | | | | | |
|---------------------------------------|-------|-------|--------|----------|----------|--------|----------|-------|-------|
| Settle = Prior Day's Settlement Price | | | | | | | | | |
| Name | Bid | Ask | Settle | Net.Chng | Pct.Chng | Volume | Open.Int | Low | High |
| FASM NOV7 | 1,400 | 1,525 | 1,463 | €0 | 0 | 0 | 219 | - | - |
| FASM DEC7 | 1,430 | 1,530 | 1,473 | €0 | 0 | 0 | 362 | - | - |
| FASM JAN8 | 1,430 | 1,540 | 1,456 | €4 | 0.27 | 25 | 426 | 1,460 | 1,470 |
| FASM FEB8 | 1,440 | 1,550 | 1,450 | €0 | 0 | 20 | 376 | 1,470 | 1,470 |
| FASM MAR8 | 1,440 | 1,560 | 1,502 | €0 | 0 | 20 | 350 | 1,470 | 1,470 |
| FASM APR8 | 1,430 | 1,575 | 1,484 | €0 | 0 | 5 | 195 | 1,490 | 1,490 |
| FASM MAY8 | 1,440 | 1,600 | 1,495 | €0 | 0 | 5 | 175 | 1,490 | 1,490 |
| FASM JUN8 | 1,440 | 1,625 | 1,533 | €0 | 0 | 5 | 158 | 1,490 | 1,490 |
| FASM JUL8 | 1,530 | 1,650 | 1,590 | €0 | 0 | 0 | 51 | - | - |
| FASM AUG8 | 1,540 | 1,880 | 1,540 | €0 | 0 | 0 | 51 | - | - |
| FASM SEP8 | 1,550 | 1,900 | 1,550 | €0 | 0 | 0 | 51 | - | - |
| FASM OCT8 | 1,560 | 1,950 | 1,560 | €0 | 0 | 0 | 51 | - | - |
| FASM NOV8 | 1,570 | 1,950 | 1,570 | €0 | 0 | 0 | 51 | - | - |
| FASM DEC8 | - | 1,950 | 1,540 | €0 | 0 | 0 | 51 | - | - |
| FASM JAN9 | - | - | 1,550 | €0 | 0 | 0 | 0 | - | - |
| FASM FEB9 | - | - | 1,560 | €0 | 0 | 0 | 0 | - | - |
| FASM MAR9 | - | - | 1,570 | €0 | 0 | 0 | 0 | - | - |
| FASM APR9 | - | - | 1,580 | €0 | 0 | 0 | 0 | - | - |

The Futures markets in the European dairy sector

| EEX Whey | | | | | | | | | |
|---------------------------------------|-----|-----|--------|----------|----------|--------|----------|-----|------|
| Settle = Prior Day's Settlement Price | | | | | | | | | |
| Name | Bid | Ask | Settle | Net.Chng | Pct.Chng | Volume | Open.Int | Low | High |
| FAWH NOV7 | 550 | 620 | 588 | €0 | 0 | 0 | 123 | - | - |
| FAWH DEC7 | 550 | 615 | 578 | €0 | 0 | 0 | 104 | - | - |
| FAWH JAN8 | 565 | 615 | 592 | €0 | 0 | 5 | 85 | 585 | 585 |
| FAWH FEB8 | 565 | 620 | 595 | €0 | 0 | 5 | 80 | 585 | 585 |
| FAWH MAR8 | 560 | 630 | 598 | -€13 | -2.17 | 10 | 55 | 585 | 585 |
| FAWH APR8 | 520 | 640 | 606 | -€16 | -2.64 | 5 | 0 | 590 | 590 |
| FAWH MAY8 | 550 | 650 | 1 | €0 | 0 | 5 | 0 | 595 | 595 |
| FAWH JUN8 | 550 | 660 | 1 | €0 | 0 | 5 | 0 | 600 | 600 |
| FAWH JUL8 | 605 | 670 | 1 | €0 | 0 | 5 | 0 | 605 | 605 |
| FAWH AUG8 | 610 | 680 | 1 | €0 | 0 | 5 | 0 | 610 | 610 |
| FAWH SEP8 | 615 | 690 | 1 | €0 | 0 | 5 | 0 | 615 | 615 |

The Futures markets in the European dairy sector

- Two questions for the dairy processors and the farmers:
 - Q1: Do they have a price risk / risk of position?

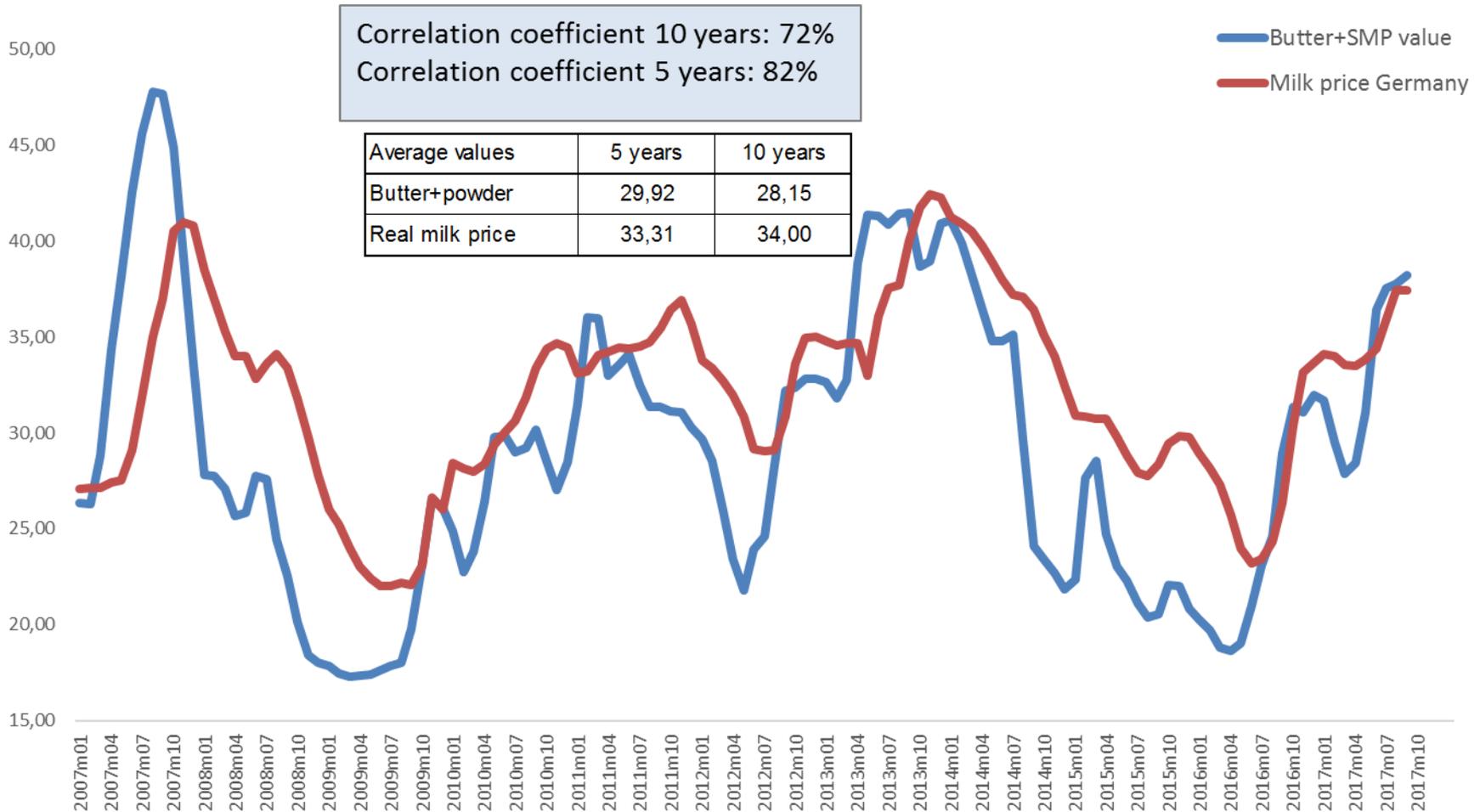
As far as a dairy does not commit on a milk price it will pay to its farmers in the future, this DAIRY PROCESSOR has NO PRICE RISK.

A dairy takes a price risk if it needs to commit to its farmers on the milk price level it will pay in the future and has not selling contracts for the dairy products it will process with this milk.

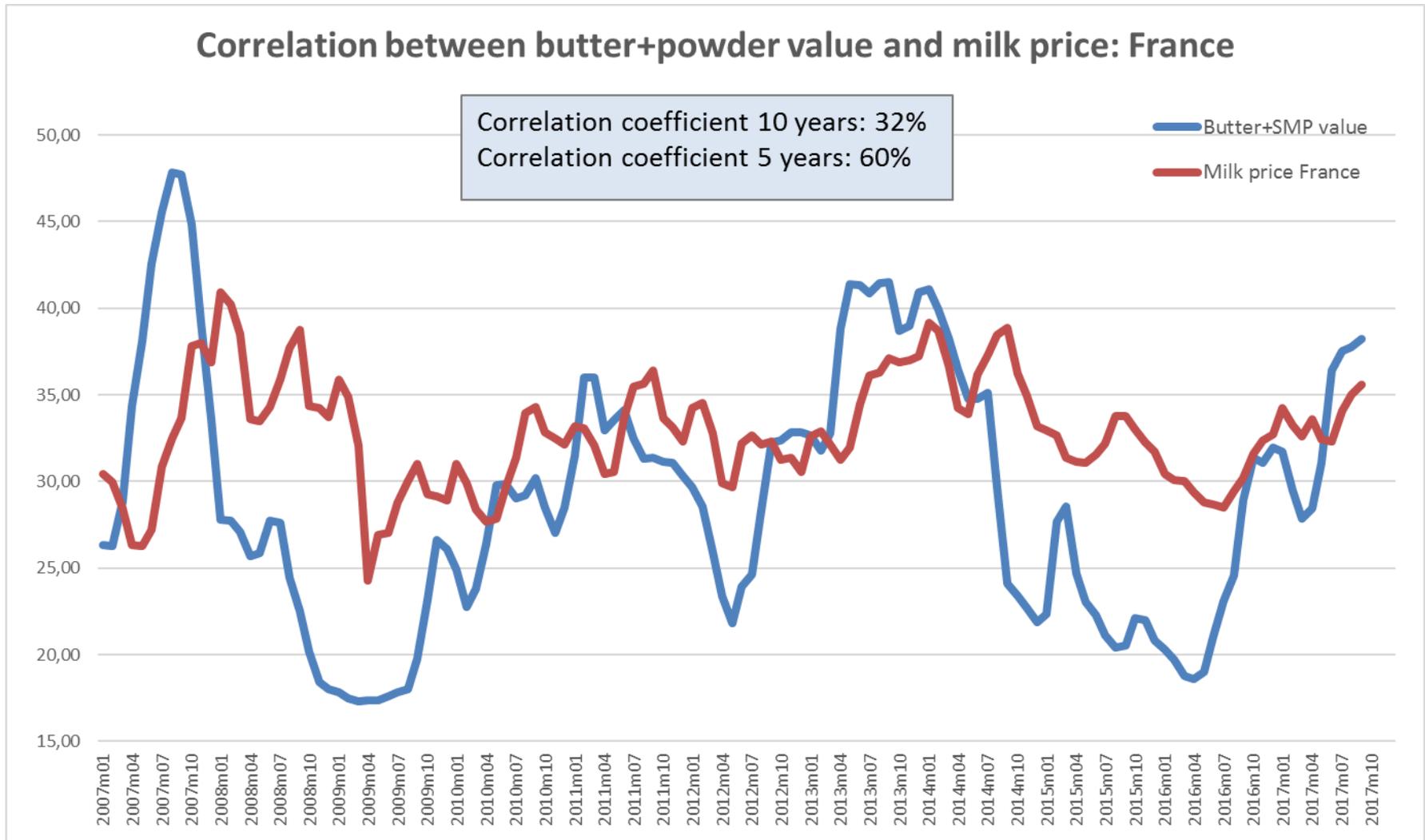
- Q2: Which correlation between the milk prices paid and the European quotation of block butter and SMP?

The Futures markets in the European dairy sector

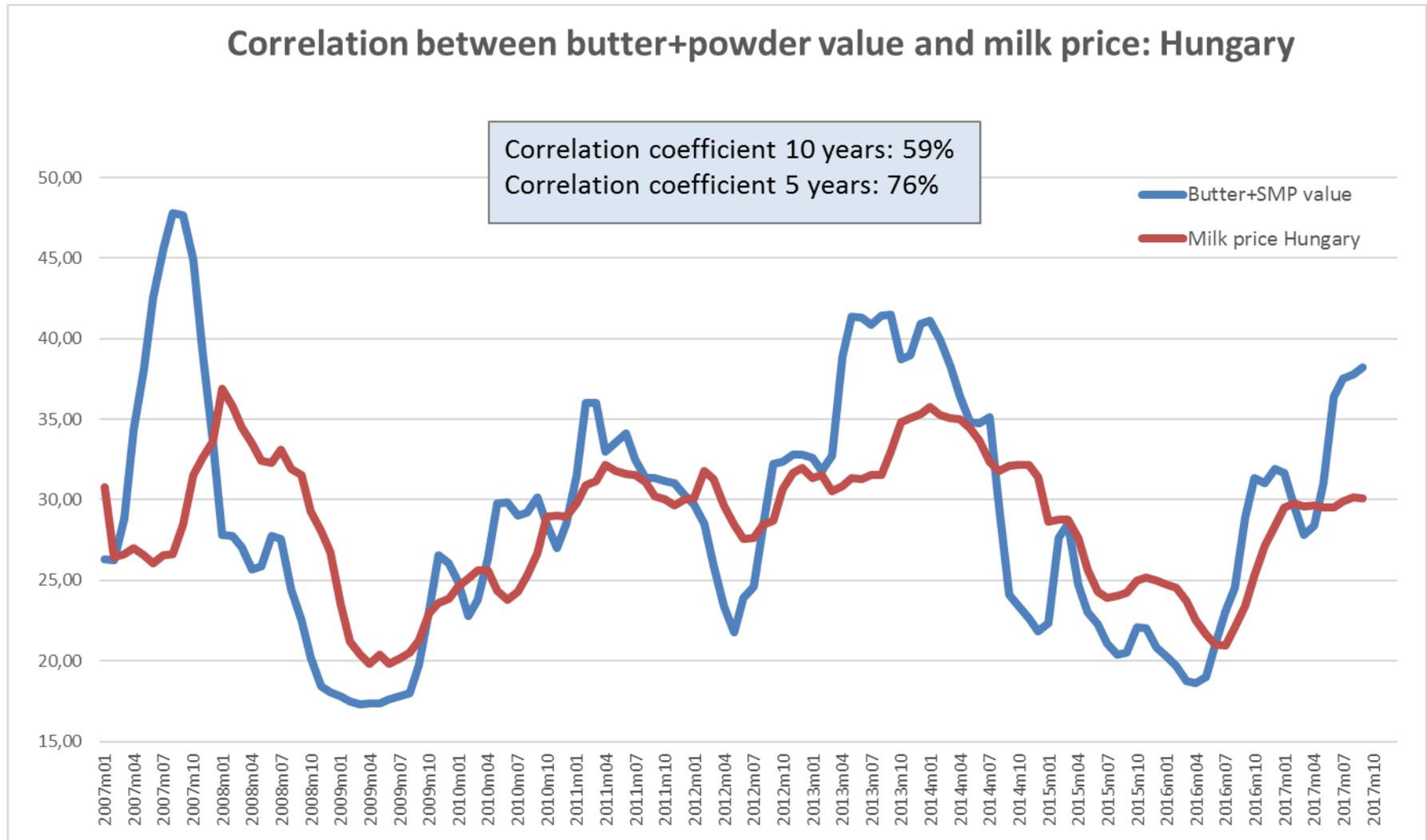
Correlation between butter+powder value and milk price: Germany



The Futures markets in the European dairy sector



The Futures markets in the European dairy sector

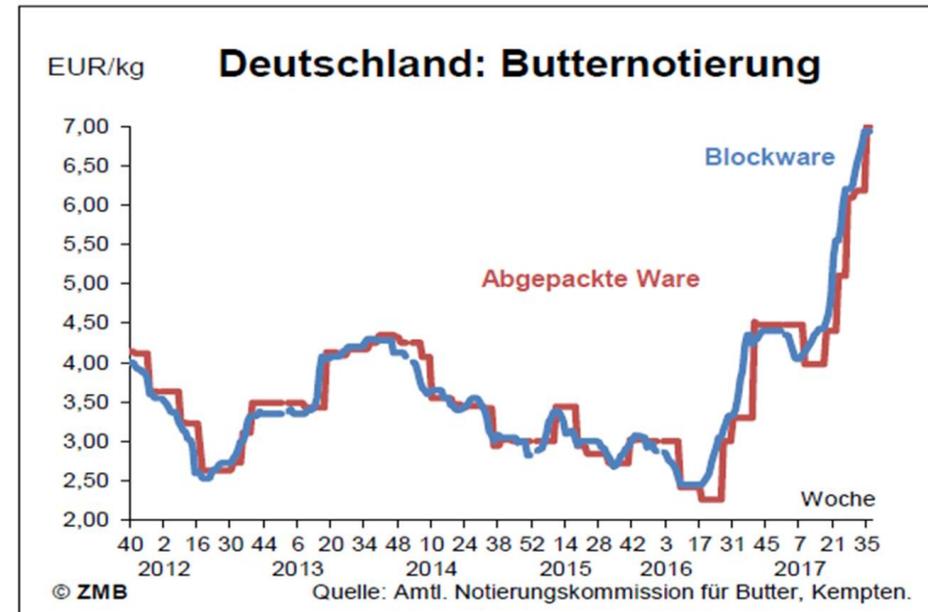
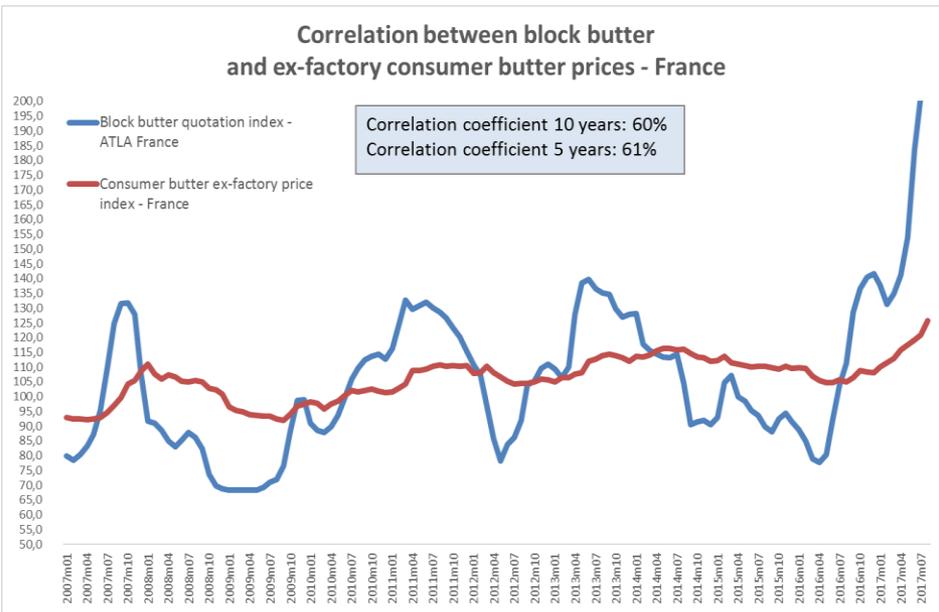


The limits of the Futures market in EU for dairy products

- One cannot lock higher SMP and butter selling prices on a Futures market than the consensus of the operators.
- Futures markets DO NOT REDUCE the market price volatility. Moreover, SMP and block butter are the most volatile dairy products.
- High costs of intervention: locking a price on a Futures market has a cost → Is there a benefit for dairies and/or for farmers?
- Based on commodity prices → low milk price equivalents for the farmers
- The traders and end-users of dairy ingredients intervening on the EEX have an interest to communicate about low prices of butter and SMP...
- Poor liquidity and limited number of operators → high risk of manipulations

The Futures markets in the European dairy sector

- **ADDING VALUE** to the milk should be the key objective for the dairy processors and dairy farmers.
- Added value products prices are **LESS VOLATILE** and should give a **BETTER RETURN** to the dairies and the farmers.





Thank you for your attention