

# INTERNATIONAL DAIRY magazine

## Dairy markets & hedging volatility

### EDA session on risk management in the dairy industry

The second breakout session of the EDA annual gathering in Dublin on 15 November focused on „Dairy Markets & Hedging Volatility“. The dairy industry operates in an environment with a multitude of risks, volatility being just one of them. Weather, policy, currency, markets, finance or livestock disease are major risk factors as well.



„Imagine your salary would change by 30% within a three months period without you knowing about it before“, said Prof. Declan O'Connor from Cork Institute of Technology, and caught the audience's immediate attention for the risk that is imposed by extreme price volatility. While normal price volatility is desirable out of an economic perspective, extreme volatility has serious negative impacts on cash flow, planning, contracting, investment and R&D as well as it promotes substitution, O'Connor said. As policy-led solutions for

risk management for the dairy sector are unlikely, the industry must develop private initiatives for hedging risks. Any future CAP will most probably focus on crisis and risk management rather than just buying product out of the market, hinted O'Connor.

One of the most favoured ways to manage risks these days are fixed price contracts as they provide certainty and flexibility and allow for sharing of risks, said O'Connor. But fixed price contracts are no „silver bullet“ as there is no single solution for individual risk management requirements.

Sascha Siegel, EEX, reported that 2017 saw a dairy futures trade volume of 137,000 tons underlining that the market has reached liquidity at a now significant level that can't be ignored anymore. Most of the trading is in butter and SMP futures while, admittedly, whey and liquid milk futures still have to develop.



Mary Ledman, Rabobank, added the US perspective where dairy futures have been around since 1996. Today, most of the futures trading centers around Class III milk (destined for cheese making), Ledman reported. 75% of the trading, however, is not in futures but in options. The success of the American dairy futures is due to transparency and credibility provided by weekly market data issued by USDA, large farmers who take high risks and need to protect their margins, the support by co-operative programs and by fast food chains who want to protect the price of their menus.

In the discussion, Siegel hinted that EEX has been increasing its dairy futures portfolio for years and might introduce a cheese future one time even if there is a big variety of cheeses around in Europe. Siegel also said he was satisfied with the market data provided by the EU Commission's MMO even though reporting should be improved especially in Ireland.



**Sascha Siegel, EEX, told the EDA forum that EEX and Global Dairy Trade are currently in talks to establish a trade platform for European dairy products, similar to the NZ-based GDT internet auction.**