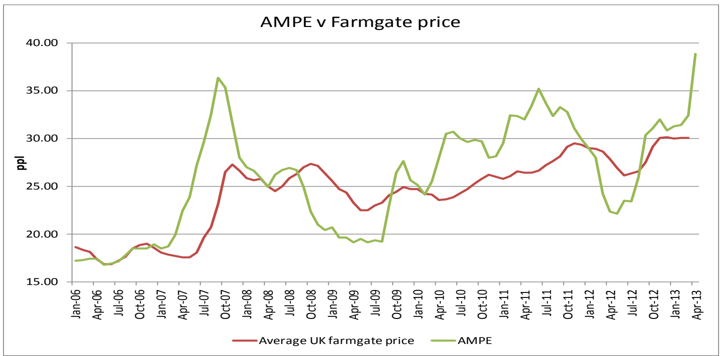
DairyCo Datum.

Dairy Market Update

Farmgate prices lagging behind commodity values

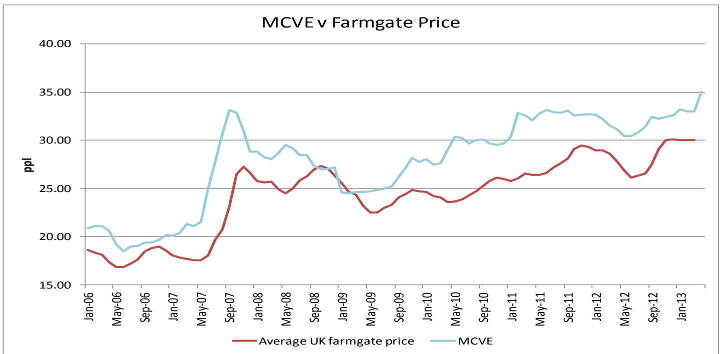
The latest farmgate price for March was 30.04ppl according to Defra. Although this was the fifth month in succession that the average was above 30ppl, farmgate values do appear to be lagging behind commodity equivalents as they often do in a rising market.

A comparison often made is between farmgate prices and AMPE – the theoretical return from butter and SMP.



AMPE provides a good indication of the direction in returns from butter and powder markets. As shown above, recent significant increases in butter and SMP prices have resulted in AMPE rising sharply. Farmgate prices have not, as of yet, reacted although milk price increases have been announced into July. One possible reason for this is that only 10% of UK milk goes into butter and milk powder production.

In contrast, 30% of UK milk produced goes into the production of cheese. Understandably, a closer correlation can be seen in the movement of farmgate prices and cheese, represented here by MCVE.



In context: With commodity markets currently as strong as they are, farmers are questioning why farmgate prices are not reflecting this. Farmgate prices have often been slow to react to upward or downward movements in the market as shown by the DairyCo *Asymmetric Pricing Report*. However, more than half of UK milk is used for the production of liquid milk. A large proportion of this is paid for under contracts that have elements linked primarily to production costs rather than market adjustments. Therefore, several things would need to happen if farmgate prices are to better reflect movements in commodity values. Processors would need to (or threaten to) switch milk into milk powder and butter production – potentially shorting other markets. In addition, contracts would need to have more market related adjustments so as to track markets, whether they rise or fall. Cost of production contracts provide benefits during weak commodity markets, but mean you will not benefit as much on rising markets.

Straw concerns mean planning is paramount

With concerns over potential levels of straw availability this autumn, it's important to start planning now to ensure adequate supplies.

Straw stocks on many dairy farmers will have been depleted this winter due to the early housing of cows and delays to turnout. The difficult autumn also reduced winter crop plantings, especially wheat. The depletion of on-farm straw stocks, combined with reduced winter crop plantings, has led to concerns developing over potential straw availability in the coming autumn.

This far prior to harvest it is difficult to assess likely straw availability, as there is little correlation between what is available and what is produced. This is because the amount of straw baled varies significantly year-on-year and between crops. A key reason for arable farmers to bale is the financial income from selling the straw. This could be a more important factor in 2013 as lower yields in 2012 are likely to have hit incomes, therefore, selling straw could be an additional income stream.

Further, this year there are likely to be more spring crops planted, especially spring barley. There is added financial incentive for arable farmers to bale barley straw, as returns can struggle to compete against other crops based on grain sales alone.

To an arable farmer, the additional income must be weighed against the potential delay in drilling the following crop (due to delays removing the straw) as well as potentially negative impacts on soil health. Weather at harvest will be critical to whether the conditions are suitable to collect it and the quality of the straw collected.

The availability of straw from harvest 2013 is not yet set but with low stocks on many dairy farmers, it will be particularly important to plan straw requirements this year.

In Context: Milkbench+ shows that managing costs is key to profitability and planning is a critical part of the management process. A good first step in planning to ensure straw supplies for feeding or as bedding, is work out a straw budget. A budget will show the volume required through the year and what expenditure is affordable before it becomes economical to look at alternatives.

Information on calculating straw requirements can be found in DairyCo's best practice guide to Dairy Housing. Once the amount of straw required is known, it is possible to look at ways to secure the necessary supplies; there are useful suggestions how to secure straw on the AHDB website.

Lowest April milk production since 1971

While the data is provisional, April milk deliveries of approximately 1,111m litres are 93m litres (7.7%) down on the previous year. In addition, the last time April deliveries were lower than this was is in April 1971 – 42 years ago.

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However, low production in April does not necessarily translate into a poor milk year. Data from the RPA shows that the last three months (Feb-Apr 13) are similar to what was seen during the corresponding period of Feb-Apr 10. However, despite the bad start to the milk year, 2010/11 saw milk deliveries increase by 500m litres versus the previous year. In saying this however, any increase would be dependent on favourable milk prices, input costs and weather conditions.

In context: While the April 2013 figure was always expected to be low, a figure that hasn't been as low for 40 years was probably a surprise. April delivery figures elsewhere in Europe are not available yet but it is likely that they will show a similar picture, particularly in Ireland with its reliance on grazing. In contrast to figures for the start of a milk season, Fonterra has announced that it expects the NZ milk season (ending in May) to be 0.5% down on the previous season. More importantly, this is the first year-on-year reduction for 6 years. Looking at these in tandem suggests that dairy processors will still need to compete for milk, at least in the short term.

Fodder shortages hit farm budgets

Farmers have been faced with severe fodder shortages as a result of the delayed spring and poor weather experienced in the UK last year, with negative implications for farm budgets.

Total cattle and calf feed production, including feed for both dairy and beef production, was up 9.2% in the 2012/13 milk year at 4140Kt, reflecting the greater demand for bought-in feeds. Feed for the milking proportion of the dairy herd, production was 5.5% higher than in the previous year.

The cold weather in February and March 2013 meant demand for dairy feeds saw a significant increase (7.7%) on previous year's levels, although there were also higher volumes of dairy feeds produced during the summer of 2012. Production over the four month period May-Aug 2012 was 9.0% higher than the same period in the previous year.

Alongside the increased demand for feed, prices also saw substantial increases over the year. As summarised in the table, feed prices rose by between 8% and 39% from previous year levels.

Average price (£/tonne)	2011/12	2012/13	% change
Intensive Energy Dairy Feed	241.58	275.75	14%
Soyameal (Argentine)	271.83	377.64	39%
Maize gluten	175.42	218.00	24%
Feed Wheat	167.17	207.50	24%
Protein concentrates	313.33	337.74	8%

Source: Farmbrief / HGCA

In context: The increased demand for cattle and calf feed represents an unanticipated cost to dairy farmers, impacting farm budgets. Milkbench+ results show on average that feed and forage costs represent 26% of total variable costs for the grass-based dairy farm, meaning that budgets will have been stretched. In light of this dairy farmers may need to adjust their feed purchase budgets for 2013/14.

Potential for downward pressure on feed prices if record global crops achieved

There is potential for downward pressure on feed prices if the initial forecasts of record global crops at the coming harvest are realised.

On 10 May, the United States Department of Agriculture (USDA) released its initial assessment of global supply and demand in the 2013/14 season. These forecasts are very tentative, so must be treated with caution but give the first indication of possible price trends in the upcoming year.

The USDA tentatively forecasts the global supply and demand balances for maize, wheat and soyabeans all in surplus for the first time since 2009/10. Weather conditions in the coming months will be critical to the forecasts being realised but if they are realised, there is potential for downward pressure on feed prices.

More detailed analysis of the forecasts is in this week's *Prospects* publication produced by HGCA.

Feed Prices (Range £/tonne)	Intensive energy rations	High protein concentrates	Exchange Rate €/£ (av. 1—15 May 13)		UK Average Farmgate Milk Price: March			
April 2013	280-296	374-385	0.8447		2013	30.04	2012	28.65
Wholesale Prices and Market Indicators	**AMPE**	**IMPE**	**MCVE** (Milk for Cheese Value Equivalent)	**Cream Income***	**Butter** (£/t)	**SMP** (£/t)	**Mild Cheddar** (£/t)	**Bulk Cream** (£/t)
April 13	38.8	18.4	35.10	9.37	3,500	2,800	3,100	1,600
March 13	32.4	18.6	33.02	7.89	2,950	2,400	3,000	1,350
April 12	22.3	17.7	31.20	4.88	2,200	1,700	2,925	840
	Liquid Milk (retail) (4 w/e 14/04/13)		**Doorstep** (4 w/e 14/04/13)		**Butter (05/05/13)** Branded (p/250g)		**Mild Cheddar (05/05/13)** Non-branded (p/kg)	
Latest Month	0.60		1.25		168		568	
% change v 2012	1.1%		9.6%		2.8%		0.2%	

*Cream income = The cream income to a liquid processor is based on the value of the excess cream created because the average level of fat on liquid milk sold through the retail market (supermarkets, local stores and doorstep) is less than the level of fat in the raw milk they receive. It assumes all the cream is sold in bulk form.