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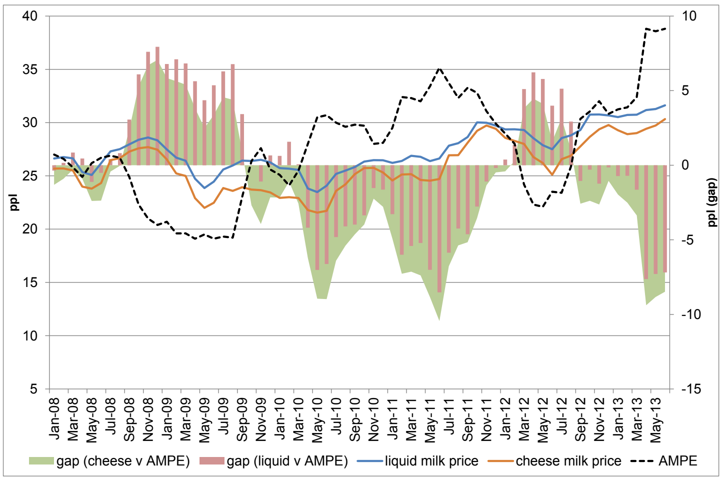
Dairy Market Update

AMPE points to potential price rises

Following on from a story in the last DMU, AHDB/DairyCo has analysed changes in the price of milk going into liquid and cheese compared to changes in commodity markets. As would be expected, the analysis shows that cheese and liquid milk prices show some response to movements in AMPE but not to the same degree, with cheese prices more responsive to changes in AMPE than liquid milk prices. This is what we would expect as many liquid prices are partially determined through cost-based pricing models. In the light of recent increases in AMPE, the historical analysis would suggest that further increases in milk prices are likely if commodity markets remain strong.



Source: DairyCo

As AMPE reflects changes to more volatile spot wholesale prices for SMP and butter, it is to be expected that movements in AMPE may exceed movements in milk prices for cheese and liquid, which are typically sold more on a contract basis than spot trading. For example, in May 2010, when the gap between AMPE and milk prices exceeded 7ppl, milk price increases occurred. These ranged from 0.3ppl to over 1.2ppl on liquid milk contracts and 1ppl to 2ppl on cheese contracts. Conversely, milk buyers implemented price decreases when AMPE fell to more than 6ppl below milk prices in October 2008. Cheese contracts saw price decreases of between 2.6ppl and 6ppl while liquid milk prices were reduced by between 1.1ppl and 3.2ppl over the following months.

Latest data shows that the gap between liquid milk prices and AMPE was over 7ppl in June, whilst the gap between cheese prices and AMPE was more than 8ppl. These are similar levels to those seen in May 2011, when the result was price increases. This level of gap would suggest that we will continue to have upward pressure on prices as long as commodity markets remain strong.

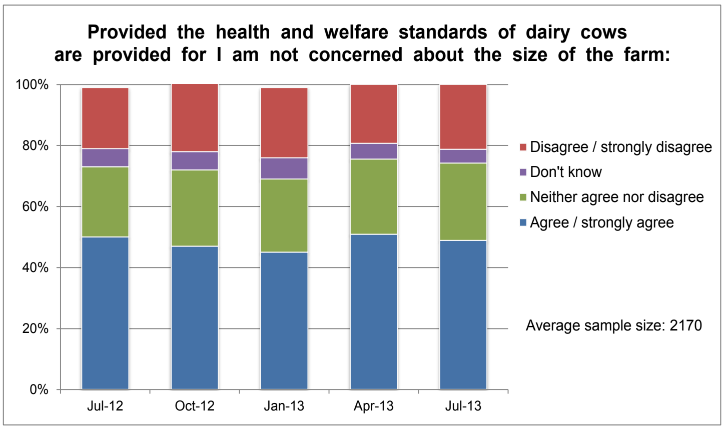
Large dairy farms: public opinion - don't know, don't care?

There have been several big media stories surrounding potential large dairy farms over the past couple of years. Although DairyCo Milkbench+ data shows that efficient milk production is possible at almost any scale of farm, the rising average farm size means consumer attitudes towards larger farms is important to track.

Results from the DairyCo Quarterly Tracker surveys suggest that a large proportion of the British public do not have strong opinions on dairy farm size. From multiple surveys in the period April 2010 to July 2013, 54% of respondents chose to answer 'don't know' when asked to suggest a herd size that would make a dairy farm too large.

The same surveys suggest that almost a majority of people are not concerned about the size of dairy farms, as long as health and welfare standards for dairy cows are provided for. The July 2013 survey showed that 49% of respondents were "not concerned" about the size of dairy farms, provided welfare conditions were upheld, whilst just 21% were "concerned."

The remaining 30% are undecided on their feelings relating to larger farms. Clearly what they decide could either mean strong opposition to larger dairy farms or limited concern as long as cows are well looked after. DairyCo is running campaigns to raise awareness of all types of dairy farming, to find out more click here.



Source: DairyCo Quarterly Tracker Survey

Arla Foods amba offers interesting opportunity for farmers

Approximately 1,600 farmers face the choice of whether to take up the invitation to become Arla Foods amba members. These farmers (those currently supplying Arla via AFMP non-aligned, Tesco/Sainsbury's aligned or direct contracts) can choose to invest the equivalent of 7.5ppl to become members. They would then receive the same price as all Arla Foods amba members, the 13th payment and, as co-op members, the chance to influence the direction of one of the largest dairy companies in the world. Farmers will contribute the 7.5ppl through a variety of methods including previous investments, a levy and a reduction in their 13th payment.

For the deal to go through, at least 65% of members or equivalent milk supply of at least one billion litres per annum must agree to sign up. Those suppliers on a non-aligned/ direct contract who do not wish to join will be transferred to Arla UK's direct contract. Farmers on aligned contracts will be allowed to remain as they are.

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The question is, will this be a good deal for the farmers involved? The offer seems worthy of very careful consideration by dairy farmers.

One of the key aspects is that these suppliers will effectively receive a milk price more highly influenced by EU/global markets than at present. Therefore, particularly for those aligned farmers who would be giving up a cost of production linked contract (Tesco/Sainsbury's), how does the Arla Foods amba price compare in terms of volatility, price and cash flow?

AHDB/DairyCo are discussing some of the detail of the option with Arla at the moment with particular reference to cashflow. An updated article will be issued early next week to cover these factors.

Supply pressures likely to support wholesale prices

Wholesale prices for most dairy commodities rose or remained stable in the past couple of months, prompting further increases in AMPE and MCVE for August. There are reasons to believe that prices will remain firm in the coming months as supply limitations persist. Despite limited trade in the past couple of months due to the summer holiday period, it is expected that the volume of trade will pick up as we move into September and buyers look to cover Christmas production requirements.

AMPE rose 0.6% to 39.5ppl in August due to rising butter prices, while higher wholesale prices for mild Cheddar and whey powder meant MCVE rose to 38.6ppl, a 2.9% increase on the previous month (for more, click here). While milk supplies are showing some improvement in some areas of the EU and in the US, product availability remains tight. Production for June was ahead of last year in Germany (+0.4%), Ireland (+3.1%) and the Netherlands (+3.4%), while the US is showing growth with cumulative production from April to June slightly running ahead of last year, by just under 1%.

However, given seasonal declines in Northern hemisphere production, milk supplies for the rest of this year are not expected to exceed domestic demand, especially as we move into the Christmas production period. This will restrict growth in export volumes, especially from the EU where product is trading at higher prices than on global markets. Export demand could also increase in light of Russia's ban of New Zealand dairy products.

New Zealand, on the other hand, is moving into its peak production period with expectations of a strong production year. However, accounting for production and transport times, it is unlikely that large volumes of NZ product will be available to ease the supply situation in the EU until at least the first quarter of 2014.

Müller Dairy confirms purchase of Nom Dairy UK

Müller Dairy has acquired Nom Dairy UK Limited for an undisclosed sum, with intentions to develop its presence in the UK private label yoghurt sector.

By increasing its capacity for private label yoghurt products, Müller believes that the UK will reduce dependence on imported dairy products. In 2012, the UK imported 140 thousand tonnes of yoghurt, making up 11.5% of all dairy imports. The UK's trade deficit for yoghurt stood at 112 thousand tonnes in the same year.

More on the takeover can be found on the DairyCo website here.

Feed prices (range £/tonne)	**Intensive energy rations**	**High protein concentrates**	**Exchange rate €/£** (av. 1-31 Aug 13)		**UK average farmgate milk price: July** (ppl)			
Aug 13	279-294	373-380	0.8600		**2013**	31.37	**2012**	26.32
Wholesale prices and market indicators	**AMPE** (ppl)	**IMPE** (ppl)	**MCVE** (ppl) (Milk for Cheese Value Equivalent)	**Cream income*** (ppl)	**Butter** (£/t)	**SMP** (£/t)	**Mild Cheddar** (£/t)	**Bulk cream** (£/t)
Aug 13	39.5	18.6	38.6	9.83	3,650	2,800	3,400	1,720
Jul 13	39.3	18.6	37.5	9.70	3,600	2,800	3,325	1,690
Aug 12	25.9	16.8	31.5	6.42	2,350	2,000	2,900	1,100
Retail prices	**Liquid Milk (4 w/e 18/08/13)** (£/litre retail)		**Doorstep (4 w/e 18/08/13)** (£/litre)		**Butter (28/08/13)** Branded (p/250g)		**Mild Cheddar (28/08/13)** Non-branded (p/kg)	
Latest month	0.60		1.32		161		566	
% change v 2012	2.8%		13.8%		-0.3%		2.0%	

*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.

The Dairy Market Update is published fortnightly in order to provide a summary of conditions in the dairy market. As with all parts of DairyCo Datum, we endeavour to publish the information that is required by readers and users – please contact us with your suggestions.