



### Wholesale butter prices soften on low demand

In the wholesale markets, butter prices softened, dropping by £100/tonne between October and November to £3,500/tonne. Butter stocks remain limited as little is being made, due to the lack of surplus fat and the high cost of cream. However demand was reported to be relatively low as most buyers have secured at least short term cover. Deals for early 2014 are being delayed in anticipation of increased availability with the expected arrival of New Zealand butter in the first part of 2014.

In the other wholesale markets, bulk cream rose £50/tonne in November on increased demand and tight stocks, whilst SMP prices fell £25/tonne due to low demand levels seen particularly in the first part of the month. Cheese markets were mostly stable. For more, please [click here](#).

Price per tonne	Nov-13	Oct-13	% diff.	Nov-12	% diff. 12-13
Bulk cream	£1,750	£1,700	3%	£1,480	18%
Butter	£3,500	£3,600	-3%	£2,850	23%
SMP	£2,650	£2,675	-1%	£2,400	10%
Mild Cheddar	£3,450	£3,450	0%	£2,925	18%

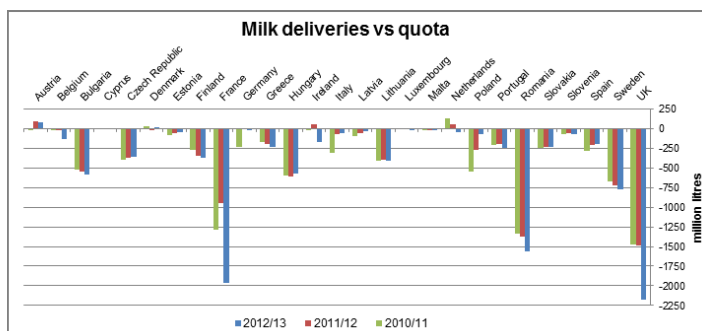
Source: AHDB/DairyCo

These prices movements have meant that AMPE has reduced to 37.4ppl from 38.2ppl in October. MCVE has also marginally fallen, to 38.4ppl, but remains above AMPE.

### Global markets may have bigger impact on UK milk prices post-quota

One of the main impacts of the removal of milk quotas for the UK dairy industry will be the potential for a stronger relationship between UK, EU and global prices. This is because an increase in milk produced in the EU post-quota will need to be exported onto world markets, requiring EU export prices to be globally competitive.

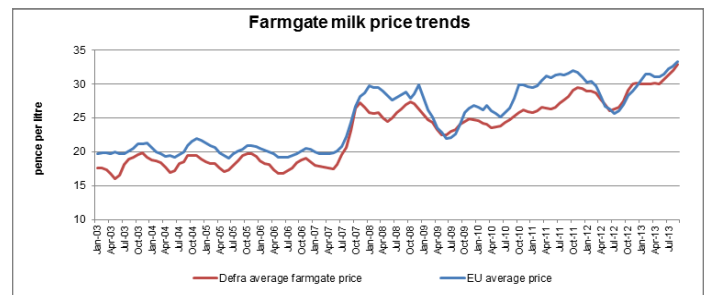
EU milk production post-quota is expected to increase in only a handful of countries where growth in deliveries has kept pace with the increase in quota levels over recent years. This has occurred in some of the largest producing and/or exporting countries such as Germany, the Netherlands, Ireland and Denmark. With growth in dairy consumption within the EU expected to be relatively flat, the share of exports is forecast to increase from 13.7% in 2011 to 15.4% by 2022, or around 4.4 billion litres (IFE Food Research Institute, Kiel).



Source: Eurostat

The next graph shows how UK and EU prices generally follow each other over the medium term due to links through

the commodity markets. Short term imbalances will at times mean that price movements will diverge. With the increased reliance of the EU on global markets, this will mean that they may have more impact on UK prices as well.

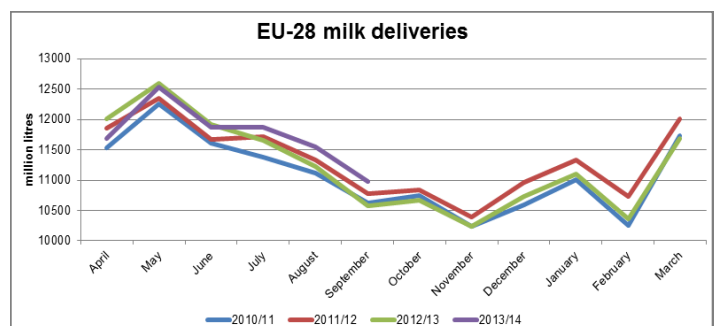


Source: Defra, DG Agri

**In context:** For UK dairy farmers, how this will impact your milk cheque will depend on your milk buyer and milk supply contract. For milk buyers selling products which are widely traded on global markets, or subject to a high degree of import competition, market returns are likely to be more influenced by global markets. Changes in global prices will therefore translate quickest on contracts where milk prices are linked to market indicators. On contracts where prices are more closely linked to costs of production models, global changes will take longer to flow through to domestic prices and values are likely to be more stable over time.

### EU milk volumes one billion litres ahead of last few years

The strong UK milk production figures seen recently have also been reflected in the continent, as EU-28 milk deliveries from April to September were 1 bln litres (1.5%) higher than the average of the previous three years. This increase is mostly due to the performance throughout the latest quarter (Jul-Sept), when production was boosted by favourable weather conditions, easing feed costs and higher milk prices. The Netherlands saw some of the strongest growth, with deliveries nearly 6% ahead of recent years, mainly due to the industry pushing toward the end of the milk quota.



Source: Eurostat

### Can the UK benefit from the growing appetite for dairy?

It is well known that demand for dairy markets is forecast to grow considerably over the next 10-15 years. To exploit this growth, exporters will need to be able to compete on the global market. What aspects of competitiveness will be crucial to success will depend on whether the focus of trade is on emerging or developed markets.



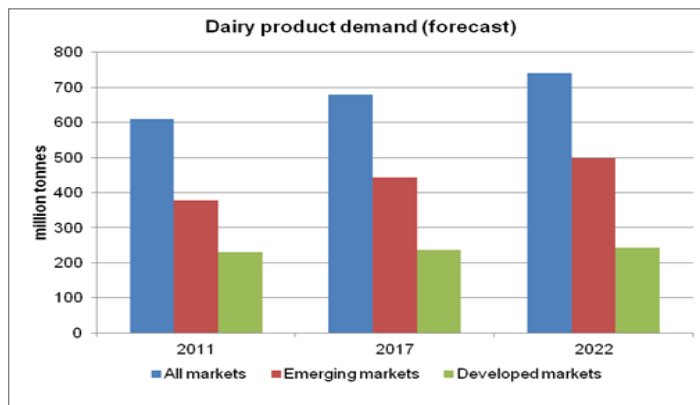
## Dairy Market Update

28 November 2013

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According to various estimates, the size of the global milk market is expected to grow by between 20-30% over the next decade. The majority of this growth will occur in emerging rather than developed economies. In the emerging markets, population growth is creating extra demand while income growth is increasing both the volume and value.

Food choices are expected to move from the satisfaction of basic needs to convenience products able to meet more sophisticated consumer needs. Food choices in areas such as North America, Western Europe and Japan are developing towards functional or nutritional needs, such as protein drinks or lactose-free products. It is in these areas that opportunities exist within the more stable and developed markets.

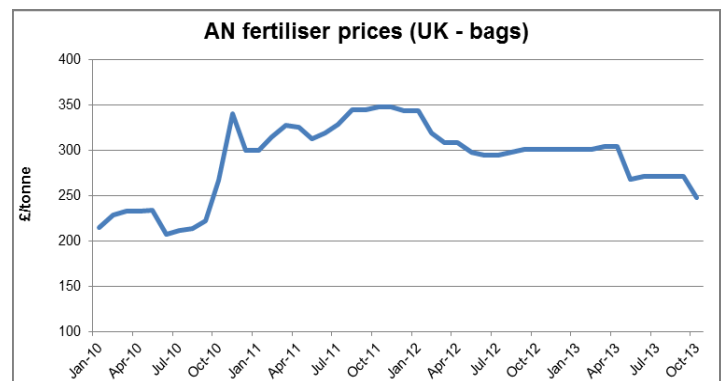


Source: IFE Food Research Institut, Kiel

To capitalise on opportunities arising in emerging markets, it will be imperative that the whole dairy supply chain is efficient and able to generate a cost advantage in the relevant market. Alternatively, competitiveness within the value-added markets will be determined by the ability to meet the changing needs and demands of consumers with appropriate products, marketing campaigns and export strategies.

### Fertiliser prices continue to ease back in 2013/14

Current October 2013 fertiliser prices are now at their lowest levels since September 2010 after a sustained period of falling prices. For instance, AN fertiliser currently stands at £248.50/t, £22.50/t less than the previous month and 17% less than October 2012. While the decrease will have benefitted recent fertiliser purchases, it could also have an impact on cost of production milk contracts, such as those offered by Dairy Crest, Tesco and Sainsbury's.



Source: Farm Brief

### China policy change to fuel baby powder boom?

The further easing of China's one-child policy is expected to boost its population and add to future demand on the world dairy market. The move is likely to particularly benefit manufacturers of infant milk formula (IMF) in China and the announcement has already led to an increase in the share prices of some of these companies.

Whilst China isn't a core market for the UK, demand from the country plays a pivotal role in shaping global markets and dairy commodity prices. Imports of milk powders into China have increased rapidly since 2008 and the country's increasing middle class has sustained its overall economic growth.

Feed prices (range £/tonne)	Intensive energy rations	High protein concentrates	Exchange rate £/€ (av. 14-28 Nov 13)		UK average farmgate milk price: October (ppl)			
Nov 13	269-283	363-369	0.8370		2013	33.50	2012	29.10
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)
Nov 13	37.4	18.1	38.4	9.90	3,500	2,650	3,450	1,750
Oct 13	38.2	18.2	38.5	9.66	3,600	2,675	3,450	1,700
Nov 12	32.0	17.2	32.4	8.67	2,850	2,400	2,925	1,480
Retail prices	Liquid Milk (4 w/e 13/10/13) (£/litre retail)		Doorstep (4 w/e 13/10/13) (£/litre)		Butter (20/11/13) Branded (p/250g)		Mild Cheddar (20/11/13) Non-branded (p/kg)	
Latest month	0.60		1.32		167		575	
% change v 2012	1.9%		13.8%		0.4%		2.3%	

\*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.

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