promar matters

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WELCOME:

James Dunn
Promar Managing Director

Welcome to Promar Matters, our monthly publication for customers and industry influencers.

So now we know! After all the campaigning, the votes in the referendum have been counted and the decision is to leave the EU. We have already witnessed the value of sterling reducing against both the dollar and the euro, increasing the cost of inputs but increasing the value of BPS payments. It's early days but it would appear that the timeline for the Brexit process will be dependent on the speed of negotiations and until the UK has formally exited the EU, the expectation is that the EU will honour the financing of 2016 BPS and stewardship payments. Cross compliance rules will need to be adhered to until directed otherwise.

Despite all of the upheaval, farmers still need to develop more robust businesses and our aim is to work with them to achieve this. As we consider in this issue, there may be some early signals that the milk market may be turning the corner which will be welcoming news.

Our Leading in Dairy scheme is a new approach designed to help dairy farmers plot the most suitable route forward based on a detailed assessment of the business and its objectives. If you are coming to the Livestock Event on 6th/7th July, please call and see us on stand GE54.

Alternatively, please contact us on 01270 616800 to find exactly how we can help and to discuss a free initial visit.

WHAT ARE PROSPECTS FOR MILK PRICES?

Matt Sheehan
Principal Consultant

Principal consultant Matt Sheehan takes a look at developments in the milk markets and considers whether a recovery might be on the cards.

No-one needs reminding that we have seen a sustained decline in milk prices although the extent has depended on who milk is sold to and the type of contract. At long last there are some positive developments which suggest we might be seeing the first signs of an upturn, although it must be said there have been previous false dawns.

The announcement by Meadow Foods that it was increasing the price it pays by 2ppl, with the increase spread over July and August caught most people by surprise. It is attributed to the first signs of a recovery and a general improvement in market conditions, the same reason Arla gave for being able to hold their price.

So what are the signals that are leading to a degree of positivity?

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Globally driven

The principal factors behind the low prices are global supply and demand and this is where we need to look for signs of a recovery.

Prices fell initially due to a supply demand imbalance precipitated by harmful movements in both. Global supply increased while demand dropped, despite the fact that demand was increasing at a fairly consistent rate.

Overall dairy consumption is predicted to increase globally. However, established markets like the US and Europe are predicted to be relatively stable with growth coming from newer developing markets, stimulated by population growth and greater prosperity. But things changed.

The political decision by Russia to ban dairy imports from the EU means that approximately 18,000 tonnes of cheese needs to find a different market, depressing prices in already competitive markets. In total the Russian ban represents 1.4% of total EU milk production.

Downward pressure on crude oil prices was another factor as many oil producing states are key dairy importers. With lower oil prices these countries are importing fewer dairy products.

Following a period of high levels of growth, Chinese dairy product imports fell sharply in 2015.

At the same time, global production had been increasing, in the EU partly as a result of the abolition of milk quotas. A period of favourable milk price:feed price ratios had encouraged producers to push yield per cow.

Consequently we had a supply and demand imbalance leading to downward pressure on prices.

Why are things changing now?

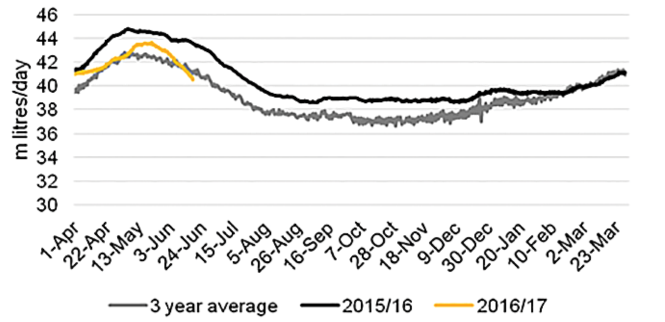
A number of factors are starting to align to move markets in a positive direction.

The first is that global production is beginning to slow down. Production in Australia and New Zealand is down, New Zealand by 2% annually. Closer to home, the EU predicts production will fall by 0.4% between April and December with sharp down turns in Ireland, Germany and the Netherlands.

In the UK, daily deliveries have been down below the three year average and the 2015-2016 levels *(see graph – source AHDB)*. While producer numbers are declining, we are seeing a fall in cow numbers for the first time in many years while an adverse milk price:feed price ratio means feed rates are under close scrutiny. After two years of increased production, the UK is running over 6% down on last year in recent weeks.

UK daily milk deliveries

(7 day average)



At the same time that supply is being pegged back, there are signs of a recovery in demand. Most significantly, it looks like China is back in the market with imports leaping by 40% in the first three months of the year.

Together these changes in supply and demand have had an impact on the markets. With commodity prices starting to pick up, European prices on all products have risen, due in part to intervention buying which pouts a floor in the market.

Possibly the key parameter, the Global Dairy Trade Auctions, are showing signs of recent recovery. However, as the graph shows, there is still a long way to go.

GDT weighted average prices

Should we get excited?

The answer is probably encouraged rather than excited. There is still a long way to go before prices recover to a great extent and there will be short term factors such as exchange rates which will have an impact.

However, the indicators of a market alignment fuelled by reduced production have to be hopeful, especially if demand turns the corner too.

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