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promar matters

WELCOME

James Dunn
Promar Managing Director

Welcome to the September edition of Promar Matters. This is the first of a new quarterly four page format that will provide additional industry comment and market updates.

It is certainly an interesting time for the industry as, following a very challenging 18 months, we appear to be witnessing an upturn in milk prices which will offer a degree of encouragement to the whole industry.

We have seen a readjustment of domestic supply which has had an impact on prices. Further afield, the global market is still affected by factors such as the impact of the Russian dairy import ban, reduced demand in China and the petro-economies of Africa and elsewhere. Market conditions will remain volatile, making it difficult to predict the rate, extent and durability of milk price increases.

As a business, Promar is actively involved in farm management, environmental and supply chain consultancy, making us uniquely placed to understand the implications of the challenges facing the industry.

In this issue we take a closer look at some of the factors which will influence how farmers react to rising milk prices and how to determine the benefit of chasing additional litres at a time when reduced domestic production is contributing to positive price movements.

Feed still represents the major single cost of dairying and this year's initial silage results are giving an early indication of feeding and margin prospects for the winter, a subject we explore on page 3.

With cost control and increasing environmental demands impacting on many dairy businesses, we review how taking a close look at energy and water consumption can be time well spent in both the short and longer term.

WHERE IS THE JOINED UP THINKING?

This month we are attending the UK Dairy Day at Telford.

RABDF announced that, given the declining interest in their July event, they will hold the 2017 Livestock Event on September 6th and re-brand it as The National Dairy Event. This puts it in direct competition with the increasingly buoyant Holstein UK organised UK Dairy Day.

This appears a ridiculous action for the industry and will result in many exhibitors, and probably farmers, attending one or the other and thus diluting the impact of both.

Indeed it has been suggested that many exhibitors will boycott both events and thus make a mockery of the dairy industry's one chance in the year to make an impact both nationally and internationally.

Along with most others, including it now seems the RABDF, I am convinced that September is absolutely the right month to hold such an event. Surely the two industry bodies must find a way of working together before 2020, the date that Holstein UK have declared their event will at least continue until, and ideally before next year.

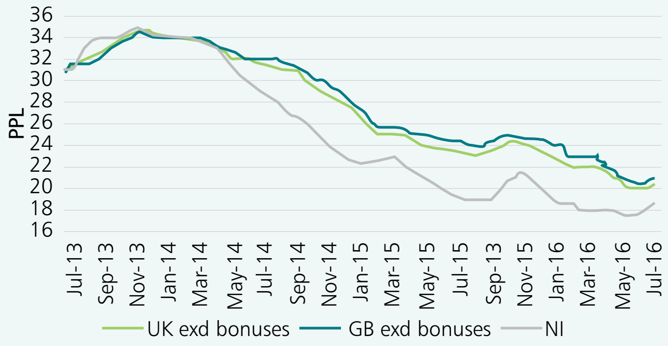
The UK dairy industry should be supported by collaboration from its leading organisations rather than being made to witness shameful one-upmanship, posturing and glory hunting.

MARKET INDICATORS

In each quarterly issue we will report key trends in major price movements influencing dairy farm profitability.

Milk prices

Average UK, GB & NI farmgate prices



Source AHDB

Feed prices

CBOT corn prices are set to reach £94/t which is 6% lower than 2015 and to remain stable. Liffe wheat prices have risen by 11% to £121/t.

CBPT soya prices have been falling in response to harvest estimates, coming back by 9% to the equivalent of £275/t.

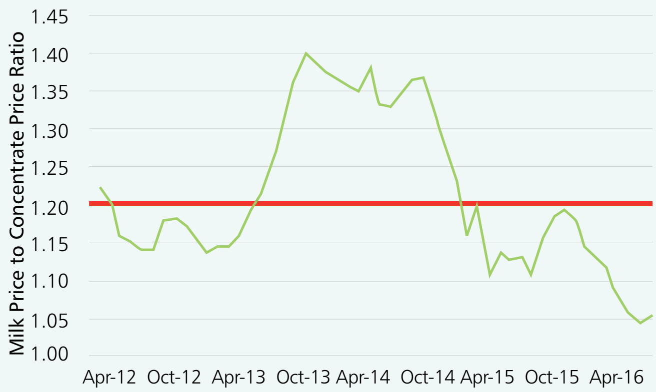
LIFFE B Grade Wheat Prices

Milk price: feed price ratio

The milk price: feed price ratio is a good indicator of price relationships in dairy farming and recent research suggests that a ration greater than 1: 1.2 is correlated with a farm's ability to service its commitments. The better the ratio, the stronger the position of the business.

The graph shows the trend over the last four years. Since April 2015 it has been consistently below the threshold but is starting to rise again and we predict it will continue to rise this winter and tip over the threshold.

Milk Price to Concentrate Price Ratio UK



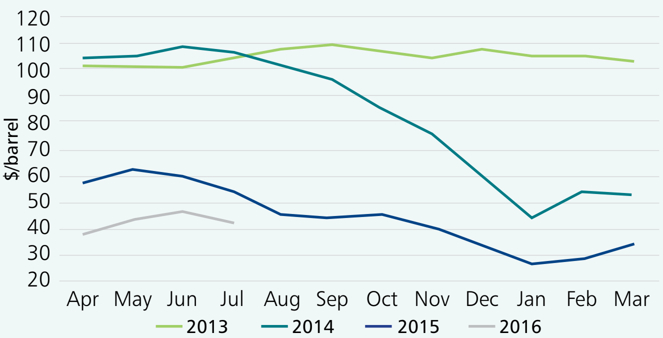
The table shows the ratio arising from different price combinations

	23ppl	24pp	25ppl	26ppl	27ppl
£190/t	**1:1.2**	1:1.26	1:1.31	1:1.36	1:1.41
£200/t	1:1.15	**1:1.2**	1:1.25	1:1.3	1:1.35
£210/t	1:1.1	1:1.14	**1:1.19**	1:1.24	1:1.28
£220/t	1:1.04	1:1.09	1:1.14	**1:1.19**	1:1.24

Input prices

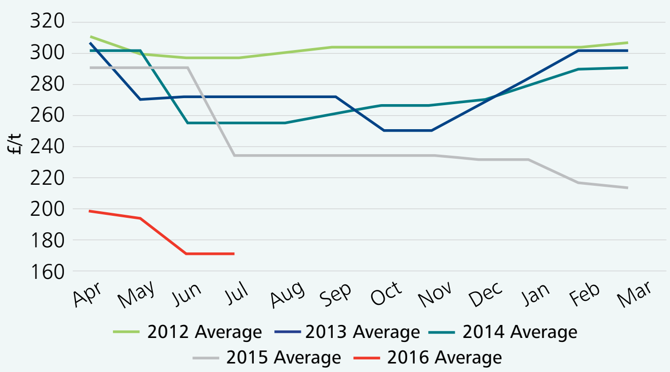
Crude oil prices remain at very low levels and fell back in July after rising for six months due to a combination of reduced demand and high stocks

Crude Oil Price



Reflecting this, prices for ammonium nitrate (delivered) continue to fall, currently trading around £70/t less than 12 months ago.

AN fertiliser (Delivered) (£/t)



WINTER PROSPECTS


Andrew Hawkins

Promar International Principal Consultant, Andrew Hawkins looks at prospects for winter diets in the light of rising milk prices.

With milk prices on the increase, many farmers may be tempted to push for higher yields, but it will be vital to make sure this is achieved cost-effectively.

The foundations of cost-effective diets as ever will be making full and effective use of forages and the latest results from Trouw Nutrition contain some pointers for how grass silages may perform.

The results (see table) suggest that, on average, grass silage may not perform as well as last year with slightly lower energy contents. Intake potential, however, is good, meaning cows should be expected to eat reasonable quantities.

Higher NDF levels are a good sign, suggesting silages may not have too marked an effect on rumen health although, as sugars and rapidly fermentable carbohydrate levels are lower it will be necessary to balance energy sources in supplementary feeds to ensure a balanced rumen.

The higher pH than last year combined with reduced lactic acid levels are indicators that clamp stability and aerobic spoilage will be an issue and will need careful management to reduce waste and ensure the maximum proportion of silage made is available to feed.

Choice of supplementary feeds will be influenced by price volatility. In the fallout from the EU Referendum vote, falling exchange rates had a big impact on feed prices, pushing up the price of imports making cereals, soya, soya hulls and molasses more expensive. In simple terms a 10 cent fall in the £:$ exchange rate will add £22 to the cost of soya.

Keys to a more successful winter

1. Don't rely on average figures. Silage averages hide a huge range – nearly 8% of first cuts have a ME of over 11.5MJ. Get your silage analysed so you know what is in your clamp – it might be one of these top feeds.

   Either way, regular silage analysis (at least once every six weeks) is vital if accurate, cost-effective rations are to be produced.
2. Be realistic about how much forage you have and measure usage against targets so it will last the winter.
3. Look closely at options for supplementary feeds and develop a practical ration. Blends may not be as cheap a straights but can allow faster, more consistent feeding which can soon compensate for a higher price.
4. Rumen health is king. Focus on ensuring the correct balance of energy and protein sources to match forages.
5. Match diet cost and target yield to milk price. Detuning the ration and accepting slightly lower production may actually improve margins. Monitor milk price: feed price ratio.
6. Monitor intakes and performance and fine tune the diet based on regular silage analysis.

2016 grass silage analysis

	2016 first cut average	2016 second cut average
Dry matter (%)	30.8	30.7
Crude protein (%)	14.1	14.2
ME (MJ/kgDM)	10.7	10.3
pH	4.1	4.2
Ash (%)	7.2	7.3
Sugar (%)	2.6	2.4
NDF (%)	49.8	50.6
AD Lignin (g/kg)	32.3	34.9
Lactic acid (g/kg)	50.8	53.7
Acid load	44.6	43.0
Intake potential (g/kgML)	97.6	95.2

Source Trouw Nutrition GB

WHY A FOCUS ON SUSTAINABILITY **WILL BE GOOD FOR YOUR BUSINESS**

Tom Gill

Tom Gill, Head of Environment Consulting with Promar International suggests farm businesses can benefit both short and long term by looking more closely at energy and water costs, helping to develop a sustainable business with a lower cost base.

All too often, considering resource costs such as energy and water is given a low priority of the 'to do' list, yet they offer a real opportunity to reduce costs of production. At the same time, reviewing these costs can add value to a business.

It is almost certain we will see increased regulation related to emissions and the environmental impact of farming. At the same time we are already seeing supply chains asking more of farmers in terms of a greater demonstrable commitment to environmental sustainability

Focusing on these costs can add a sustainable competitive advantage to a business by:

- Making more efficient use of resources
- Improving supply chain engagement
- Building resilience to financial or climatic changes
- Building a brand for your farm which aligns with your milk processor

Farm businesses need to consider the weaknesses and threats that impact on their resource use and consumption and where beneficial changes can be made. In addition it is important to assess how resilient the business is to changes that might impact on resource costs.

Energy

While 2015 saw the lowest oil prices for a significant period of time, it is likely energy prices will rise. On average energy prices have been rising by around 8% per year over the last five years.

The average annual electricity use on dairy farms is 400Kwh/cow and the typical 150 cow herd has an electricity bill of £5,500. A realistic target is 300Kwh/cow or 0.5ppl.

As assessment of electricity costs should include both usage and supply. Milk extraction and cooling are major electricity consumers, but cubicle lighting, etc. will also push up bills. New technologies can help drive down consumption.

On the supply side, how often do you review your contract and tariff? With such a wide range of tariffs available in a competitive market place, a contract review should be an annual exercise. And on many farms there are still opportunities to generate energy, reducing costs and dependence on commercial supply while also having environmental benefits.

Water

The average cost of water in the UK is £1.42/m^3 and we are seeing increasing pressure on mains supply and growing water treatment costs. With agriculture a large consumer of water, and often first to have taps turned off in drought conditions, it is sound business sense to review usage.

Can steps be taken to reduce the use or cost of mains water? Practical examples of where farms can focus include heat recovery, milk cooling, using timers and leak detection controls and re-use of parlour washings for washdown areas. In addition, it is recommended to explore alternatives to mains water such as rainwater harvesting.

Working with one farmer, we advised on and designed a rainwater harvesting scheme which has saved £7,500 per annum, delivering a three year payback.

As farms look to reduce production costs and minimise the exposure to input price volatility, taking a closer look at sustainability will be a good starting point.

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