Opportunities in dairy

Gwyn Jones

Dairy farming foundations in place

- Farming in UK has a number of advantages
- But are we well placed to exploit them?

	UK	Ireland	Germany	Netherlands	Denmark	France
Farming						
Herd size (2013)	123	63	52	84	152	46
Land availability						
Environmental constraints						
Social constraints						
Farmer confidence						
High debt levels						
Forage growing capability						
Co-product feed availability						
Cost of production						

Source: AHDB

World class liquid sites

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Old cheese sites

Owner	Site	Capacity (t per yr)	Year built	Effective age (years)
Arla	Llandyrnog	**20k**	Built in 1921, but major upgrades in 1971 and 1989	**27-45**
	Lockerbie	**32k**	More than 50 years old, but moved to current site in 1975	**41**
	Taw Valley	**32k**	Cheesemaking since 1974	**42**
Dairy Crest	Davidstow	**59k**	More than 60 years old, but major rebuild work in 2004	**12**
First Milk	Haverfordwest	**27k**	Built in 1930, but converted to cheesemaking in 1963	**53**
	Lake District	**25k**	More than 100 years old, bought by MMB in 1934	**82-100**
Lactalis	Stranraer	**32k**	Originally built in 1933, but rebuilt in 1966	**50**

Why the lack of processing investment?

- Focus on the liquid market
- Negativity
- Uncertainty over sustainable milk volumes
- Exchange rate risk
- Efficiency through the supply chain
- Lack of profitability

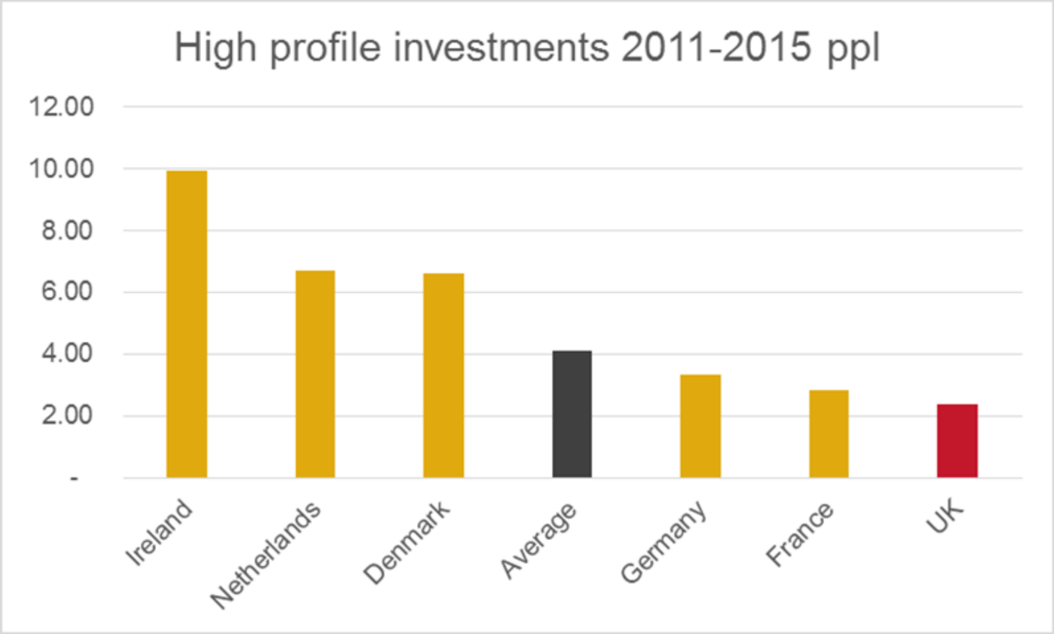
Milk processing

Investment options:

1. Legal requirement
2. Efficiency
3. New product development

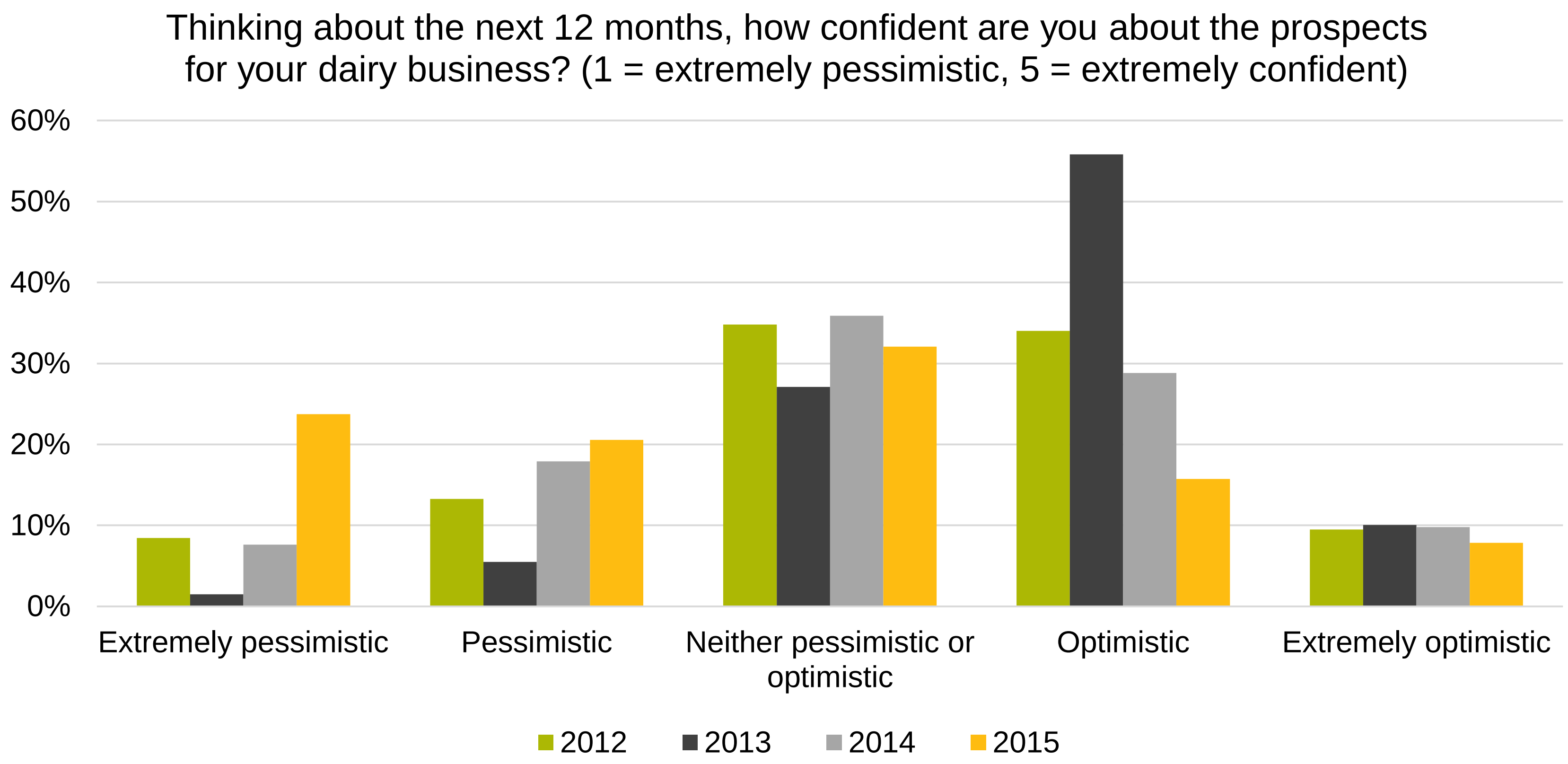
Co-op v Plc

- Farmer v consumer focus
- Lack of available funds
- Consolidation



Source: Promar.AHDB

Short term confidence in business



	2012	2013	2014	2015
Average score	3.2	3.7	3.2	2.6

- Short term confidence down

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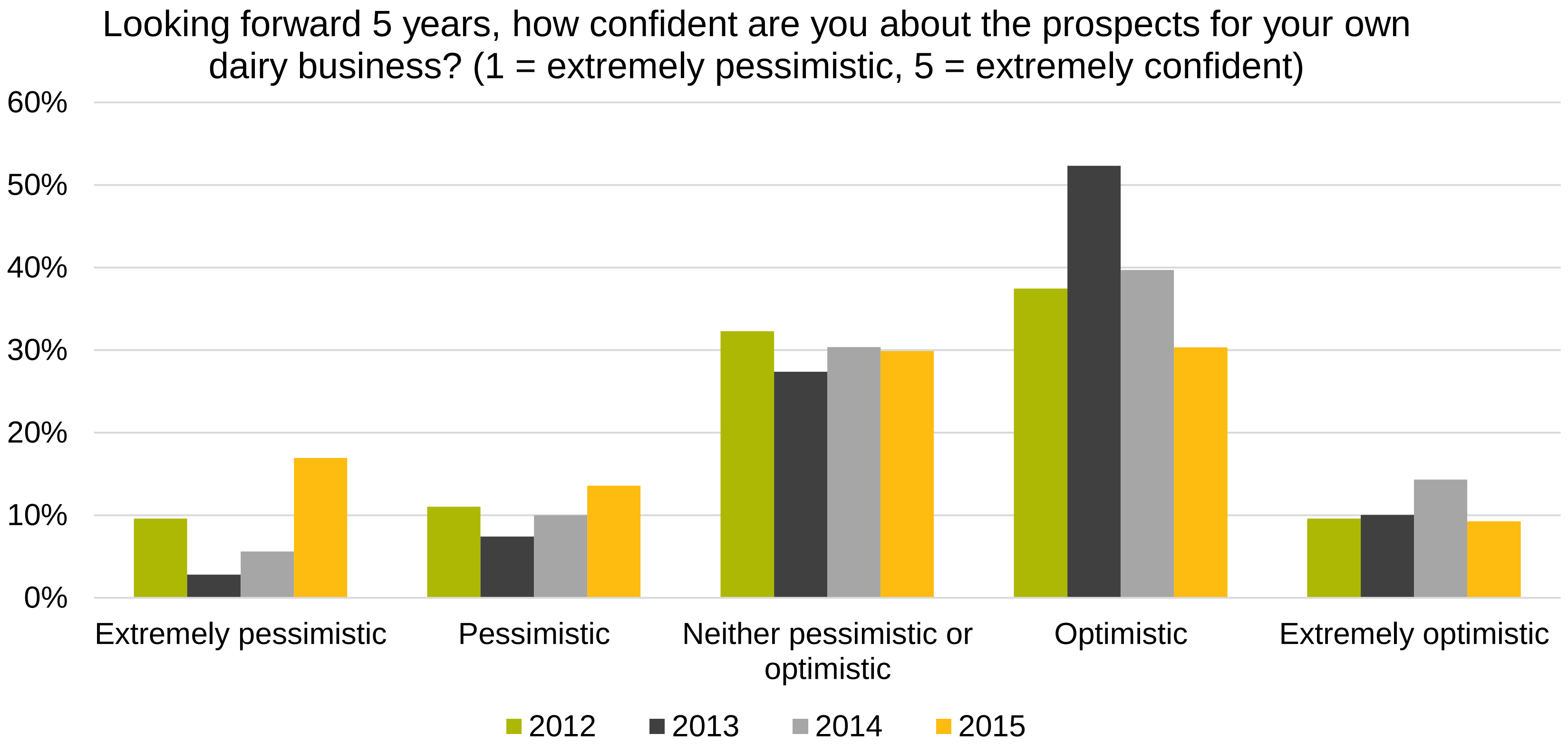
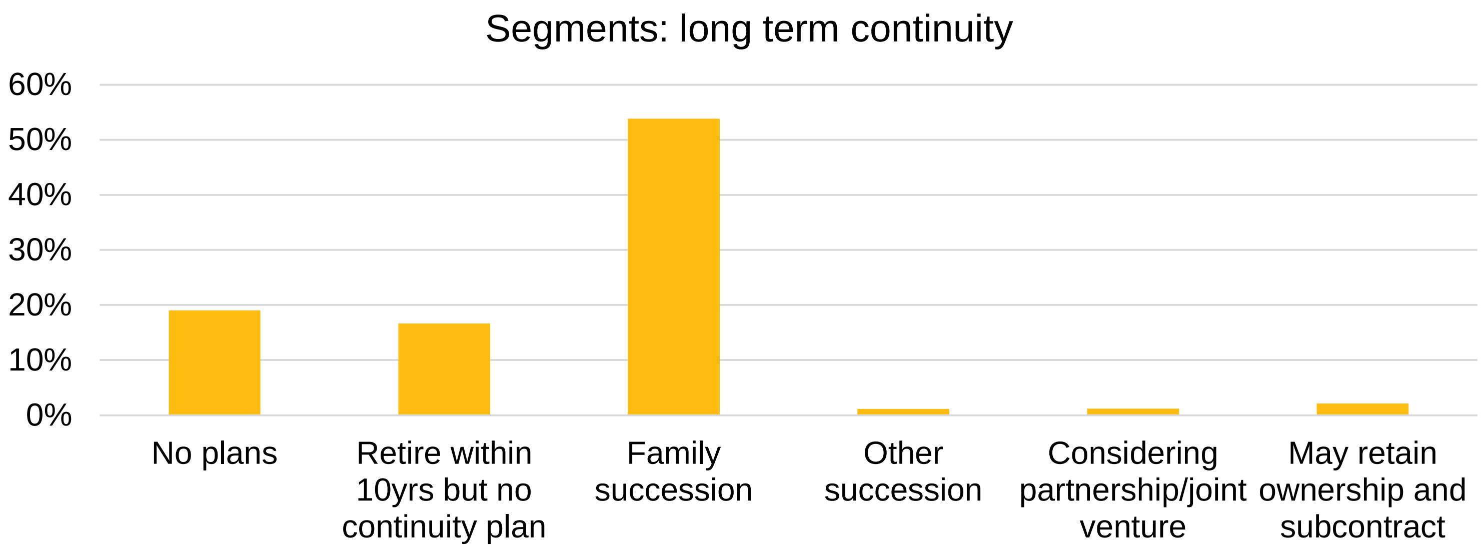
Long term confidence in business

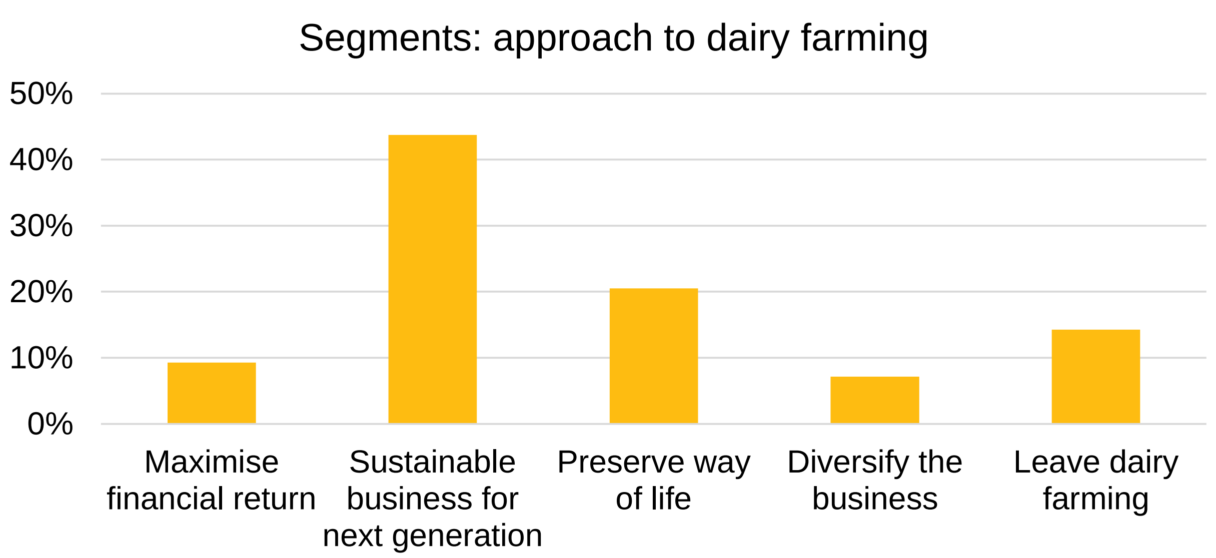


	2012	2013	2014	2015
Average score	3.3	3.6	3.5	3.0

- Long term confidence now also affected

FIS portrait of the industry

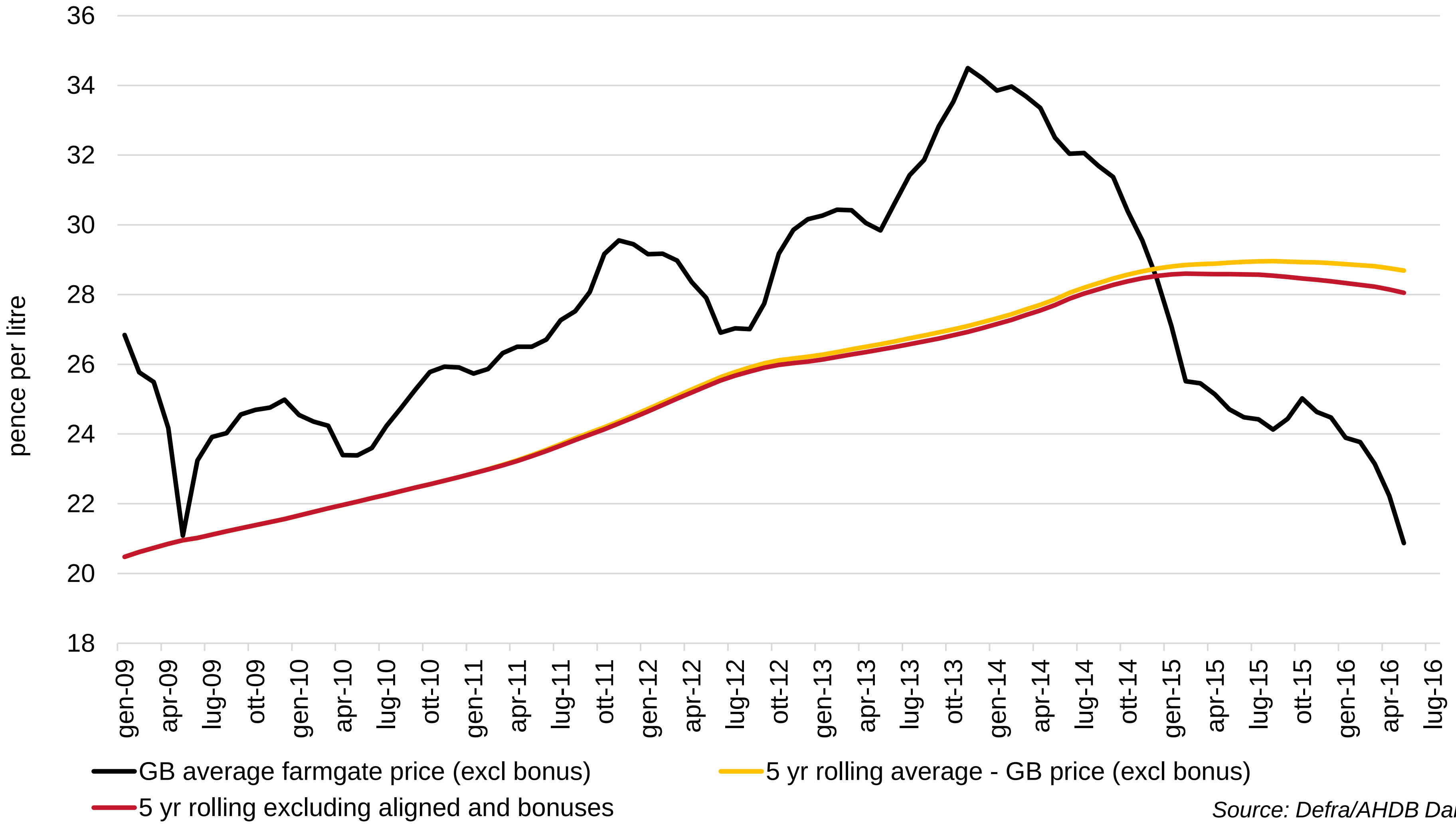




- More than a third have no continuity plans
- Less than 10% feel their main approach is to maximise financial return

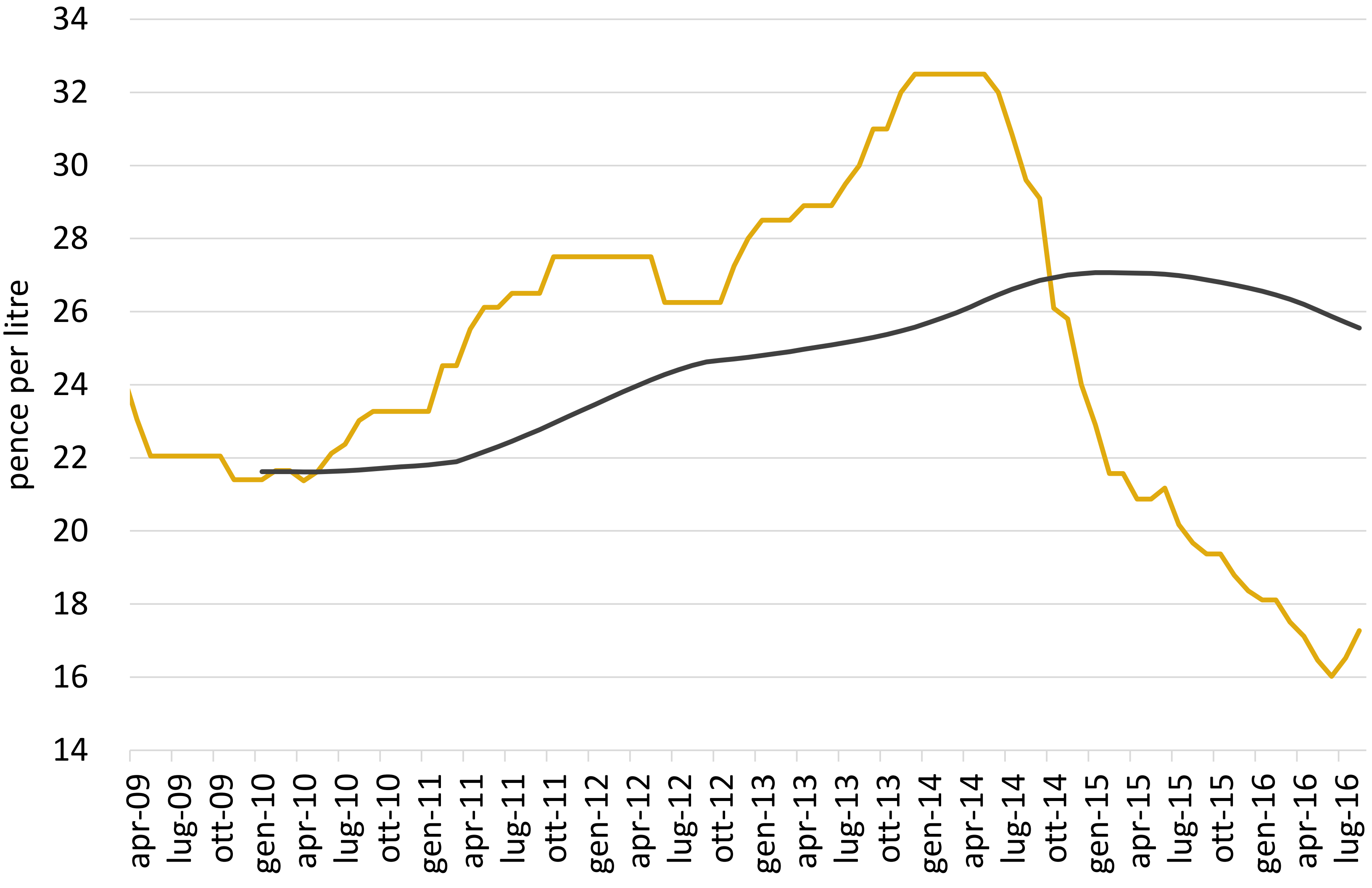
n=850 and any "don't know" answers are excluded

5 year rolling farm prices

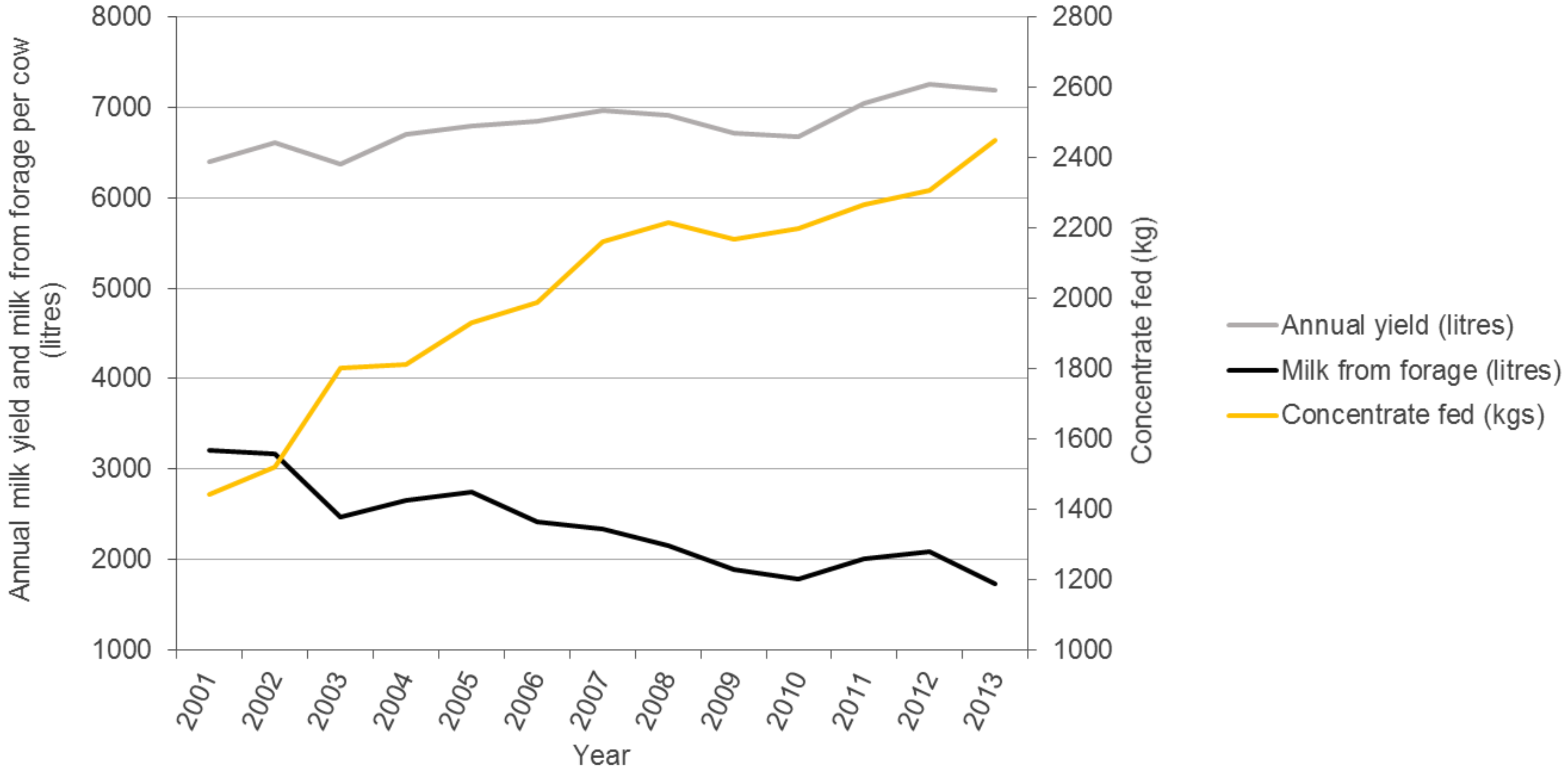


Source: Defra/AHDB Dairy

5 year rolling farm prices –



Improving technical efficiency – milk from forage



Source: DARD-CAFRE Dairy Benchmarking Report 2012-2013

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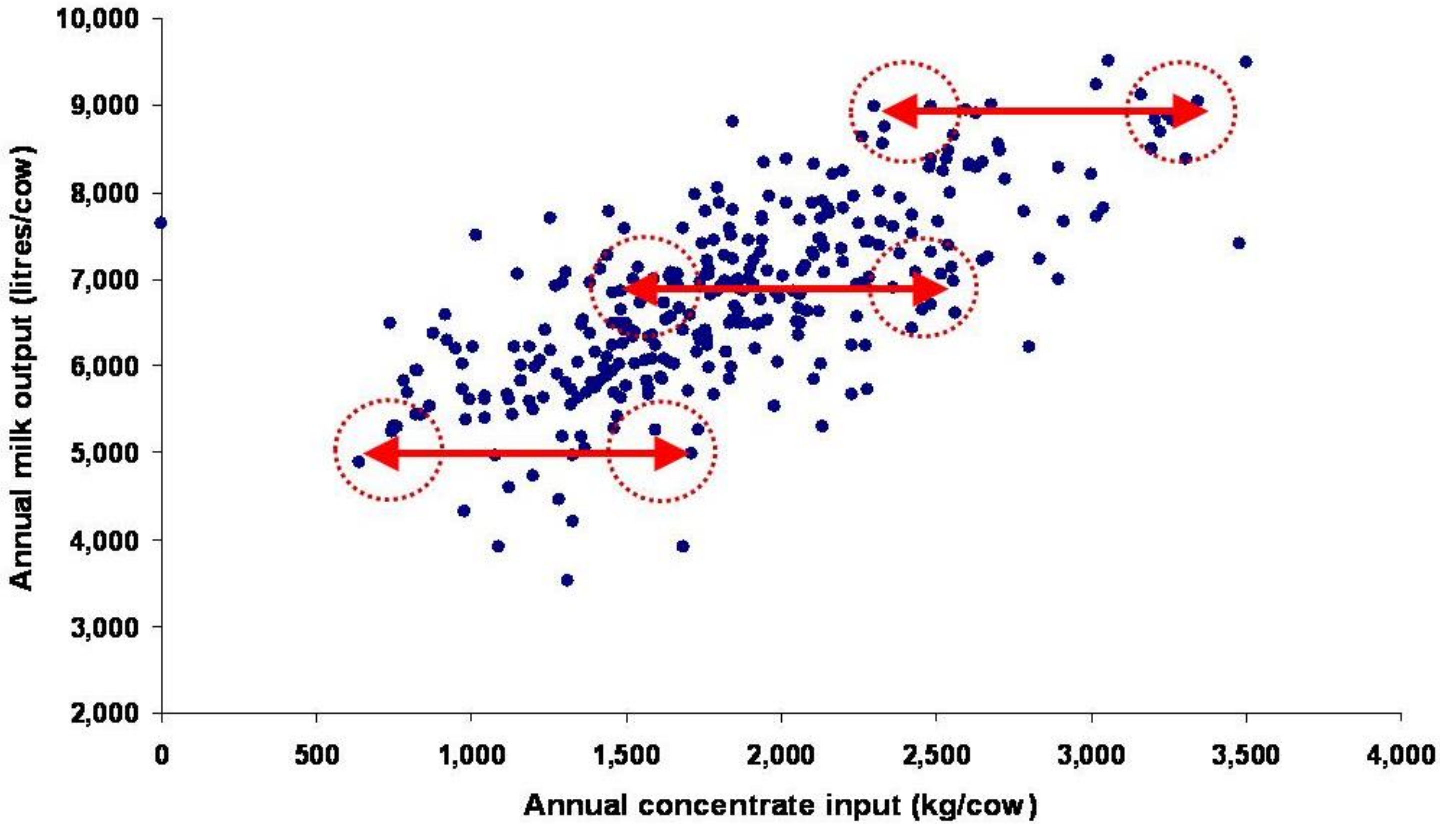
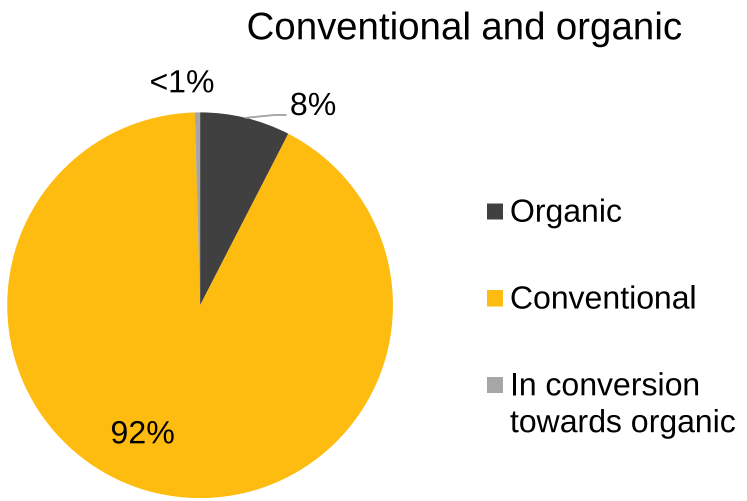
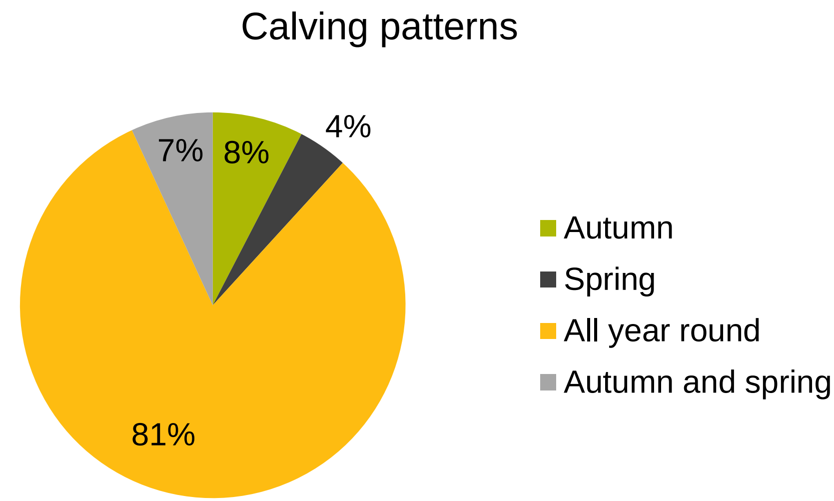
Improving technical efficiency – concentrate use

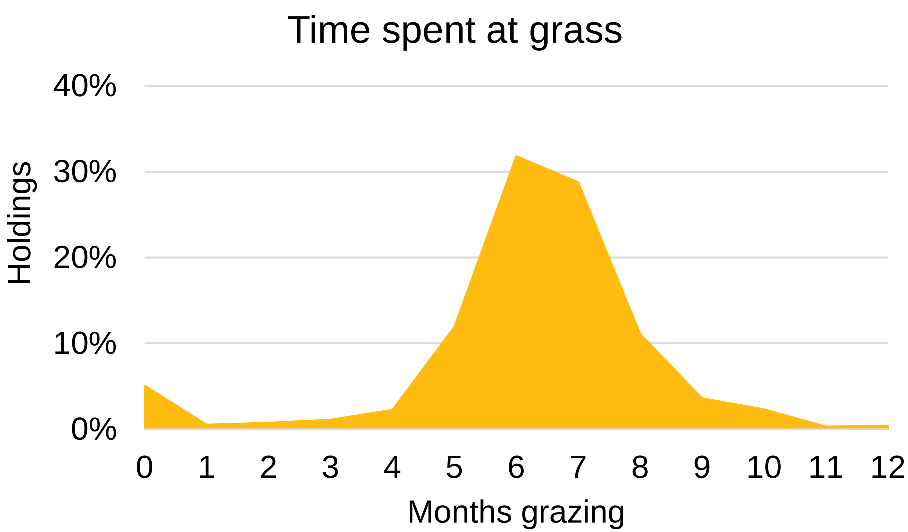


Source: Dale et al. 2015

FIS portrait of the industry



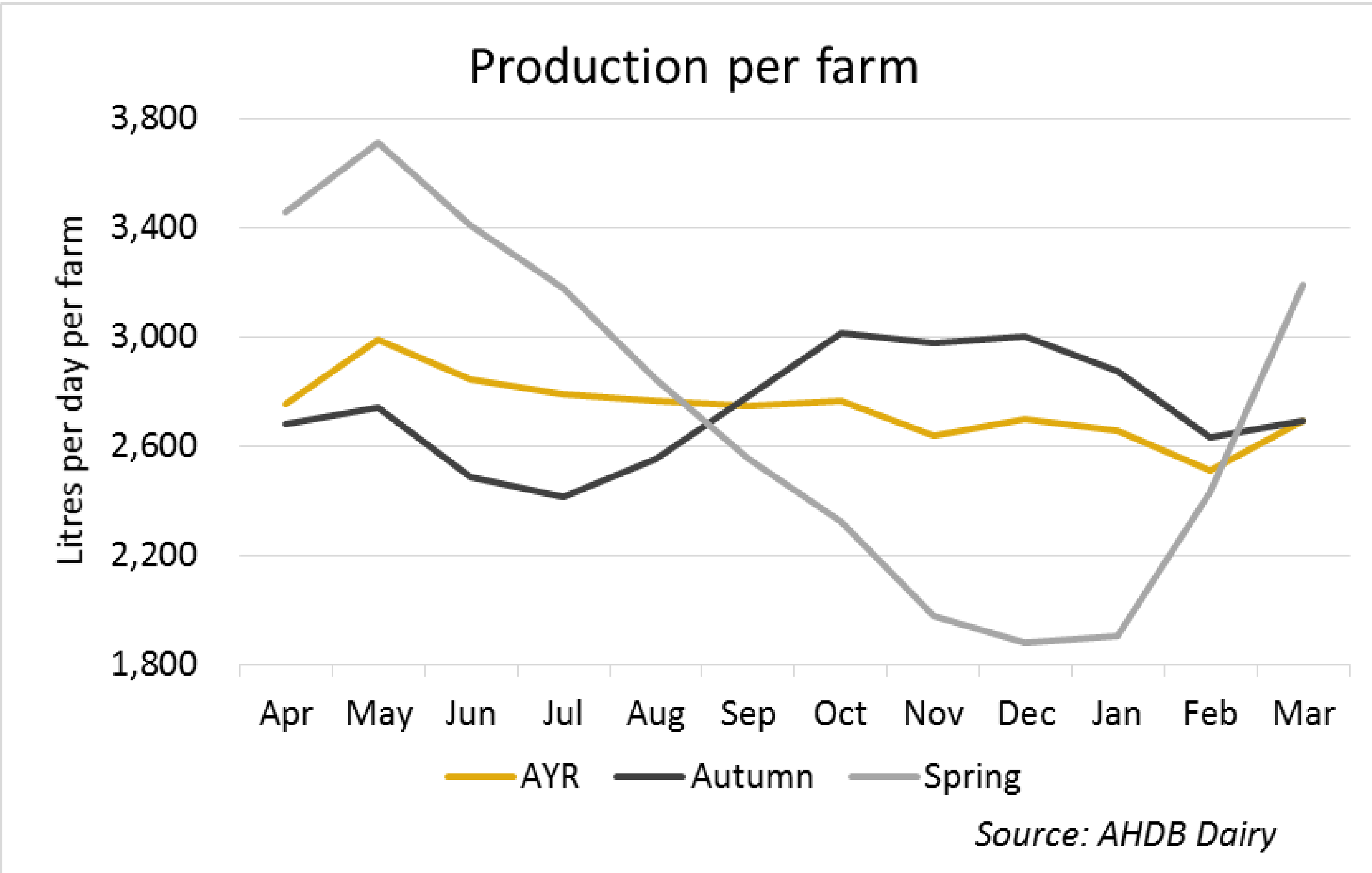




- Over 90% conventional holdings
- Majority all year round calving
- Median time at grass is 6 months

n=850 and any “don’t know” answers are excluded

Production profiles



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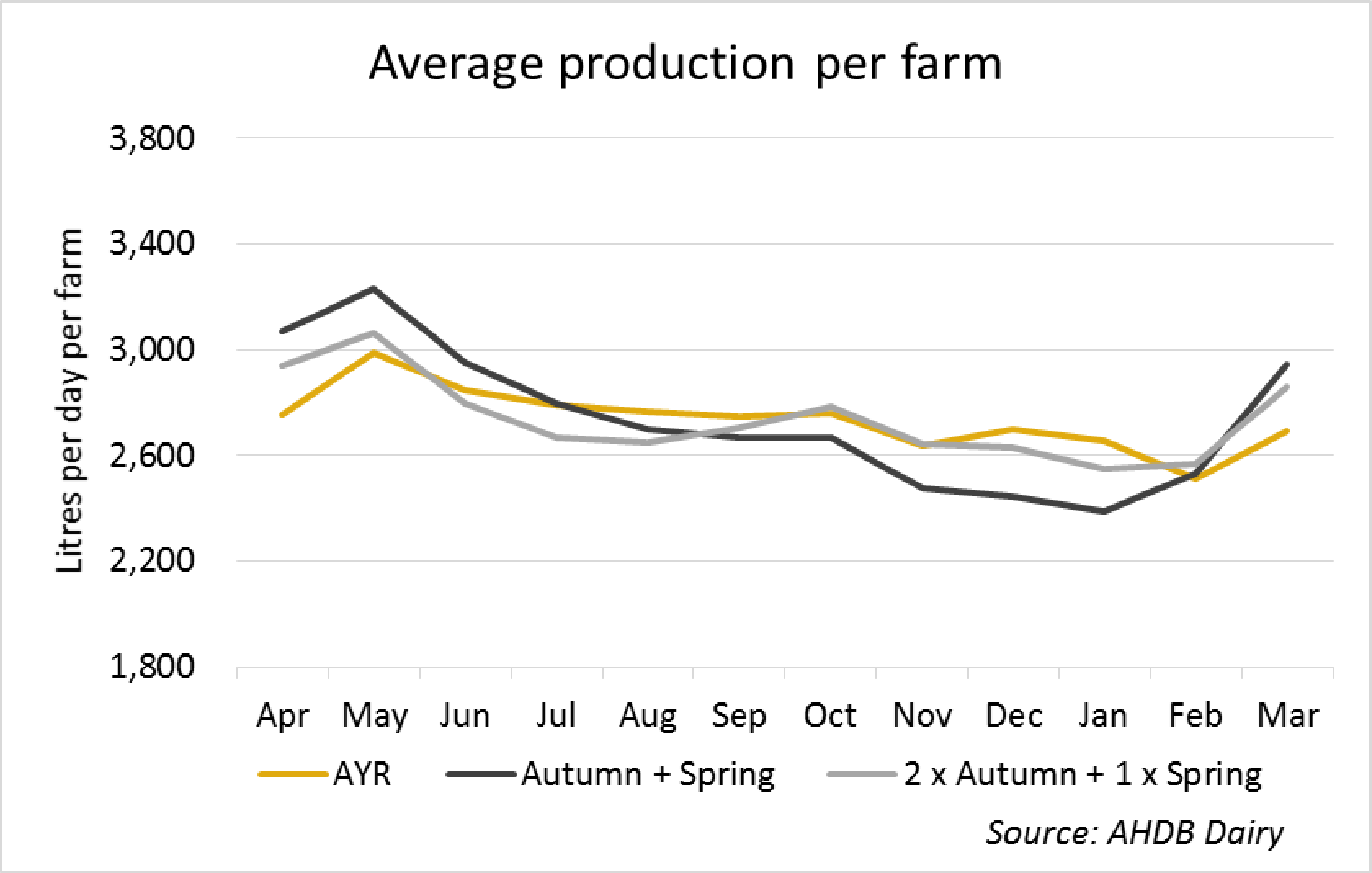
Milk profiles – buddy system



Dairy Market Weekly

18 June 2015, Issue 59

AHDB DAIRY

Latest market information

UK daily milk deliveries were at 43.6 million litres per day for the 2 weeks ending 6 June, up 3.3% from the same period last year. Although grass growth has remained similar compared to the previous year, a key driver for increased milk production is a rise in cow numbers at peak production age. Therefore, depending largely on weather conditions, the UK could see another strong year of milk production in 2015/16.

	Latest data	Date	Change	From
UK daily milk deliveries	43.6m litres/day	Two weeks ending 06/06/15	+3.3%	Two weeks ending 06/06/14
EU-28 average farmgate milk price	23.35ppl	Apr-15	-0.6%	Mar-15
GB cull cow prices	103.06p/kg	May-15	+0.4%	May-14
UK milk utilisation for liquid	2,346m litres	Jan-Apr-15	+0.4%	Jan-Apr-14

Sources: UK Dairies, Defra, DG Agri, AHDB, LAA, IAAS

In this issue:

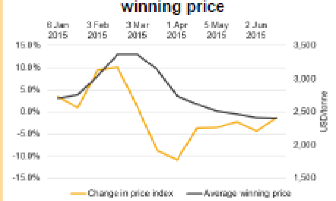
- Time to capitalise on low grain prices?
- Latest Rabobank report pushes recovery back
- Production to remain high in key export regions
- Competitive SMP market could delay price recovery
- Record slaughter numbers in New Zealand
- CMA take MWD/Dairy Crest deal to phase 2
- Supply chain under pressure from low prices

GDT showing first signs of stabilisation?

After the unexpected increases in February 2015, the Global Dairy Trade (GDT) auction results have been falling ever since. However, the falls recently have been getting smaller and the 16 June auction has seen a reduction of only 1.3%. Although any reduction is not good news it is clear from one look at the graph that prices may be getting closer to stabilising.

Nevertheless, it is likely that it will take a bit longer before we see any significant recovery in prices, as stated recently by Rabobank. Globally there is still a supply/demand imbalance, which will continue to place pressure on the dairy market until resolved.

GDT change in price index and average winning price



Source: Global Dairy Trade

Datum Monthly Report

AUGUST 2015

AHDB DAIRY

Report highlights

- According to the most recent DEFRA figures, the average UK farmgate price stood at 23.66ppl in June. This was a 0.37ppl (1.5%) decrease on the May average price.
- UK daily deliveries for the two weeks ending 08/08/2015 averaged 39.4m litres/day, 0.9m litres/day (2.4%) higher than the same period last year.
- In July 2015, the average price for red diesel was down 2.01ppl to 52.22ppl compared with the previous month.

Contents

Key indicators

PPL	Jul-15	Jun-15	% diff.	Jul-14	% diff. 14-15
AMPE 2014 (Actual Milk Price Equivalent)	16.7	17.7	-5.6%	30.9	-46.0%
MCVE 2014 (Milk for Cheese Value Equiva-	21.7	23.9	-9.2%	32.7	-33.7%
Cream income	4.91	5.44	-9.8%	7.87	-37.6%

Source: AHDB Dairy

Please note from April 2015 IMPE is no longer available, in order to access historic data please see link below:
http://dairy.ahdb.org.uk/resources-library/market-information/milk-prices-contracts/ampe-2000-and-mcve-2005

Summary of month

Event	Detail	Dairy effect
First SMP offered into intervention and extensions to intervention and private storage aid (PSA) approved by the EU Commission	Lithuania, Belgium and Poland have offered a total of 2,670 tonnes of SMP into intervention so far. The current campaign will be extended until 31 December 2015, subject to approval by the European Parliament and Council. A new campaign will open on 1 January 2016 with volume limits reset, running until 30 September 2016. PSA will be extended until 29 February 2016.	Both schemes aim to provide support to the market by removing some product when prices are unusually low. This should help provide a floor for prices for a longer period of time, including next year's spring flush.
Wholesale price pressure continues	UK wholesale prices fell between June and July. The Global Dairy Trade auction price index dropped again at the latest event on 4 August, falling 9.3%.	Global oversupply of milk combined with weak demand continues to put pressure on wholesale prices. Until the supply/demand imbalance alters, pressure on prices will remain.

www.dairy.ahdb.org.uk/market-information/

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