

17 October 2018

Dairy outlook

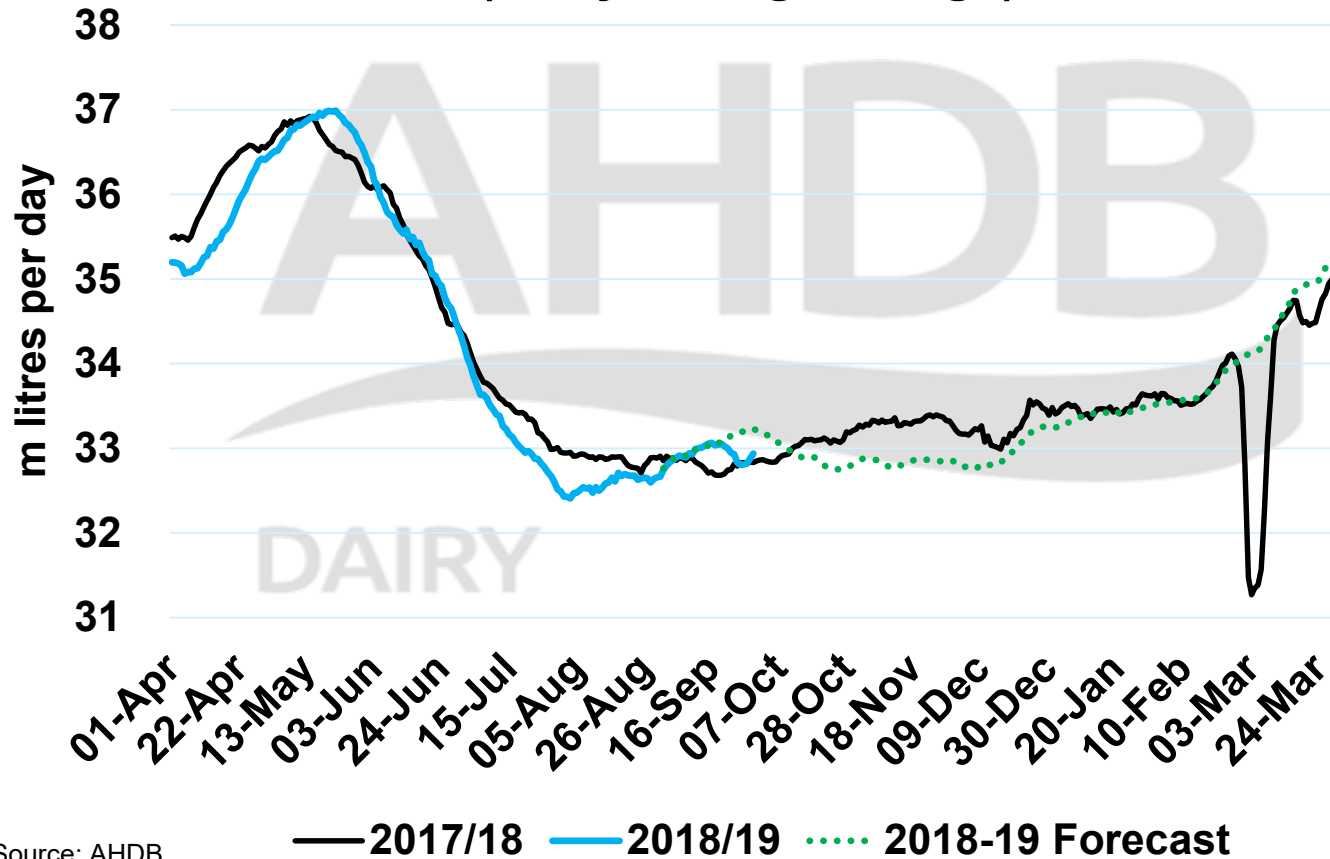
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GB milk production

**GB daily milk deliveries with latest forecast
(7 day rolling average)**

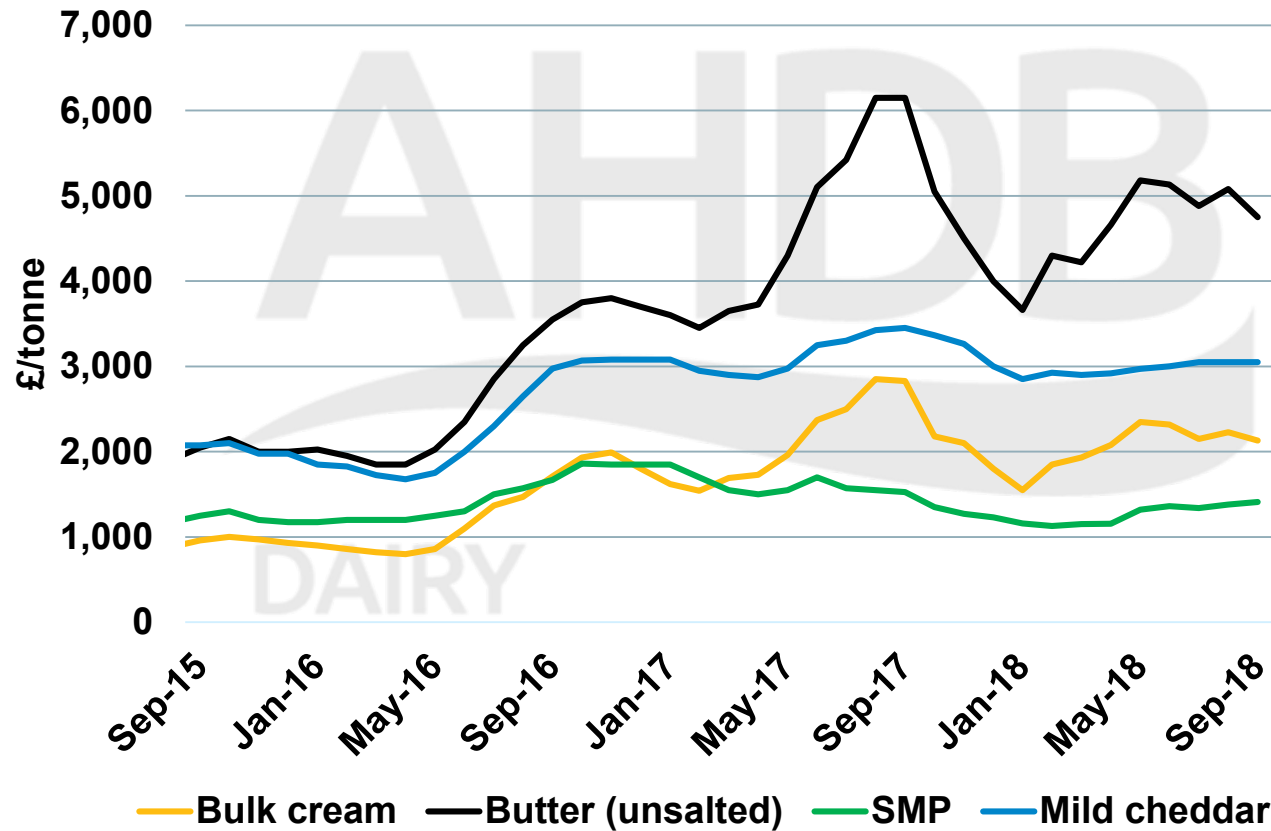


Source: AHDB

- Weather has been main driver for milk production
- Late spring turnout
- Lack of grass through summer
- Milk yields supported by silage stocks and bought-in feed
- Reduction in milking herd

Wholesale markets

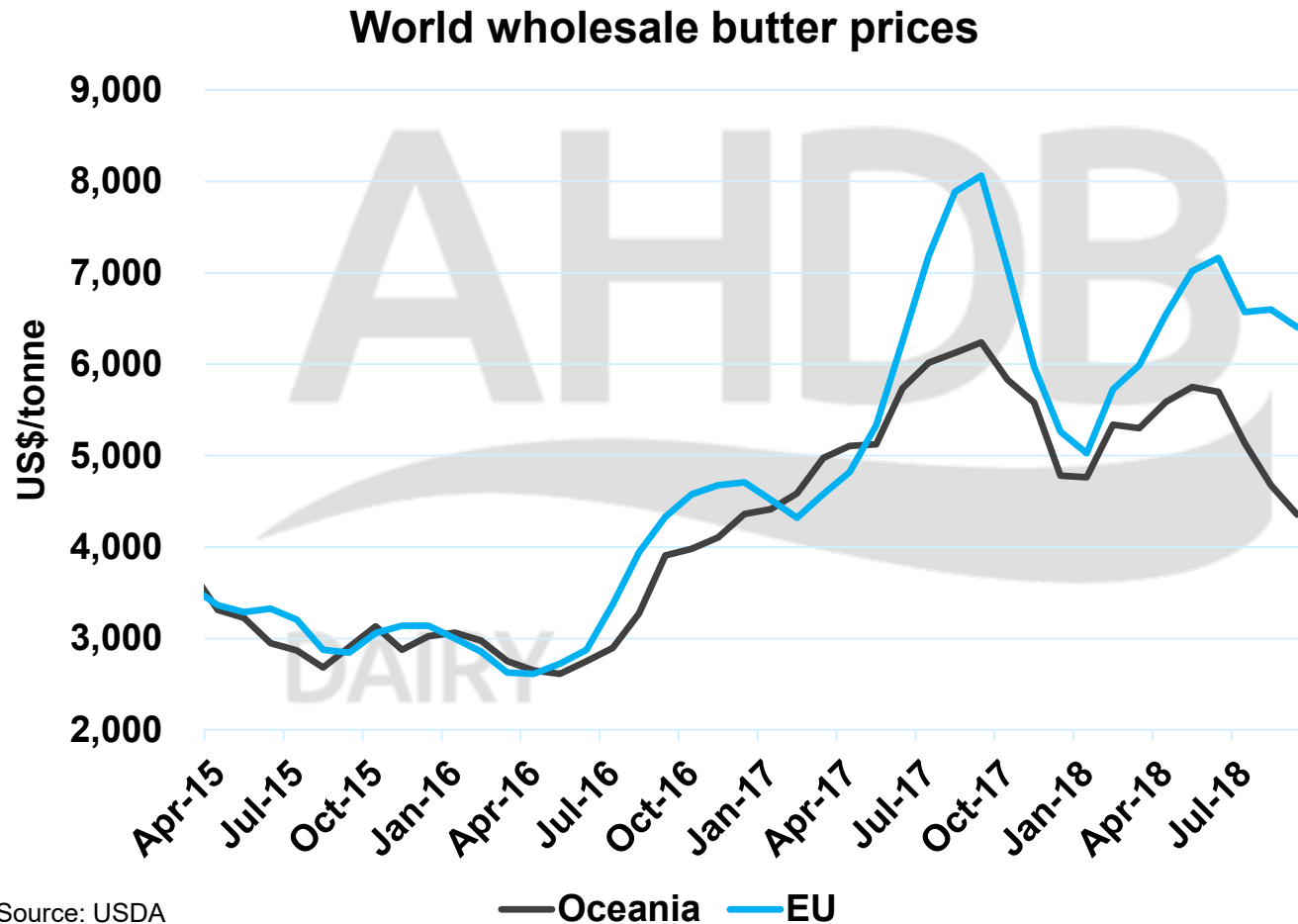
UK wholesale prices



Source: AHDB Dairy

- Weather also impacted EU dairy markets
- Uncertainty on future volumes pushed prices up
- UK followed EU prices
- Butter and cream were running ahead of 2017 for H1
- SMP prices started to rise as intervention stocks got sold
- Third of intervention stocks now sold

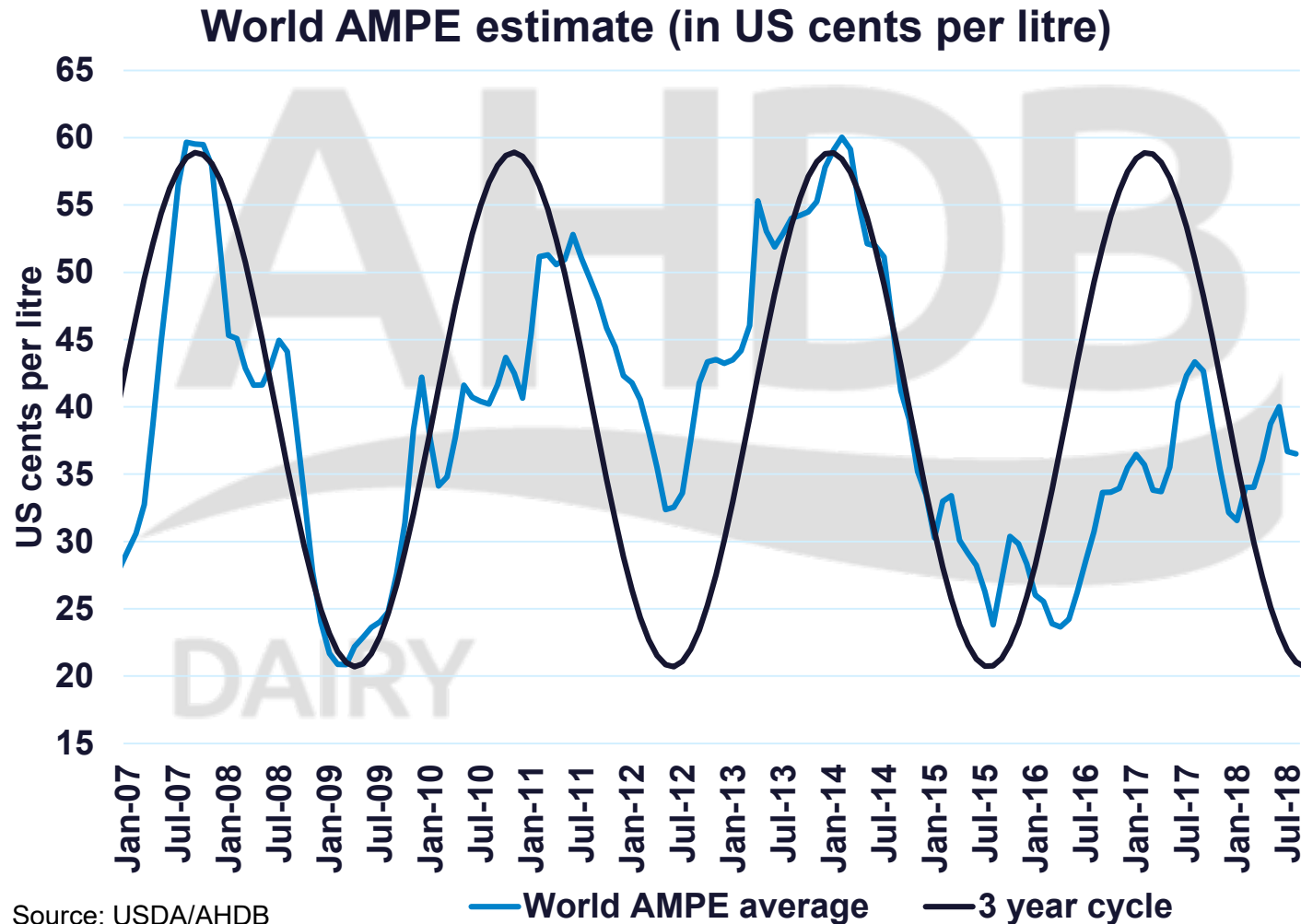
Regional variations



Source: USDA

- EU butter price more than \$2,000 above Oceania prices
- Highest differential for a decade
- EU butter uncompetitive on world stage:
 - EU exports down
 - Oceania offering butter to EU
- Expectation that prices will have to converge

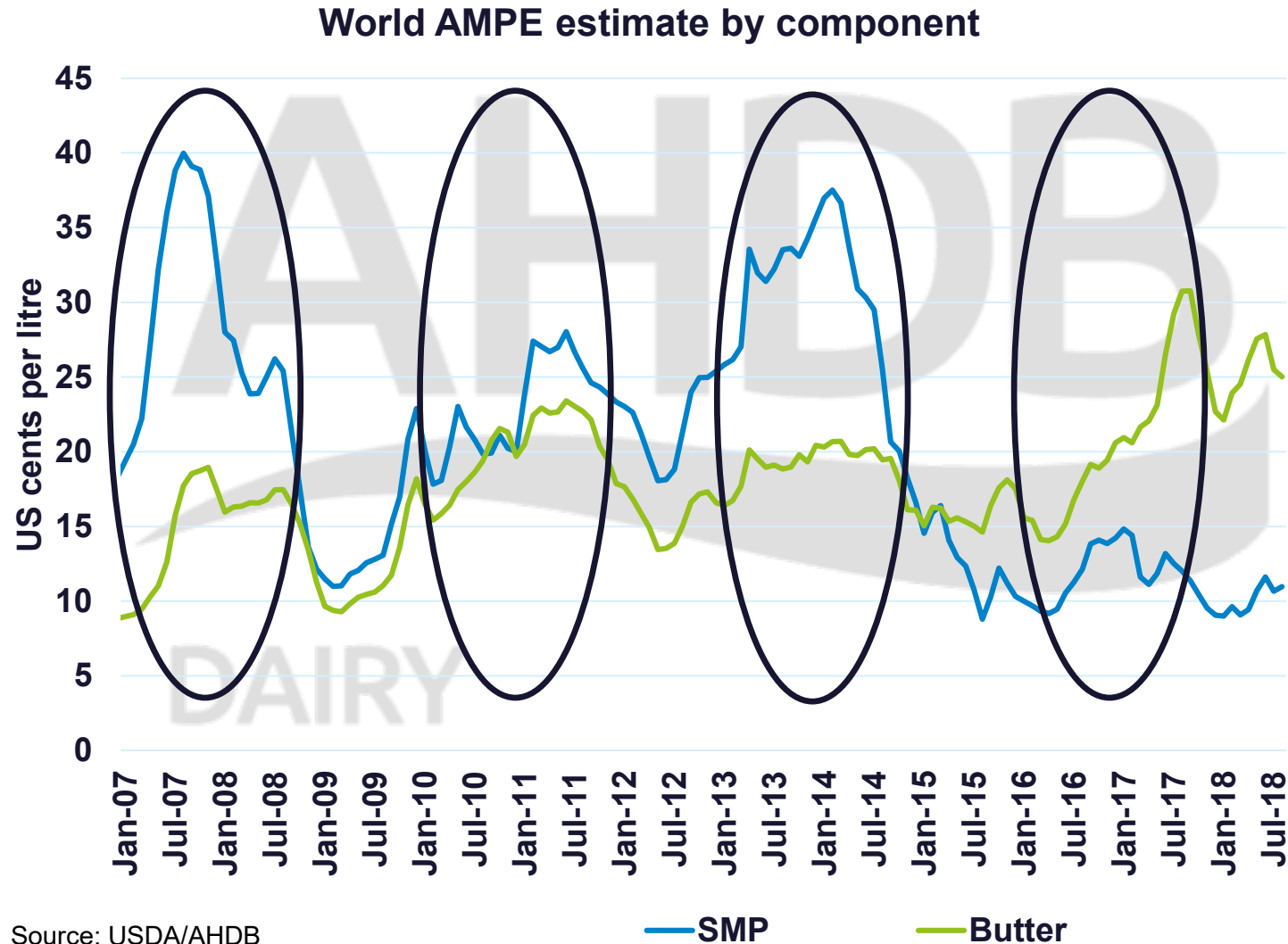
Volatility & cycles



Source: USDA/AHDB

- Global markets had been following rough 3 year cycle for over a decade
- This cycle has been broken over recent years
- 2017 peak failed to materialise

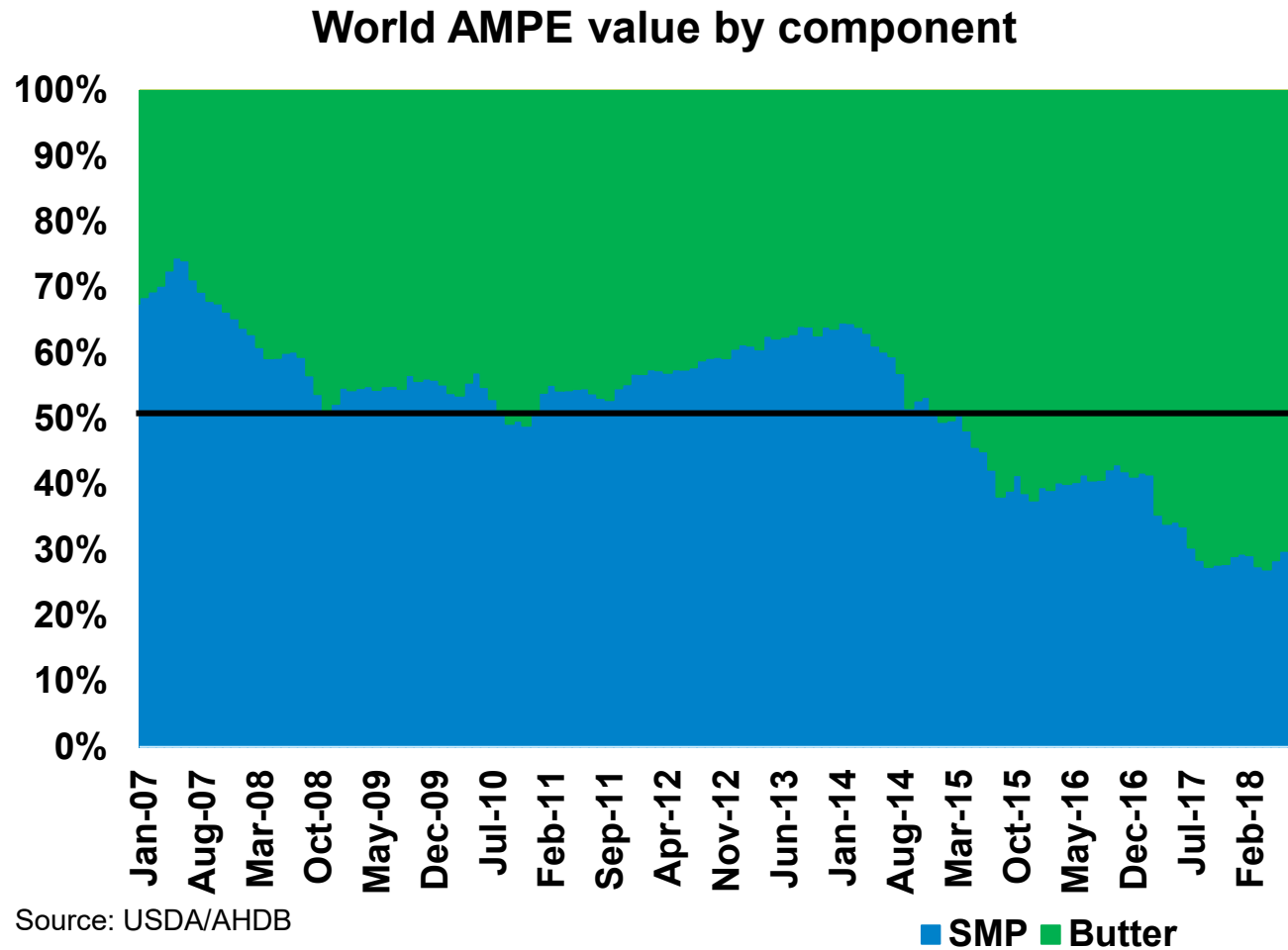
Volatility & cycles



Source: USDA/AHDB

- Previous peaks have been predominantly driven by rising protein markets
- SMP prices held back by intervention stocks
- Even record high butter prices were not enough to drive an overall milk value peak

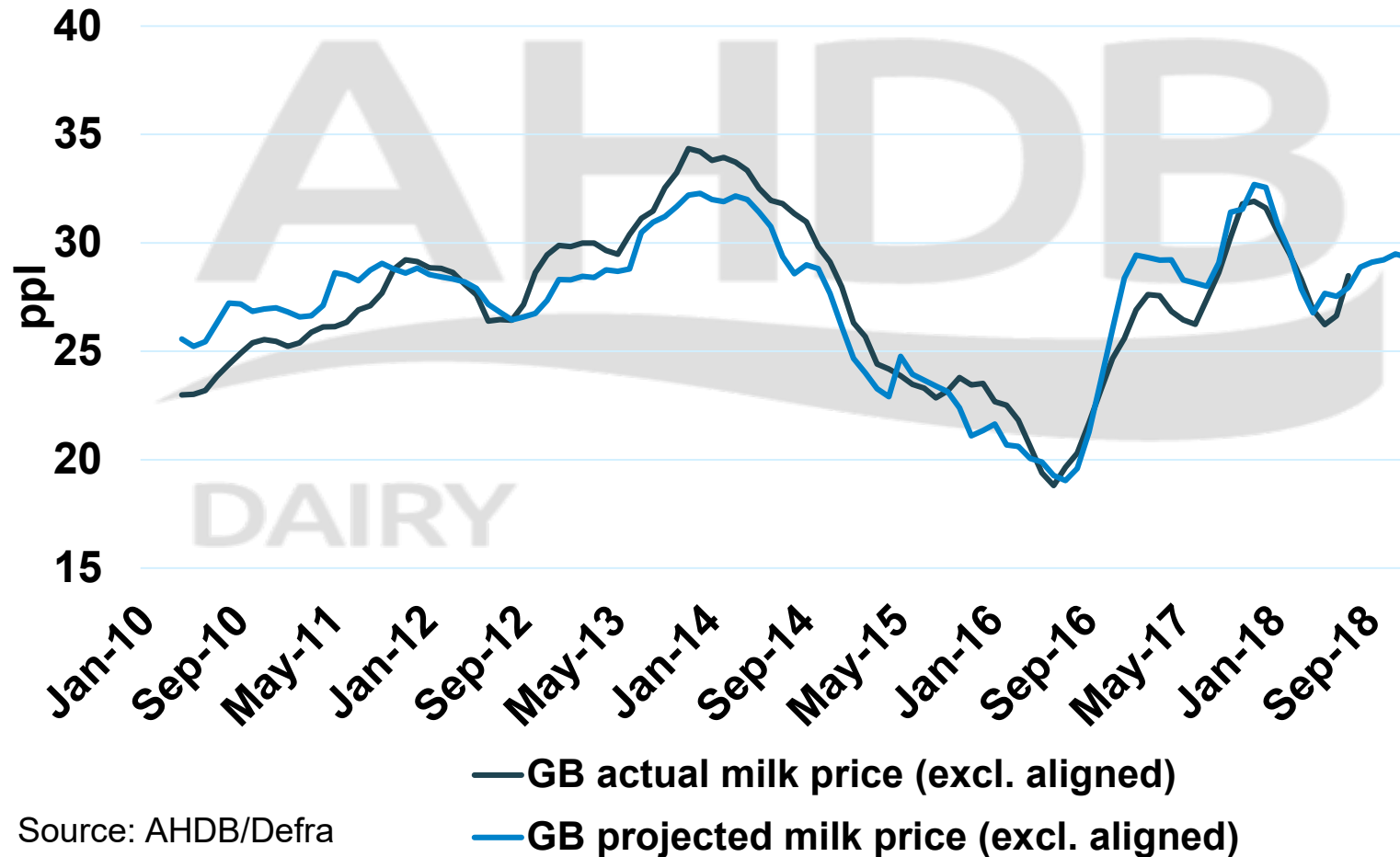
Butter v protein values



- Since 2015 butterfat has been more valuable than protein
- NZ farmers now getting that message though their milk contracts
- EU farmers are not
- Implications of feed and genetics

Milk prices linked to market prices

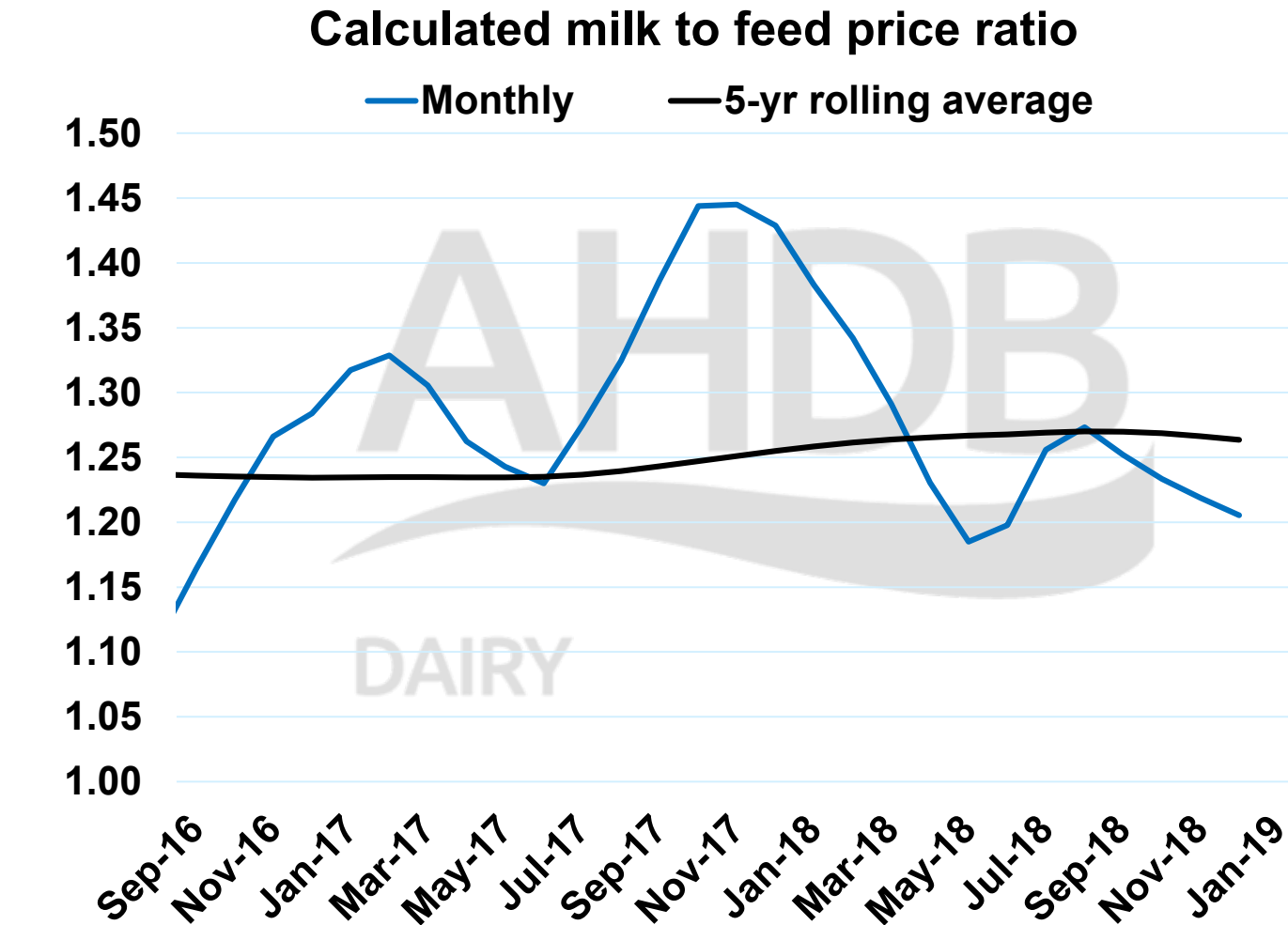
GB actual v projected milk prices



Source: AHDB/Defra

- Milk prices driven by markets, with 3 month delay
- Expectation that farm prices will be stable or rise gradually until November
- However, more recent market reductions expected to push farm prices down from December

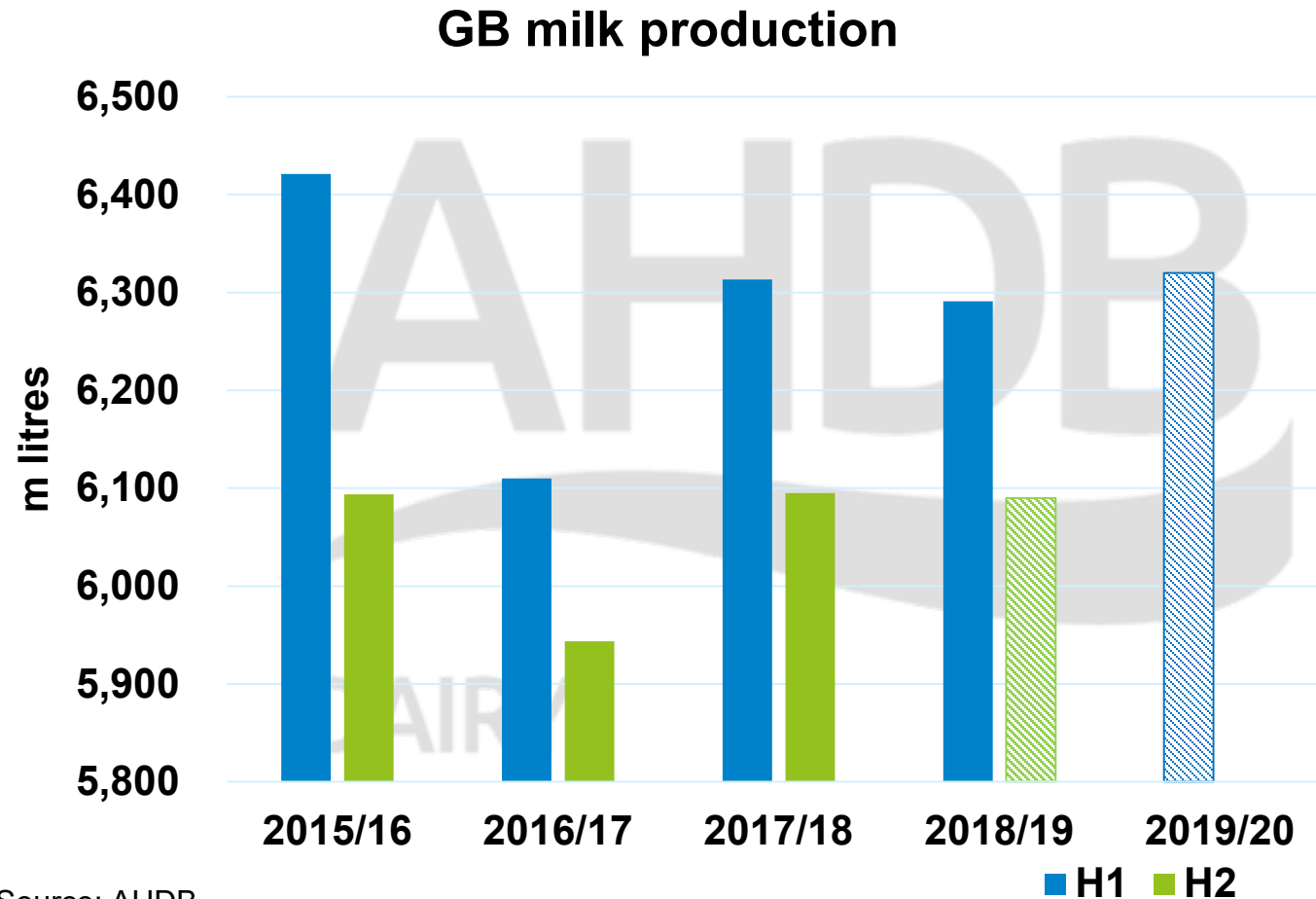
Feed cost impact on yields



Source: AHDB Dairy, Defra

- Feed prices expected to push farm costs up over coming months
- MFPR below 5 year average
- Yields normally rise 2% per year to offset drop in cow numbers
- Lower MFPR expected to put negative pressure on milk yields

Latest milk production forecast



Source: AHDB

- GB milk production forecast at 12,381m litres for 2018/19
- Would be slightly below last year (-0.2%)
- Volumes coming back through the winter
- Spring 2019 expected to be slightly higher than 2018 – assuming more normal weather!

Outlook

- EU and UK butter prices likely to come under downward pressure – closing the premium on Oceania
- SMP prices unlikely to move until we eat into more of the EU intervention stocks
- Farmers on market related prices should expect to see milk prices come under pressure later in the year
- Farmers on cost-plus should see them increase
- Concern over feed costs rising, and the market not able to support them
- Margins expected to come under pressure – which is likely to lead to milk production coming back

A vibrant landscape of a green field at sunset. A path leads from the foreground towards the horizon where the sun is setting, casting a warm glow over the scene. The sky is filled with colorful clouds, and the field is lush and green. The text is overlaid in the center of the image.

**‘Inspiring our farmers, growers
and industry to succeed in a
rapidly changing world’**