Technical Update – Dairy Markets

Information correct as at 2:00pm on 22.05.2020

- A recovery in futures markets to around 25ppl has helped stabilise markets in the short term.
- The £'s weakness is supporting prices by around 2ppl
- UK milk supply has been strong when N Ireland is included and milk reduction schemes in GB have played a significant role in averting a crisis.
- Arla holding their price when the Climate Check is included at 28.78ppl is very positive.
- Dry weather could affect supply going forward.
- The massive variance in farm returns means every business needs its own plan and strategy.

Dairy markets have stabilised in the past 2 weeks with futures prices rising around 5p to 25ppl for the coming year and holding as buyers came into a market where they thought the bottom had been reached at 20ppl. The GDT auction saw a 1% increase which indicates stability and would return 23-24ppl ex farm. Arla has announced a hold for June prices returning 28.78ppl for a standard liquid litre which has been well received. However, suppliers must complete their Climate Check by 2 June to secure this price since this element is worth 1 cent or around 0.9ppl.

There remains concern about the impending recession and what that may do to demand for dairy, especially in developing markets. Therefore, the outlook must remain cautious and careful budgeting of milk prices going forward will be needed.

One positive for milk prices is the weakness of the £ which at $1.20 is supporting prices by 2ppl compared to a value of $1.30. The weak £ does increase feed costs by around 0.7ppl but this weakness is supporting margins at present.

When Northern Ireland is included, UK milk supply has been strong and similar to last year. If it were not for the milk reduction schemes in GB, we would have seen a serious crisis due to excess spring milk. Grass growth is now being impacted by the dry weather and this is now the growing threat to milk supply especially if prices remained subdued.

The variance in returns to suppliers remains massive with some producers on commodity related contracts netting 15-20ppl in May whilst aligned suppliers remain around 30ppl and the majority of contracts returning 24-27ppl before seasonality. For the seriously affected businesses, which are a minority, then decisions will need to be made about whether they remain in milk production since relying on an autumn lift in prices is a high-risk strategy.

We are living in challenging times and every business will need to be doing its own planning since there is no "one size that fits all".

For further discussion or to help with any questions that you may have, please contact Consultant Support on consultantsupport@kiteconsulting.com or 01902 851007 / 07542 403225