

## MDC Intentions Survey

The latest MDC Farmers Intentions Survey shows that more farmers are making proactive decisions regarding their short-term future in the dairy industry. This is potentially due to greater clarity surrounding CAP reform.

	2004	2005	2006
Leave industry	26%	11%	14%
Maintain current production level	37%	50%	46%
Increase production	16%	23%	26%
Undecided	21%	16%	14%

\* figures weighted to be representative of all Dairy Producers in the UK

The number of farmers planning to leave the industry within the next two years has increased by 3% since March 2005, to 14%. A further 26% of farmers are planning to increase production within the next two years - 10% more than in March 2004. If farmers do what they say they intend to do, it is predicted that milk production in the UK will fall to around 13.2b litres by the 2007/08 milk year (6% below quota).

Younger farmers, tenant farmers, farmers producing over 1m litres of milk per annum and those with dairy only farms are the more likely to increase milk production within the next two years.

However the survey shows that the majority of farmers are still unsure about their long-term future in the dairy industry. This is reflected in low levels of planned future investment with the majority (69%) of farmers questioned not intending to invest in anything other than general maintenance over the next five years.

For a copy of the survey please see the MDC Datum website: [www.mdcdatum.org.uk](http://www.mdcdatum.org.uk)

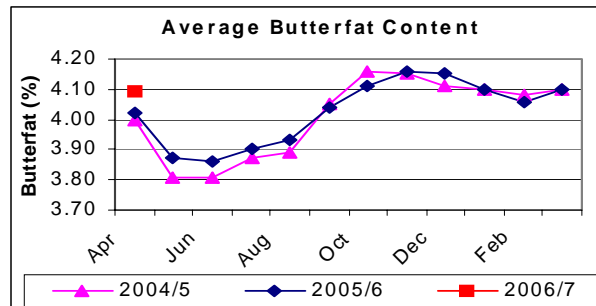
## Production Low But Butterfat High

Weather appears this Spring once again to have played a significant part in low milk production and high butterfat.

Milk production for April was approximately 16m litres down on the same period last year, when there was a very low peak. However, the signs are that production has started to increase more rapidly in the last two weeks. On the current trend, the peak is likely to be at least at last year's production level with signs that it may be higher.

However, as a result of low milk production levels, milk solids have seen a significant increase. The butterfat level for April was 4.09% - the highest recorded figure for April since 1998 and 7 percentage points up on April last year.

The primary reason appears to be poor weather which has meant cows being housed for longer and fed on higher levels of rations.



### In context:

There will be concern at the level of butterfat produced as there is currently a surplus of butterfat available. As a result, butterfat prices have decreased in recent months which have, in turn, affected farmgate prices.

## Tender Export Refunds Change

Despite signs of falling world prices and a weakening of the Dollar against the Euro/Sterling by 5-7% over the last month - making EU/UK exports even more expensive - the Commission has decided not to change the 'Common' export refunds. This is likely to be in anticipation of upcoming price cuts in intervention for both butter and SMP.

However, most bulk SMP and butter exports are now taking place under the tender system. The 'Tender' export refunds for butter have been increased and are now around £68/t more than the 'Common' refund. As a result, the differential in price between exports through the tender system and domestic prices, has reduced to around £30/t. This may help reinvigorate some demand for EU butter exports and reduce some of the pressure on the butterfat market.

## Auction Prices Decrease Significantly

The United Dairy Farmers milk auctions for both one

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month and three-month contracts have seen a 2ppl decline in prices compared with last year. The auction price for one-month contracts is now only 16.24ppl, while three month contracts stand at 17.54ppl.

Some of this drop is possibly down to extra availability of milk in Northern Ireland, with more available for the one-month auction than last year. However, a significant proportion of the decrease is likely to reflect the increasingly pessimistic view of the commodity markets at present; especially for butter. There are also signs of SMP and WMP prices starting to slip within the EU.

### Milk Prices Show Signs of Weakening

Defra's March milk price is 0.1ppl below last year, at 18.22ppl. This is the first time this year the average milk price has been below last year's. The fall in the milk price is due to a number of cuts by processors in March, as a result of falling commodity prices. However, higher butterfat levels than last year and increases in organic milk price year-on-year (which accounts for around 0.1ppl) has meant the milk price has probably actually fallen by more than reported.

There is likely to be further downward pressure on April milk prices as there were a number of further price cuts that month. However, once again, some of these cuts are likely to be partially compensated by the high butterfat levels in April.

### Retail Prices for Butterfat Decrease

Retail prices for butterfat have also started to decrease recently. Fresh cream prices continued to fall in April and are now down by 29p/pint (over 20%) since January. Fresh cream wholesale prices have been falling since the autumn of 2003, but the decline in retail prices is sudden and unusual. In the butter market, Country Life prices have held steady in the past month, but Anchor (NZ butter) and

Anchor Spreadable prices were down again in April. Anchor is now a 4p/250g pack premium price over Country Life, compared with a 10p premium six months ago. Some industry commentators have speculated about whether New Zealand is looking to fill up its butter quota or whether it is to hold onto market share in the wake of a new branding and advertising campaign for Country Life.

### WTO Talks At Crucial Stage

The latest WTO deadline of 30 April has been missed and there are increasing concerns about whether an agreement can be met at all.

The EU appears unwilling to move on more market access for agriculture, unless there is also some movement by other countries in removing trade barriers in services and manufacturing. There has also been intransigence, especially, in agricultural market access around a number of topics including: what products should be in which tariff bracket (band), the level of cuts that should be applied, the treatment of 'sensitive' products (products with some degree of protection but in return must have larger import quotas) and what products can be identified as 'sensitive'.

The next deadline is the end of July and most commentators feel that if an agreement is not reached by this stage it will be very difficult to do so afterwards. The reason for this is largely down to the US. The US president's ability to fast-track a proposal through the US Congress expires in June 2007 (it will take about a year for legislation to be drawn up etc). Most analysts believe it will be very difficult for the US to pass any agreement after this date.

### MCVE - Correction

In the previous update we referred to the value of MCVE decreasing by 0.25ppl. In fact the decrease was 0.5ppl.

Quota Prices (4.00%)	Clean			Leased			Average Farmgate Milk Price: March						
Day End 11/05/06	3.9ppl			0.4ppl			2006	18.22ppl			2005	18.32ppl	
Wholesale Dairy Prices	Butter (unsalted)			Skimmed Milk Powder			Mild Cheddar			Bulk Cream			
11/05/06 £=\$1.864	Mar 06	Feb 06	Mar 05	Mar 06	Feb 06	Mar 05	Mar 06	Feb 06	Mar 05	Mar 06	Feb 06	Mar 05	
11/05/06 €=£0.687													
UK £/tonne	1,740	1,740	1,920	1,400	1,390	1,350	2,100	2,100	2,075	770	760	880	
World £/tonne	1,056	1,059	970	1,176	1,202	1,153	1,549	1,545	1,468	N/A	N/A	N/A	
Retail Prices	Liquid Milk (retail) 4 pint poly bottle (ppl equivalent)			Liquid Milk (doorstep) (ppl equivalent)			Butter Branded (p/250g)			Mild Cheddar Non-branded (p/kg)			
Mar 06	51.0			83.1			77			484			
% Change vs Mar 05	+0.6			+4.2			-7.2			+8.0			

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