

## Calf prices increase

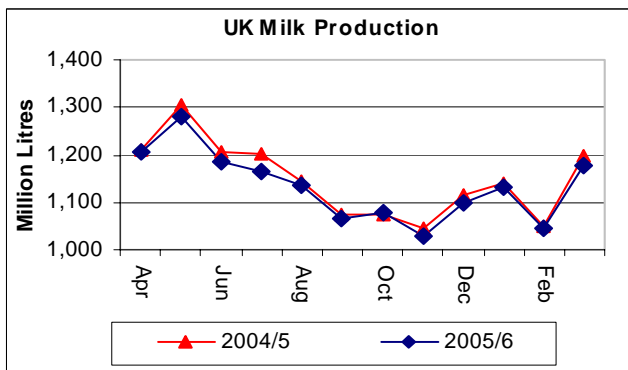
Prices for Friesian Holstein bull calves have tripled since the beginning of the year (but are still only at the same level as last year). It appears that traders, speculating on the date calf exports will resume, have been the catalyst behind the increase in calf prices over recent weeks. It has now been confirmed that exports can resume on 3 May.

The average price for Friesian Holstein bull calves for week ending 5 April 2006 was £21.93/head. However, a number of auctioneers have reported that good quality black and white bull calves are realising significantly more.

It is unlikely that British calves will immediately realise prices similar to European prices, as it will take time to re-establish British calves in European markets. Moreover, to gain the top prices, finished calves need to be between 14 and 21 days old, which will exclude calves that have already been traded to date in the UK markets.

## Milk production remains low

Milk production for March was 1,178 million litres, 20 million litres lower than last year. This makes it increasingly likely that the spring peak will be relatively low.



Overall production for the 2005/06 milk year was approximately 400 million litres below quota at 13,601 million litres, and around 170 million litres lower than 2004/5.

### In context:

Lower milk production has not had a significant impact on milk prices because the milk that has not been produced would normally have gone in to commodity production. There is still a significant amount of milk going into commodity products despite this lower level of milk production. Continued lower supplies could lead to commodity milk processing plants being shut.

## Auction prices down on last year

UDF auction price for both one month and three month contracts are down on last year by around 0.4ppl and 0.3ppl respectively. This is not surprising as commodity markets (AMPE) are showing returns down around 0.3ppl over the same period.

Prices for three month contracts are up on last month, to 16.46ppl, predominantly due to seasonal production patterns (milk is being sold for May – July not April to June as last month). Demand continues to remain firm despite the butterfat market at intervention price levels, signs of a possible weakening in the protein market (SMP) as we enter the Spring flush and further intervention price cuts in July. This demand could be driven by lower availability of milk or the possibility that auctioned milk is going into other products such as cheese, rather than commodities.

## Fertiliser prices start to ease

AN prices have started to ease as demand continues to remain low. This is partly due to the recent cold weather, although according to Farmbrief demand has been down significantly in recent months. Defra has also reported fertiliser stocks held on-farm continue to rise.

As a result of this low demand, prices have fallen slightly to £169/t. Industry commentators have speculated that new season prices in June may have to start below £150/t just to avoid a further fall in demand.

## Processors recover margins

All three main liquid processors (Arla, Wiseman and DC) have released positive trading statements. The continued growth in brands, increases in wholesale prices and a reduction in farmgate prices have all helped processors recover margins during the past six months.

Wiseman's report volumes were above expectation, with positive progress in its branded products such as "The One" and "Tesco Pure". There has also been an increase in distribution efficiencies through its Northampton depot.

For more information  
on any of these items please go to  
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Dairy Crest is showing continuing growth in branded cheese, volume increase in own-label and the benefits reaped from increased cheese prices, although it does comment that industry stocks are currently high. The spreads portion of the business continues to perform well, as does branded yogurt. In the liquid sector, volume sales recovered following the new contract with Morrisons. DC are also in the process of integrating their acquisitions, Midlands Co-op and Starcross to give them better coverage.

Arla's interim trading statement shows a growth in liquid milk sales to supermarkets by 3%. Brands and organic milk have also shown positive growth. Arla continues to perform well in the BSM (butter, spreads and margarine) market with sales of Lurpak and Anchor up 6% and Lurpak now accounting for 19% of the market.

**In context:**  
In their trading statements all three processors emphasise the importance brands and value-added products have had on growth. The continuing development and growth of branded and value-added products will remain a priority if the UK dairy industry is to buffer itself from the increasingly global commodity markets.

### Farmgate prices remain firm

Average farmgate milk price for February was 18.35 ppl, 0.3ppl below January's price. Despite farmgate price cuts from a number of processors in February, the provisional price is 0.04ppl above the price of February 2005. Part of the reason is the inclusion of organic milk prices which have risen substantially over the past year. This has had a 0.8 to 0.12ppl impact on the farmgate price year on year.

The farmgate milk price for March is likely to be below last

year. This is because a number of milk buyers announced price cuts for March milk. In addition the milk price for March 2005 was boosted, compared to previous years, due to the short lived retail price initiative.

The latest milk buyer to announce farmgate price cuts is Dairy Farmers of Britain who will cut their members' milk price by 0.25ppl from 1 April.

### UK 9<sup>th</sup> largest milk producer

The UK is the 9<sup>th</sup> largest milk producer in the world despite being a major importer of dairy products.

Million tonnes*	1995	2005	% change
USA	70.4	80.2	+14
India	26.7	38.5	+44
Russia	39.1	30.6	-22
Germany	28.6	27.6	-4
France	25.4	25.3	-1
China	6.1	24.5	+303
Brazil	17.0	23.3	+37
New Zealand	9.3	14.6	+58
UK	14.8	14.6	-2
Ukraine	17.1	14.0	-18

\* Please note these figures are milk delivered to dairies and ignore the informal sector which can be very large, particularly in India.

However, over the past 10 years there has been a shift in production patterns. As a result, some countries outside the EU have seen some rapid growth while EU production has remained stagnant due to quotas.

The most rapid growth has been in the developing countries such as China, India and Brazil. New Zealand has also seen similar rapid growth.

A significant proportion of this growth is being accounted for by domestic consumption particularly in India and China. However, some of the milk will also be for manufacturing into tradable products (eg, in New Zealand).

Quota Prices (4.00%)	Clean		Leased			Average Farmgate Milk Price: February						
	4.06ppl			0.41ppl			2006	18.35ppl			2005	18.31ppl
Day End 13/04/06	Butter (unsalted)			Skimmed Milk Powder			Mild Cheddar			Bulk Cream		
Wholesale Dairy Prices	Mar 06	Feb 06	Mar 05	Mar 06	Feb 06	Mar 05	Mar 06	Feb 06	Mar 05	Mar 06	Feb 06	Mar 05
13/04/06 £=\$1.751	1,740	1,740	1,920	1,400	1,390	1,350	2,100	2,100	2,075	770	760	880
13/04/06 €=£0.692	1,056	1,059	970	1,176	1,202	1,153	1,549	1,545	1,468	N/A	N/A	N/A
UK £/tonne	Liquid Milk (retail) 4 pint poly bottle (ppl equivalent)			Liquid Milk (doorstep) (ppl equivalent)			Butter Branded (p/250g)			Mild Cheddar Non-branded (p/kg)		
World £/tonne	51.0			83.1			77			484		
% Change vs Mar 05	+0.6			+4.2			-7.2			+8.0		

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