

# Price 'positivity' set to stay

Upward pressure keeps UK milk prices firm



There are reasons to be optimistic about milk prices as we head into winter, according to a leading market analyst.

text **Rachael Porter**

**F**armgate milk prices are expected to remain firm during the winter and upward pressure means that they could rise a little during the next few months. So says AHDB Dairy's senior market analyst Patty Clayton who adds that, globally, there's still a lack of stocks to keep the market balanced and positive pressure on farm-gate prices.

"Prices have held up relatively well during the past year. The June average, which is the latest figure available, was just short of 27ppl for UK producers and the July and August figure should be higher," she says.

Cheese makers, including Barbers and Crediton Dairy, announced price increases of between 0.75ppl and 1ppl in August. Muller also increased the price it pays to producers by 1ppl. And August also saw the announcement that Arla members would see a bigger 'slice' of the cooperative's profits in their 13th payment, to help their businesses mitigate the tough spring and summer weather conditions seen in 2018.

## Production costs

Firm prices will also help to 'support' producers who are not Arla members. "It has been a tough year, so a milk price that's holding steady will provide some comfort. The 27ppl average will be higher for July and August, and probably also for September and October."

Global production is still increasing but it has slowed down in the UK, Germany and The Netherlands, due to the drought conditions.

The good news is that global demand for dairy is still increasing – which is continuing to offset any increase in production and keep supplies tight enough to ensure that prices hold firm. South East Asia and Africa, particularly the developing countries, continue to demand and consume more dairy.

"These factors mean that the market has remained relatively stable in 2018 – and forecasts show that this is set to continue in the short term," says Mrs Clayton.

## Fat imbalance

There's still a 'fat' imbalance – a shortage of butterfat that's created a glut of skim-milk powder (SMP). "But supplies of the latter are beginning to shift. Around 125,000 tonnes have been sold out of intervention, but there are still around 250,000 tonnes in stores around the EU. We're not brushing up crumbs from the warehouse floor just yet, but the situation is starting to improve."

So, what about Brexit? Depending on the deal struck, two things could happen. If it costs more to export, that would have a downward pressure on milk prices. "Much depends on the final agreed deal. But we are hearing anecdotal evidence of some EU dairy traders switching to buying non-UK product because they are not confident that they will be able to source it economically post Brexit," says Mrs Clayton.

"If export costs increase it could result in downward price pressure. But it would also see the cost of imports go up and that would increase demand for domestic dairy produce.

"The unknown here is that we don't know which effect will be greater. But, for the next six months at least, producers can rest assured that the pressure on prices will remain positive.

"The current milk price is close to the five-year average. And that means that producers could be in a strong position when it comes to long-term planning. But their production costs may well be higher, particularly feed costs after this year's summer. So, where possible, any profit may need to be put aside to help weather any market volatility that's on the horizon."

▶ AHDB Dairy's projected price movement reports are available to view at: [www.dairy.ahdb.org.uk/market-information/milk-prices-contracts/market-indicators/projected-farmgate-price-movements](http://www.dairy.ahdb.org.uk/market-information/milk-prices-contracts/market-indicators/projected-farmgate-price-movements)