

# Global shortage continues

Some recovery, but butterfat in short supply

Milk prices are firm and, despite signs of lower pricing in global markets, there are reasons to be optimistic.

text **Rachael Porter**

**F**armgate milk prices are expected to remain firm during the winter, with little downward pressure, although the recent reduction in commodity prices and growth in milk production may limit the scope for further price rises. Ultimately, producers' milk cheques will reflect how closely their buyer is aligned to the global market. 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. "Milk production hasn't recovered sufficiently to rebuild stocks, particularly in the EU, and particularly with butter," she says.

She explains that the flip side of this is a mountain of skim milk powder (SMP) in intervention that is, inevitably, 'dragging' on milk price. And this is exacerbating the butter shortage as processors direct more milk into cheese, to reduce 'low-value' SMP production. Spring production in the UK was slow, which has also helped to firm up prices. There wasn't the usual glut of milk and certainly not enough to rebuild depleted butter stocks, despite a slight recovery during the summer. The same can be said for the rest of Europe. Germany and France, in particular, saw a dip in production due to cold weather.

## Firm prices

"Farm gate milk prices, currently averaging 28ppl, have yet to fully catch up with the market, which is why buyers have continued to pay more as the summer progressed," says Miss Clayton. "This rate of increase has slowed down, but some buyers have announced price increases during the next couple of months, which is good news for producers. Even where there are no increases, prices are expected to stay level. This is also why the reduction in some commodity market prices are not

expected to have a negative impact on farm gate prices in the short term."

Miss Clayton adds that it's surprising that more buyers and processors are not paying more for butterfat, to incentivise producers to chase solids rather than milk yield. "Milk price has gone up, but buyers have not changed how they pay for milk. There have been very few contract alterations."

As CowManagement went to press, only one cheese maker, Barbers, had specifically adjusted its butterfat payment upwards. "Volumes are increasing, but constituents are also needed to increase the value of that milk and meet market demand. The industry must be careful about the signals it sends to producers. Does it want more volume or a 'different' type of milk?"

Other key market drivers, looking forward, include the New Zealand spring flush, which is just about to begin. "It will have an impact on global milk prices, but just how will depend on the strength of their milk production. And EU production is something else to watch. Any increase in milk production in spring 2018 beyond what is needed to rebalance stocks could have a downward impact on prices.

"However, Chinese demand for dairy is starting to pick up again and this could help to counteract any increase in supplies, limiting any downward pressure on milk price."

Of course, there's very little that individual producers can do to influence any of that. But they can make sure that production is carefully aligned with their buyer's contract to help mitigate any potential volatility. She says that this is where producers can take the lead and be proactive. "Communicate with them and make sure that you are servicing the market that you – and they – are in."

