

# Market Commentary





### FMC / MSA MILK PRICE BASKET 2017

	<u>Jan'17</u>	<u>Feb'17</u>	<u>Mar'17</u>	<u>Apr'17</u>	<u>May'17</u>	<u>Jun'17</u>	<u>Jul'17</u>	<u>Aug'17</u>	<u>Sept'17</u>	<u>Oct'17</u>	<u>Nov'17</u>	<u>Dec'17</u>
Basket Average	25.36	26.99	27.53	27.29	27.13	26.88	26.51	26.61	27.95	29.17	30.47	30.99
Fresh Milk Company	27.50	27.50	27.50	27.50	27.50	27.50	27.50	27.50	27.50	28.50	29.00	29.00
Diff FMC Vs Basket	2.14	0.51	-0.03	0.21	0.37	0.62	0.99	0.89	-0.45	-0.67	-1.47	-1.99
Unweighted Qrtly Ave Yearly			2.62			1.20			1.43			-4.13 1.12

For milk 4% b/f & 3.3% prot, Bacto 30 / SCC 200,000 / 1mltrs EODC and before seasonality, retail supplements or capital retentions





## FMC / MSA MILK PRICE BASKET 2018

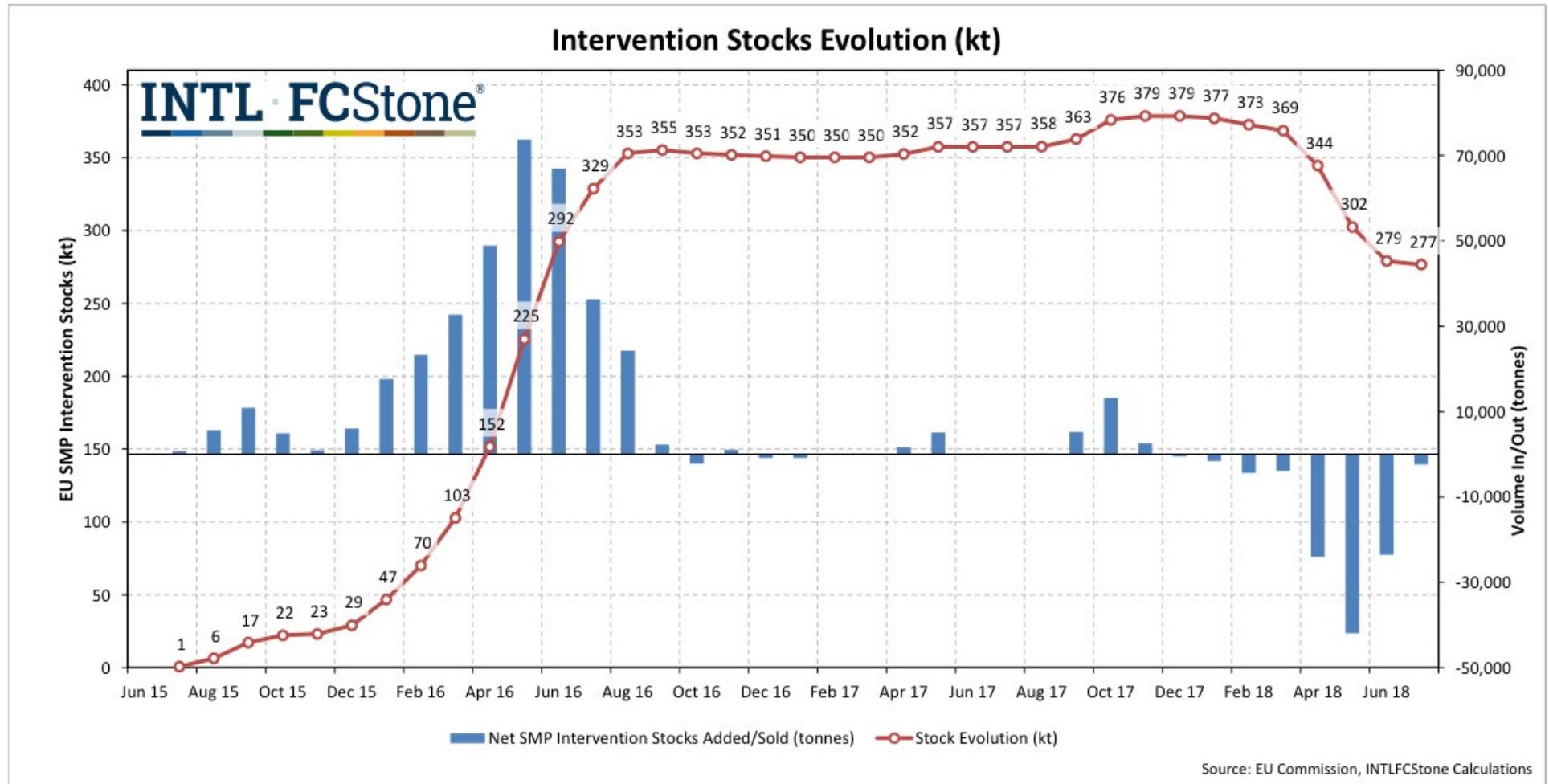
	<u>Jan'18</u>	<u>Feb'18</u>	<u>Mar'18</u>	<u>Apr'18</u>	<u>May'18</u>	<u>Jun'18</u>	<u>Jul'18</u>	<u>Aug'18</u>	<u>Sept'18</u>	<u>Oct'18</u>	<u>Nov'18</u>	<u>Dec'18</u>
Basket Average	30.21	29.15	28.28	27.24	25.99	25.91	26.34	27.63	28.57	29.15	29.22	29.36
Fresh Milk Company	29.00	29.00	29.00	26.50	26.50	26.50	28.00	29.00	29.00			
Diff FMC Vs Basket	-1.21	-0.15	0.72	-0.74	0.51	0.59	1.66	1.37	0.43			
Unweighted Qrtly Ave Yearly to date			-0.64			0.36			3.46			3.18

Provisional prices based on Milkprices.com best estimates

For milk 4% b/f & 3.3% prot, Bacto 30 / SCC 200,000 / 1mltrs EODC and before seasonality, retail supplements or capital retentions



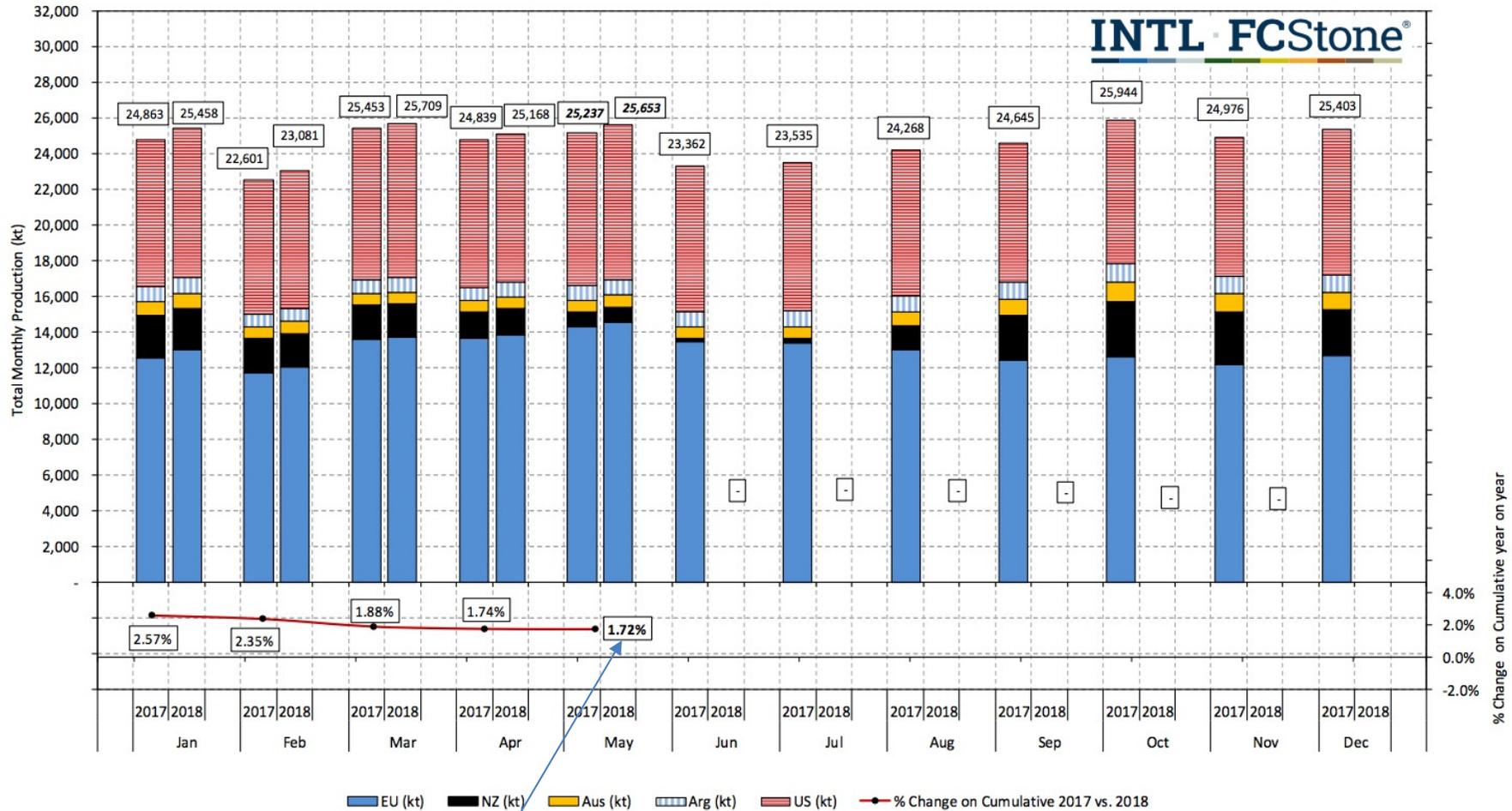
- Starting Dec'16 through to Jul'18 there has been circa 102,000t of SMP sold leaving 277,000t in store
- 11 out of the 22 tenders have released product, largest selling month to date — May'18 selling 41,958t
- Commission moving to 2 tenders per month from Oct'18 although there will only one in Dec'18



Sources: Eurostat, AGEA, DCANZ, Dairy Australia, NASS; Ministerio de Agroindustria

### Milk Production By Primary Global Producers 2017 vs. 2018 (kt)

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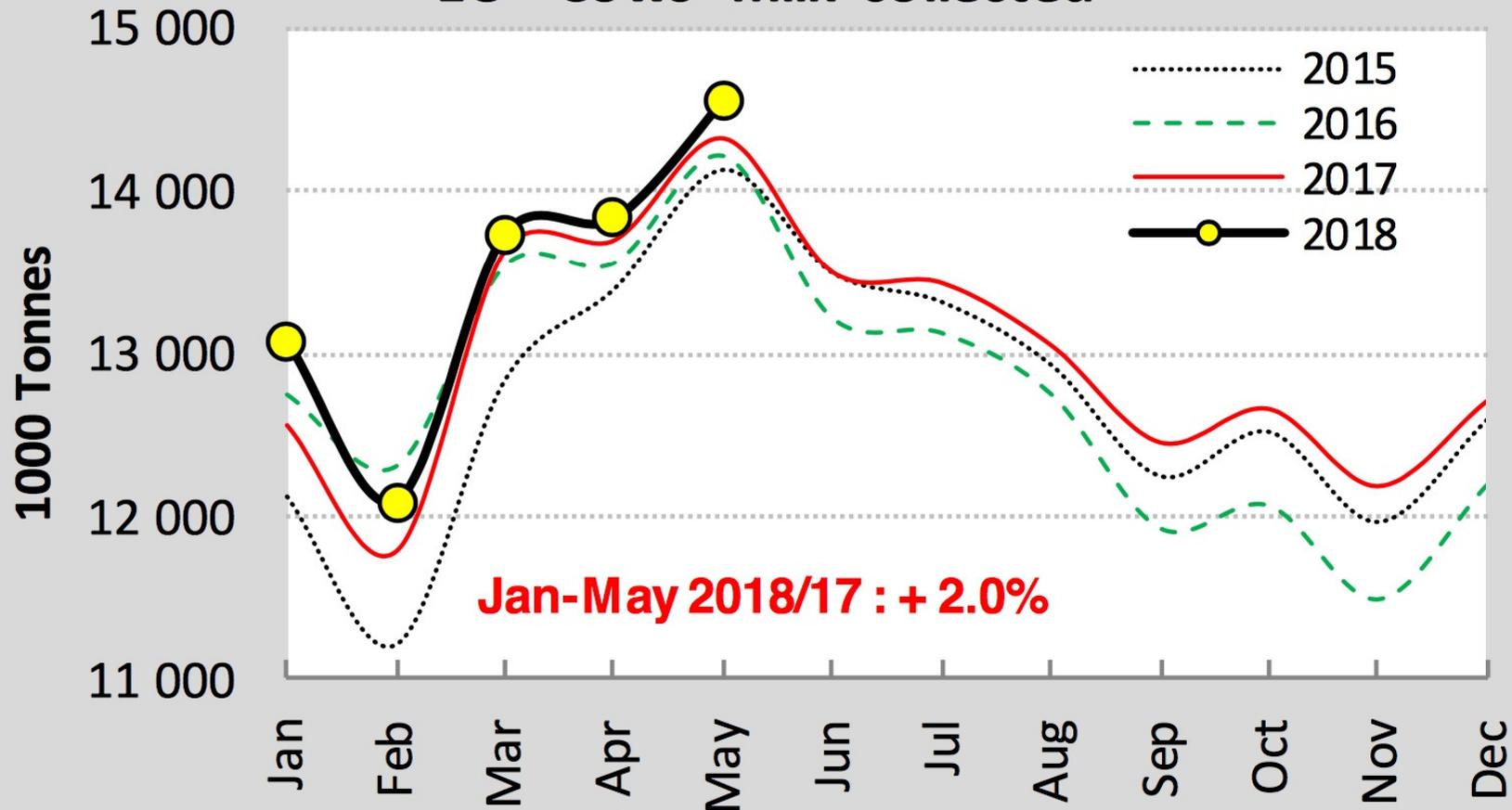


- Figures to May'18 put global milk production 1.72% up on last year compared with 2.57% up yr on yr in Jan'18
- Jun'18 supply expected to pull back with the hot weather across Europe and drought in Australia.





## EU - Cows' milk collected

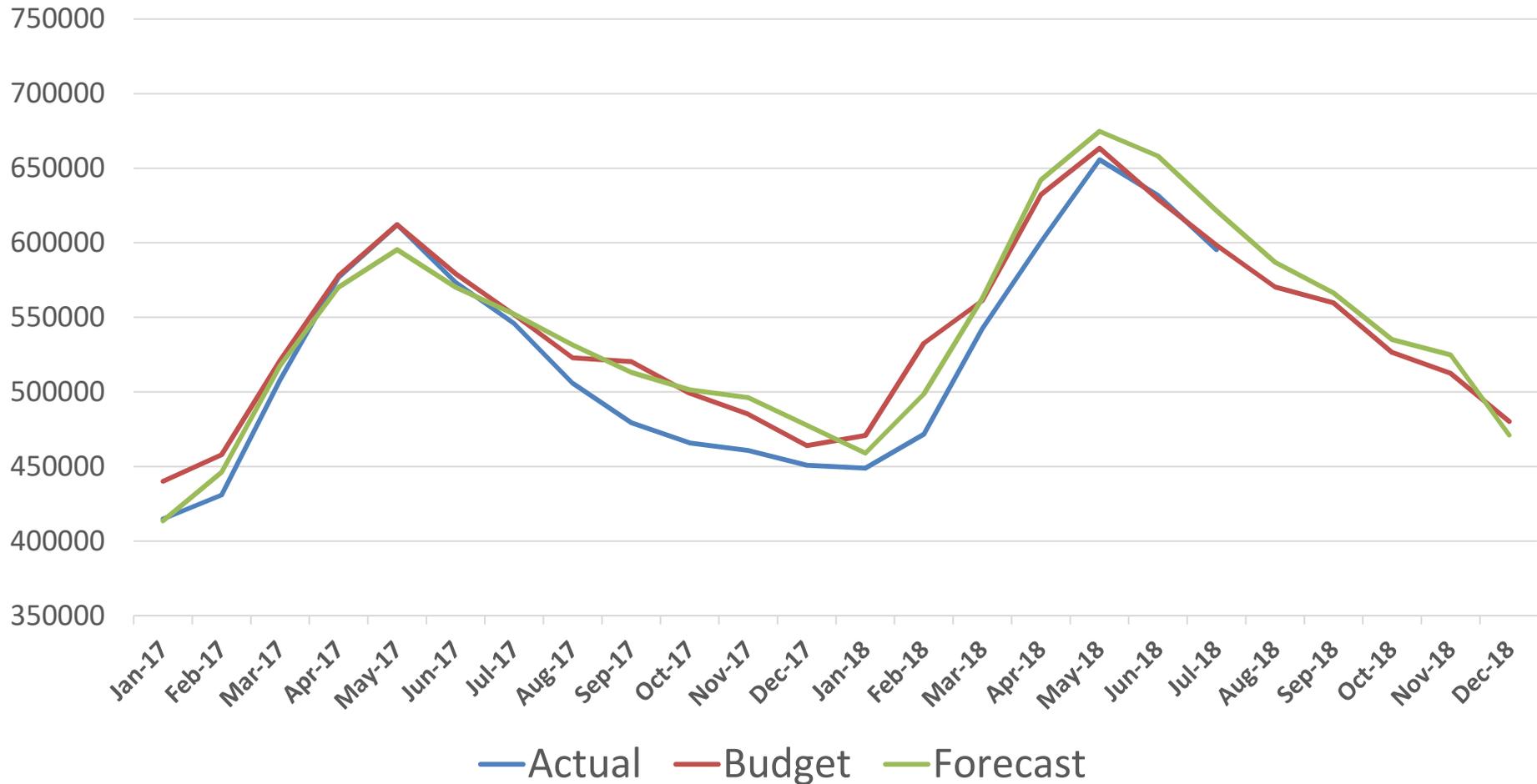


**Jan-May 2018/17 : + 2.0%**

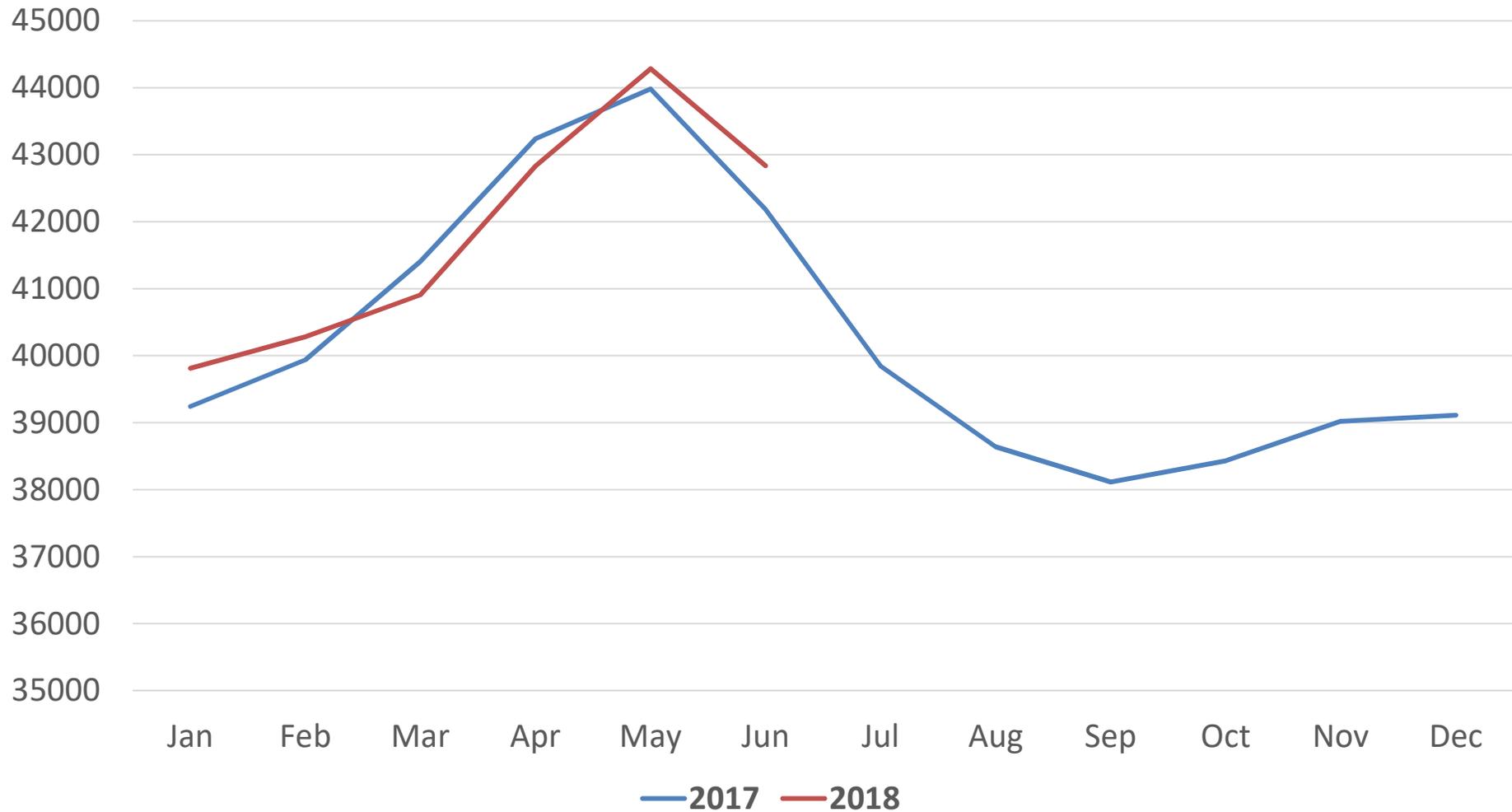


# MSA - Average Daily Milk Production

MSA - Average Daily Milk Production



# UK Av Daily Milk Prod<sub>n</sub> ('000 litres)



- The cold later spring did not bring the predicted fall in milk production. Supplies have been well balanced.
- Very much mixed intel on milk production currently depending on source. Latest UK 7 day rolling average production estimated anywhere between 1% up to 0.9% down yr on yr. There seems to be little general consensus at the moment.
- Latest German weekly milk collection for W/E 29<sup>th</sup> July put at 3.2% up yr on yr and running 2.4% ahead of 3yr average for the week.
- French Milk production for the same period put at 0.9% up yr on yr although 1.8% behind the 3yr ave for the week.
- Hot weather this summer is yet to make a real impact, while any revisions to date appear to increase not reduce volumes.
- Dairy companies are currently trying to lever up prices on customers on the back of the drought and fear of future milk supply.
- Fair to say that to date actual milk production figures have not made their task any easier.

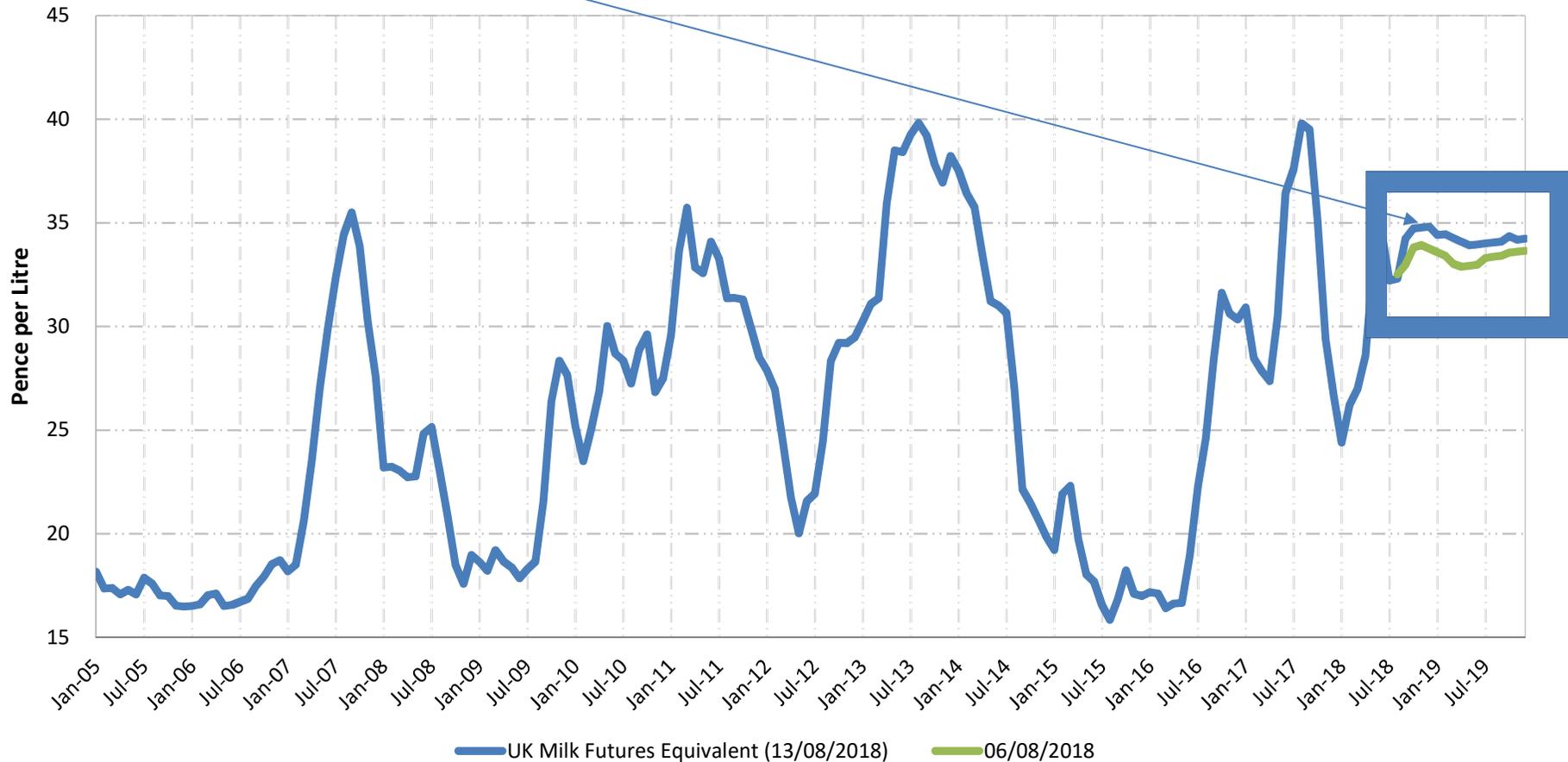


- After the last 4 positive weeks on butter/smp futures, the forward curve (to Dec'19) is now delivering its best FCStoneMilkprices.comUKMFE return for the year to date (Ave 30.46ppl net return to the producer)

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### UK Milk Futures Equivalent



- The physical market (which usually tends to lag the Futures by a couple of weeks) has also turned positive. This is reflected in the weekly EU Quotations for butter, SMP & whey powder which have also made good gains in the last 2 weeks.

<b>Butter</b>					<b>USD Equiv. Average</b>		<b>GBP Equiv. Average</b>
<b>DE</b>	<b>FR</b>	<b>NL</b>	<b>Average</b>	<b>tonne</b>	<b>lb</b>		
15 Aug 2018	€ 5,700	€ 5,500	€ 5,550	€ 5,583	\$ 6,322	\$2.868	£ 4,969
Week diff	€ 125 ↑	€ 200 ↑	€ 100 ↑	€ 142 ↑	\$ 4	\$0.002 ↑	£ 65 ↑
Week % diff	2.2% ↑	3.8% ↑	1.8% ↑	2.6% ↑	0.1%	↑	1.3% ↑
<b>SMP</b>					<b>USD Equiv. Average</b>		<b>GBP Equiv. Average</b>
<b>DE</b>	<b>FR</b>	<b>NL</b>	<b>Average</b>	<b>tonne</b>	<b>lb</b>		
15 Aug 2018	€ 1,610	€ 1,550	€ 1,550	€ 1,570	\$ 1,778	\$0.806	£ 1,397
Week diff	€ 50 ↑	€ 50 ↑	€ 60 ↑	€ 53 ↑	\$ 17	\$0.008 ↑	£ 30 ↑
Week % diff	3.2% ↑	3.3% ↑	4.0% ↑	3.5% ↑	1.0%	↑	2.2% ↑
<b>Whey</b>					<b>USD Equiv. Average</b>		<b>GBP Equiv. Average</b>
<b>DE</b>	<b>FR</b>	<b>NL</b>	<b>Average</b>	<b>tonne</b>	<b>lb</b>		
15 Aug 2018	€ 730	€ 720	€ 740	€ 730	\$ 827	\$0.375	£ 650
Week diff	€ 20 ↑	€ 20 ↑	€ 20 ↑	€ 20 ↑	\$ 2	\$0.001 ↑	£ 10 ↑
Week % diff	2.8% ↑	2.9% ↑	2.8% ↑	2.8% ↑	0.3%	↑	1.5% ↑



- Fresh bulk cream prices have been lagging the butter equivalent (which is now around the £5,000/t level) but are now starting to pick up with prices increasing in the last couple of weeks by circa 20p/kg to around £2.25/kg. The expectation by some is that prices will remain firm if not stronger into September.
- The recent rise in commodity prices is also starting to have a positive sentiment in Edam and Gouda markets, prices having slipped back through June early July. Mozzarella prices are also reported to be rising pushing above returns for curd and mild cheddar. This is a positive signal although, it must be said, while still being the holiday period, trading is still thin.
- Spot milk prices have stayed relatively stable in recent weeks around 31ppl to 33ppl and have yet to really take off on the back of strong demand or falling milk supply. In most years by mid September when schools across the UK have started and folks have returned to work usually sees a spike in demand.

## Outlook

- There is little doubt the last 3 to 4 weeks have seen dairy commodity prices firm and for now the positive sentiment in the market lies with the seller. However, driving this sentiment is the fear on the buy side that milk supply will go tight moving into autumn/winter. This is being pushed hard by sellers at the moment trying to get price increases. However, if the tight supply doesn't materialise and buyers begin to feel the threat subsiding in the weeks ahead, then the current window of opportunity to raise market prices will close pretty quickly.



# MSA Strategy Development

- Why bother?
- To have any chance of adding true value we need to be smart in our approach
- We are a very lean organisation so we need to be exceptionally strategic
- This needs prior thought and clever execution
- To be taken seriously by all stakeholders





# Strategic Plan 2018/23

## OUR PURPOSE

**Our purpose is to improve the long-term profitability of our members by:**

- Representing members and collaborating on their behalf to obtain the best terms and conditions of the milk contract and payments.
- Working collaboratively with our supply chain.
- Helping improve the efficiency of our members' milk businesses.
- Providing a forum for members to discuss issues and needs.
- Acting at all times in the best interest of our members.

## LEADERSHIP

- Director training
- Reporting to members
- Board succession

## COLLABORATION

- Invest more time in the relationship with Lactalis
- Develop shared goals with Lactalis
- Antibiotic project

## OUR VISION

**Our 2028 vision is:**

- Become an essential and respected partner in the supply chain valued by Lactalis and its customers.
- Ensure the milk price members receive builds resilience into their businesses.
- Be valued and respected by all our members.
- Ensure our members are amongst the most efficient dairy producers.
- Become the most highly regarded dairy farmer representation body in the UK.
- Grow the milk field in a strategic and planned manner.

## PURPOSE & VISION

- Develop an online medicine book
- Search for a new structure to existing supply chain relationships
- Engage with retail customers

## INNOVATION

- Improve member communications
- Measure and report benefits
- Invest in positive PR

## MEMBER ENGAGEMENT

## BUSINESS OBJECTIVES

**Our 5-year business objectives are:**

- Ensure members receive the best milk price possible - strengthen the relationship with Lactalis.
- Train directors and attract new ones - improve engagement and commitment of members.
- Provide evidence of the benefit of MSA membership.
- Initiate a pilot project harnessing members' data.

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**Please visit** www.msa.scot

# MSA member value statement

- The project aims to equip farmers and co-ops to value, validate and communicate the full advantages of co-op participation
- We are developing a methodology for compiling member value propositions
- Key drivers:
  - There is a need to demonstrate value
  - Desire to provide evidence for members



# Wider work from SAOS

- This project is part of similar work in the wider co-op sector
- SAOS has undertaken member benefit work for around another 10 co-ops
- The aim is to support co-ops to increase scale and influence
- The benefits identified have the potential to provide measures on which to evaluate and improve performance



# What's in it for you?



**132**  
members  
paying  
an average  
membership  
sub of **£1.16**  
per day

Average  
standard  
litre price  
**27.8lppl**  
Average actual  
price paid  
**29.28ppl**

Grant of  
**£147k**  
for individual  
supply chain  
business reviews



3 contract options to suit  
individual output – unique  
in the UK and worth 0.36ppl  
across all litres

**210m**  
litres per annum



Annual  
and  
quarterly  
pricing

**23,000t**  
Scottish cheddar cheese

**COMMUNICATION**  
...and easy access  
to six directors  
Letters  
Emails  
Website



**PROFESSIONAL REPRESENTATION**  
• 25 days per year  
on your behalf  
• A legally reviewed  
milk contract



- SAOS
- DAIRY GROWTH BOARD
- SCOTTISH GOVERNMENT
- SCOTLAND  
FOOD & DRINK  
SUPPLY CHAIN BOARD

**VOLUME MANAGEMENT**  
UKMFE for over production  
- like a super-levy, not AB pricing



# Any comments?

- Discerning value by pence per litre alone is not enough
- Especially in a highly competitive market
- We must find ways to value everything that we do



# MSA KTIF

- Innovation project (100%)
- Operational Group
  - Hamish Walls – SAOS Project Manager
  - Ray McReadie – LeanTeam GB
  - Alan Stannett – Cara Consultants
  - MSA – 132 Members



# Background

- Very low milk prices
- MDSC project with Lactalis and a farm trial of lean
- Project proposed to establish a trial with MSA members
- Lean has been used in many industries and there is no reason it will not work on dairy farms



# Aim/objective

- Improve the viability of the participating farmers and embed the capacity for ongoing improvement
- Introduce the principles of lean management
- Provide farmers with a new approach
- Improve farmer understanding of CCR's
- Share the knowledge the participating farm
- Reduce costs



# Approach

- Learning by doing
- Establish the problem statement
- Draw a big picture map (very straightforward)
- Outputs are driven by the farm business
- The farms are left with a simple action plan



# The Value Stream as a Big Picture Map



*Adding value, reducing costs ...*

# Reports

Ref	Dairy Farmer - Root Causes	Potential Benefit	Counter Measure	Time
1	Planning & structure		Prepare a 5 and 10 year plan. Obtain help if required to move the process along more clearly and quickly. The business plan should have sections on strategy, finance and succession.	May-18
			Tidy up the business structure when the Lagganorie Trust is wound up. Develop accounts which can clearly separate different enterprises so that costs can be tracked and to simplify accountability and decision making.	Mar-18
			The financial plan should include sensitivity testing as volatility continues to be a concern. The range of milk prices the business has experienced in the last few years is 24ppl to 31ppl.	
Ref	Dairy Farmer - Root Causes	Potential Benefit	Counter Measure	Time
2	Management accounts		Management accounts are necessary to determine and manage the costs of milk production. They require to be based on a budget which is regularly monitored to provide an up to date picture about performance. The budget can also be used by the accountant for tax planning. The accountant needs to continue to prepare a set of audited accounts which will provide historical information and be the basis of a tax return.	
3	Regular monitoring		The financial plan should be an annual budget with quarterly (or perhaps for first year monthly) monitoring (i.e. discussion) of the actual figures – this would be hugely beneficial to the business. Farming is likely to be less forgiving for those who do not have a full grasp of the financial nuts and bolts of their business (if you can't measure you can't manage). A system of financial recording needs to be refined to allow management accountability of each individual enterprise. It also needs to move to a computerised recording programme. A farm secretary may need to be employed to achieve this but all agreed it must happen.	Mar-18

# Most common actions

- Prepare 3 – 5 year plans
- Prepare management accounts
- Hold regular management meetings
- Reduce variable costs (better use of forage)
- Reduce fixed costs
- Assess different structural options
- Increase output
- Improve communications
- Empower staff and provide training



# Savings

- Substantial savings can be found
- Average for the project date is 5.9ppl
- It takes a 3 – 5 year time frame to achieve the savings



# Thoughts

- Lean management can be applied to dairy farms
- Culture is a key determinant of implementation
- Lean management is not a silver bullet, it is a framework for effective decision making
- Important elements include:
  - Target setting
  - KPI measurements
  - Frequent performance reviews
  - Decision making based on evidence and the underlying production plan and budget





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ASSOCIATION**

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# 131

FARMERS REPRESENTED THROUGHOUT  
SOUTH WEST SCOTLAND

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