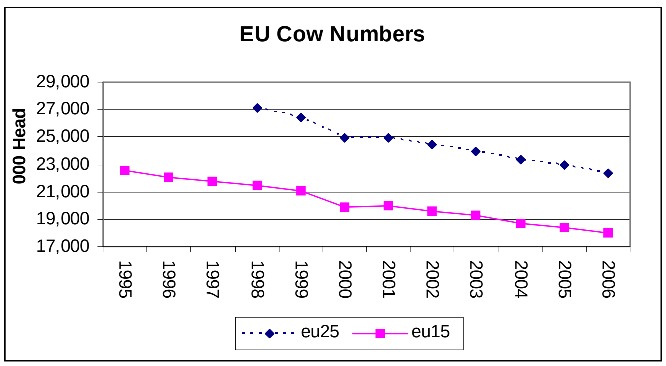
MDC Datum
Dairy Market Update

Could the EU meet the 2% quota increase?

It was recently proposed by the EU Commission that milk quotas should be increased by 2% across all member states from 1 April 2008 giving a total EU quota of approximately 142 billion litres. The EU Commission claims this measure will help meet internal demand commitments as well as providing the first stage of a planned 'soft landing' for quota as it expires in 2015.

From a UK perspective, meeting a potential quota of 14.6 billion litres will be challenging. Defra's recent Agricultural Survey showed dairy cow numbers falling 1.3% for June 07 to 1.954 million cows, when compared to June 06. In addition, figures for average yield per cow per annum showed a fall of 29 litres to 6,969 litres, the first fall in 10 years.

This picture has been seen elsewhere in Europe with cow numbers falling to 22.3 million head in 2006.



In context

Milk supply will have an impact on prices so whether the EU can increase supply to meet this extra quota is important. Falling cow numbers mean yields would need to increase (by at least 2.7% from 2006/07). Although this is technically possible, factors such as: milk/feed price ratios & costs, weather and confidence will play a significant role in whether this is achieved.

Joint Ethanol/Dairy project in Australia

A new proposal for an ethanol plant and dairy has been given the go-ahead in New South Wales. The AUS$100m (£45m) ethanol plant is expected to produce approximately 237,000 tonnes of fuel per year. The by-product of the ethanol production – distillers' grain - will be used to feed an adjoining dairy herd of 18,000, initially producing an estimated 77 million litres of milk a year. The predicted 30,000 tonnes of manure produced will be used as fertiliser for the crops utilised.

In context

Bio-ethanol production is becoming more popular and this proposal is interesting in that both forms of enterprise are potentially able to benefit from the arrangement. There is currently one operational bio-ethanol plant in the UK producing 55,000 tonnes of fuel annually. However, seven more are planned to be open by 2010 with the potential to produce 1.56m tonnes of fuel per year. It will be interesting to see how this potentially large volume of by-product is utilised in the UK.

Lactalis to export 'Seriously Strong' to Japan

Lactalis McLelland has announced it will be exporting its branded cheddar 'Seriously Strong' to Japan. The company will work with import specialist Murakawa to supply a range of 'Seriously' branded cheeses to 350 stores in Japan. The packaging will be consistent with that in the UK but in addition will contain a symbol that shows the cheese is a product of Scotland. The Japanese consider cheddar from the UK to be of the highest quality, compared to cheddars from other regions.

In context

This is further good news for the 'Seriously Strong' brand after it was announced in October that French supermarket E Leclerc was to stock the branded cheddar in its stores. This will also be good news for those producers supplying milk to the company.

Fears over organic milk supplies

There are fears that imports of organic dairy products will have to increase if organic milk supply is to continue to meet market demand. In order for domestic farmers to meet this demand, industry commentators suggest that organic producers need prices to rise by 2-3ppl. The reason for this stems from increasing feed costs. Since the start of 2008, a derogation that allowed the use of some non-organic animal feed ended. This means that organic producers must now use 100% organic products, including straw. It is estimated that organic feed could increase to approximately £400/tonne, more than double the price seen two years ago.

As well as discouraging farmers from converting, this has meant that some organic producers are considering switching back to conventional production. Despite conventional farmgate prices being lower, it has been suggested the relative difference in cost actually provides a greater return to conventional farmers in the current market.

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Sources: Agri Fax, Agra CEAS, De Nederlandsche Bank, DIN Consultancy, DEFRA, Eurostat, FT, MDC, RPA, TNS, Kingshay Farming Trust

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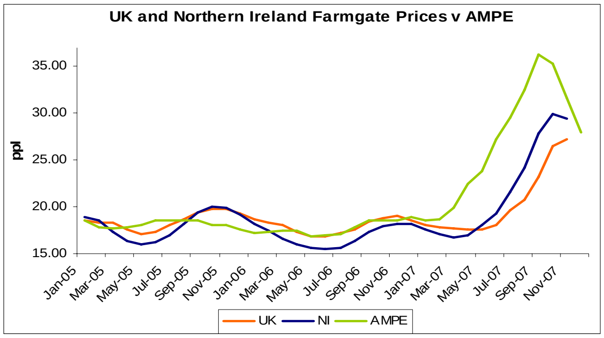
In context
Organic milk Co-operative OMSCo reports that conversions in 2007 provided an extra 40 million litres of supply compared to a requirement of an extra 60-80 million litres. OMSCo also forecasts imports will be 20 million litres for the 07/08 milk year compared to 7 million for the 06/07 milk year.

Farmgate prices v AMPE

The latest UK Defra farmgate price for November stands at 27.27ppl, an increase of 0.75ppl compared to October and 43.5% up on November last year. The Northern Ireland (NI) price shows a fall of 0.5ppl between October and November to 29.41ppl, 61.8% more than the previous year.

UK and Northern Ireland Farmgate Prices v AMPE



As can be seen in the graph above, both UK and NI farmgate prices have roughly tracked AMPE although both show seasonal fluctuations with NI prices historically lower than the average UK price. However, as the graph shows, NI prices increased more quickly than the rest of the UK in the latter half of 2007.

Much of this can be attributed to the make-up of the dairy industry in NI. United Dairy Farmers who run monthly auctions for raw milk collect approximately 54% of milk produced. Much of this milk is used for the production of commodity products explaining the rapid increases but also decreases in NI farmgate prices.

First Milk to invest in Whey processing

First Milk has announced it is to invest £650,000 in its Rothesay creamery to install new Whey processing equipment. This project will be partly funded by 'Highlands and Islands Enterprise' and will add value to the manufacturing at the creamery currently producing 2,000 tonnes of cheese, including the Isle of Bute brand. In a statement, First Milk states that the Whey produced will be transported to the Co-op's ingredients plant in North Wales where it will be converted to lactose powder for export.

In context
This latest announcement shows further investment by First Milk in processing facilities. Prices for Whey have been strong over the last year with Whey powder prices approaching £900/tonne in March 07, although they have now dropped back to approximately £400/tonne. First Milk may be able to isolate itself from these relatively low returns by producing a value-added product such as lactose.

Erratum: Meadow Foods

In the update published 04/01/08, we incorrectly reported along with others the details governing the acquisition of West Lake Dairy Park (WLDP) by Meadow foods, producers will remain under contract to WLDP and not assigned to Meadow Foods. A recent press release indicates that Meadow Foods has guaranteed the average WLDP milk price of 27.5ppl until 31st March 2008. According to the MDC standard litre, November annual average prices for Meadow Foods stood at 25.80 and 25.75ppl for the Level and Seasonal contracts respectively.

Quota Prices (4.00%)	Clean	Lease	Exchange Rate €/£		Average Farmgate Milk Price: November			
17/01/08	1.29ppl	0.2ppl (05/12/07)	£0.74350		**2007**	27.27ppl	**2006**	19.00ppl
Wholesale Prices and Market Indicators	**IMPE** (Intervention Milk Price Equivalent)	**AMPE** (Actual Milk Price Equivalent)	**MCVE** (Milk for Cheese Value Equivalent)	**Cream Income***	**Butter** (£/t)	**SMP** (£/t)	**Mild Cheddar** (£/t)	**Bulk Cream** (£/t)
December 07	15.4	28.0	28.84	4.63	2,100	2,350	2,850	825
November 07	15.2	31.6	30.96	5.23	2,550	2,500	3,000	935
December 06	14.6	18.9	19.36	4.52	1,720	1,560	1,900	830
Retail Prices	**Liquid Milk (retail)** (ppl equivalent)		**Doorstep** (ppl equivalent)		**Butter** Branded (p/250g)		**Mild Cheddar** Non-branded (p/kg)	
December 07	61p		92		99		608	
% Change vs December 06	+15.1%		+8.2%		+37.5%		+25.6%	

*Cream income = The cream income to a liquid processor is based on the value of the excess cream created because the average level of fat on liquid milk sold through the retail market (supermarkets, local stores and doorstep) is less than the level of fat in the raw milk they receive. It assumes all the cream is sold in bulk form.

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