



24 June 2009

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DFoB's dairies fail to attract buyers

PricewaterhouseCoopers (PwC) has announced that talks to sell off DFoB's Blydon dairy have fallen through and that the site will be closed with immediate effect. This is the third DFoB's dairy that has failed to attract a buyer; the others are in Bridgend and Lincoln. PwC has managed to secure the sale of five of its depots, in Cheshunt, Hillsborough, Newark, Skegness and Spalding; although an additional 17 depots around the country have now been closed.

It is reported that around 1,600 DFoB farmers have secured a new buyer for their milk, leaving less than 200 still supplying the co-op and receiving a base price of 10ppl (due to be reviewed before 10 July). The English Farming and Food Partnership (EFFP) are working with the NFU and Dairy UK to find new purchasers for farmers who believe they have a viable future in dairy farming. Any dairy farmer looking for a new milk buyer, or possibly seeking alternative ways of marketing their milk, should contact the EFFP on 0207 213 0430.

Dairy farmer confidence falls

DairyCo's Farmer Intentions Survey 2009 highlights a fall in dairy farmer confidence compared to the previous year with 14% of British dairy farmers intend to leave the industry within the next two years compared to 7% in the 2008 survey. The proportion of dairy farmers intending to increase production has fallen from 37% in 2008 to just 18% this year. As a result, British milk production is expected to fall by 4.9% in the next two years to around 10.5 billion litres for the 2010/11 milk year.

The survey identified that around half of the interviewed dairy farmers thought their contract was unfair. The 2009 survey was conducted at the end of February/early March when many milk buyers were announcing price reductions. With input costs remaining high and milk prices falling, it was little surprise that 44% of the 800 GB respondents stated that the best way their milk contract could be improved was to improve the price they receive.

Milk price remains a major factor influencing the future of the dairy industry. The survey suggests that 31% of dairy farmers would leave the dairy industry within the next two years if their milk price fell by 2ppl. However, the survey also shows that the milk price increases seen in 2008 encouraged 24% of respondents to increase their milk production. This highlights the potential impact milk price increases - and the resulting increasing margins - have on milk production.

This year's survey also highlights that 44% of dairy farmers have space for additional cows. Therefore if farmers have sufficient incentive to fill these spaces and sufficient cows are available the current decline in milk production could be slowed.

Despite milk production predicted to continue to fall and investment levels continuing at low levels (58% of respondents stated they would invest less than £25,000 in the next five years), there still remains an underlying level of optimism in the dairy industry, with 72% of respondents at least slightly optimistic about the future of the industry.

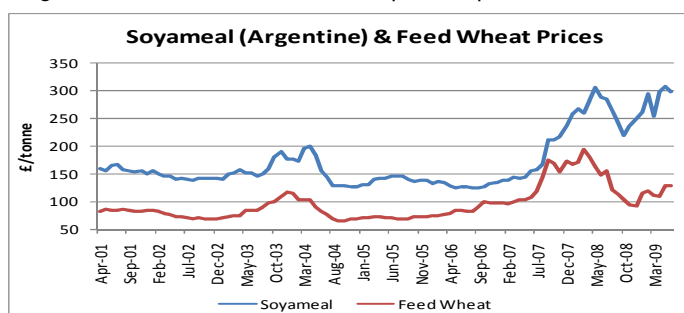
This year's Farmer Intentions Survey report also highlights labour use, motivation on-farm and farmers long term plans. To view the full report, visit www.dairycodatum.org.uk.

Feed prices show signs of stability

Feed prices in the UK have decreased slightly in June. In the soya

market, the average price of Argentine Soyameal decreased by £9/tonne (2.9%) to £299/tonne between May and June. This is mainly as a result of strengthening of Sterling against the US dollar. However, the price remains about twice as high as in 2006.

In the UK wheat market, the average price of feed wheat remained stable between May and June at an average price of £128/tonne according to HGCA figures. Quotations for both Soya and wheat indicate that prices should remain similar to current levels over the next few months. However, factors such as the value of Sterling and global weather will continue to impact on prices.



Fertiliser prices have continued to fall from their peak of last summer. As a result of a big fall in the value of potash and potassium, it is reported that blended 20:10:10 bags will be sold at £220/tonne in July, £73/tonne lower than the May level of £293/tonne. This is about half the price of its peak of £435/tonne reached in August 2008.

In context:

Some market commentators suggest that the bottom of the fertiliser market may have been reached and a readjustment in the supply/demand balance and the recent increase in the cost of energy may lead to rises later in the year. Crude oil prices have increased by around 80% in the last six months from \$38/barrel in December 2008 to around \$70/barrel currently.

UK Cheddar market to firm as supply falls

The UK Cheddar market has remained quiet with no price fluctuations in recent months. Mild and Mature Cheddar have remained stable between March and June 2009 at £2,500/tonne and £2,950/tonne respectively.

In the Mild Cheddar market, some cheaper parcels of product are reported to still be available. These are usually of non-GB origin and are reported to be at prices close to £2,000/tonne. It is also reported that the Mature Cheddar market is tightening as stock levels are declining. This limited supply situation has not yet had an upward effect on prices as a whole, as offers at the bottom end of the price range are disappearing first.

In the first four months of 2009, 8.2% less milk has been used for cheese manufacture whereas the volume of milk used for butter manufacturer has grown by 18.1% compared to the same period in 2008. This apparent 'switch' is the result of EU market support mechanisms such as the early opening of the butter Private Storage Aid scheme as well as the EU intervention scheme.

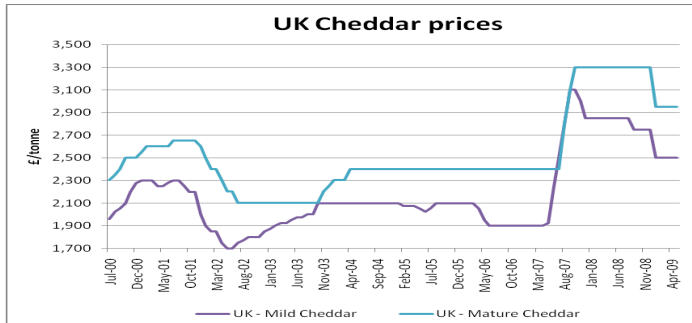
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Dairy Market Update

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In context:

Imports of Cheddar cheese into the UK were up by 33.4% (6,355 tonnes) in the first quarter of 2009 with almost two thirds of imports coming from Ireland. However, there have been some suggestions that since March 09, when butter and SMP intervention was opened, mild Cheddar production around Europe has slowed. This is a result of returns from poorer quality mild cheddar being similar to returns from butter and powder manufacture (it should be noted that the published MCVE figure of 24.87ppl for March is based on best quality mild cheddar, poorer quality mild cheddar, selling for around £2000/tonne would result in a return closer to 19.5ppl). If production is slowing, this could reduce the volume imported into the UK and as a result help to firm domestic prices.

Less butter going into intervention

At the fortnightly Management Committee meeting on 18 June, 1,611 tonnes of butter were purchased by the European Commission (EC). This is the fifth time in a row that the amount of butter offered to intervention has fallen. Market prices for butter in many Member States are now above intervention levels. This has led some market commentators to suggest that butter prices could continue to firm in the next three months as supplies decline seasonally. This could enable the EC to sell back to the market some of the 81,236 tonnes intervened from 1 March at a slight profit, but would also depress any significant price rises.

In contrast, significant quantities of SMP are still being sold into intervention with 18,993 tonnes accepted at the last tender. From 1 March up until 18 June, a total of 202,914 tonnes of SMP had been intervened. This is the highest level since 2003.

The EC commission decided to keep the intervention buying in price for butter at the same level as the previous six tenders at €2,220/tonne (£1,895/tonne) and lowered the intervention price of SMP by 1.1% to €1,679/tonne (£1,433/tonne). The strengthening of Sterling against the Euro means that domestic returns from intervention are declining. Sterling has increased against the Euro by around 3.5% from £1=€1.14 at the beginning of June to £1=€1.18 on 22 June. This means that the Intervention Milk Price Equivalent (IMPE) is currently 18.4ppl for June compared to 19.00ppl in May.

Milk Link financial results 08/09

Milk Link (ML) has recently released its annual accounts for the 53 weeks ending 4 April. Turnover has increased by 4.6% to £547m compared with £523m the previous year (although it should be considered that the previous financial year was 52 weeks). Sales to Europe fell from £20.1m in 2008 to £11.9m possibly reflecting falling global dairy prices however, sales to the rest of the world increased by a quarter to £1.4m over the same period.

The results show operating profits on ordinary activities of £17.2m compared to £21.0m in the previous year. The co-op allocated £4.7m to individual member capital accounts – a fall of £0.2m compared to 2008. Deducting these allocations to member's capital accounts from operating profits gives a figure of £12.5m compared to £16.0 the previous year. The co-op also reported exceptional costs totalling £7m relating to the disposal of the Staplemead operation. ML has also been able to make a Qualifying Loan interest payment of £4.1m to its members representing a 10.8% return on Members' Qualifying Loans.

In context:

As a co-op, ML's primary aim is to ensure a sustainable future for its members. Recent analysis by DairyCo Datum showed that for this accounting period, the co-op's non-dedicated liquid milk price contract was the highest of the three major co-ops, paying an average of 25.48ppl. Furthermore, it has been able to improve the balance of its members' capital accounts and increase its Qualifying Loan interest payment made to members. During the period, ML sold off its Staplemead creamery, which has allowed the company to focus more on its added value activities and distance itself further from the more volatile commodity markets.

Quota Prices (4.00%)	Clean	Lease	Exchange Rate £/€		Average Farmgate Milk Price: April			
23/06/09	0.25ppl	0.10ppl	0.85360		2009	23.26	2008	24.95
Wholesale Prices and Market Indicators	IMPE	AMPE	MCVE (Milk for Cheese Value Equivalent)	Cream Income*	Butter (£/t)	SMP (£/t)	Mild Cheddar (£/t)	Bulk Cream (£/t)
June 09	18.4 (for the first 19 days)	19.1	24.87	5.34	2025	1450	2500	930
May 09	18.9	19.5	24.73	4.99	2025	1500	2500	870
June 08	17.2	26.7	29.15	5.71	2300	2120	2850	1,007
Retail Prices	Liquid Milk (retail) (ppl equivalent)		Doorstep (ppl equivalent)		Butter Branded (p/250g)		Mild Cheddar Non-branded (p/kg)	
June 09	67		102		112		635	
% change vs June 08	+6.2%		+3.7%		-0.9%		-2.0%	

*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.