

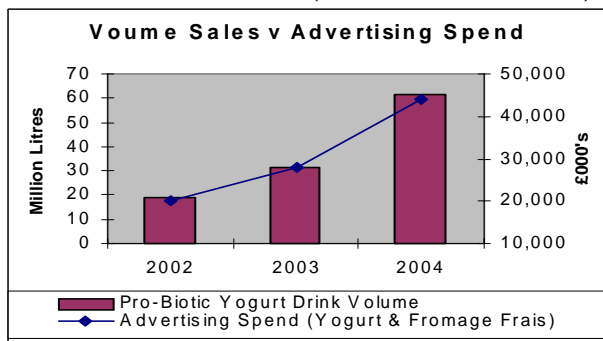
Milk Link cuts milk price

From 1 April Milk Link will cut its farm gate price by 0.28ppl. Following milk price cuts by other major dairies and co-operatives, Milk Link says the cut was a market related adjustment. There will also be reduction to butterfat payments above 4%, reflecting underlying weaknesses within UK and EU butter markets.

Milk Link notes a number of factors for the price cut, including lower than forecast milk volumes, higher energy costs and reduced long life milk business which have lead to the need to reduce members' milk prices. However, the reduction in member capital account levy of 0.5ppl means members should still receive an increase in their April milk cheques (before seasonality).

Advertising impacts growth in yogurt

The new MDC statistical pocketbook highlights the importance advertisement expenditure has on the volume growth of yoghurt. Demand for pro-biotic yoghurt has increased by 223% between 2002 and 2004. This increase correlates with the latest advertising expenditure figures which show expenditure on yogurt is now at a higher level than the total for carbonates (such as Coca Cola etc.).



The expenditure in advertising highlights the investment companies are now putting into dairy products due to the significant potential in the sector. However, a significant proportion of this growth will be from imports.

For more details on the (free) MDC *Dairy statistics: an insider's guide*, please contact Jacqui Squire at 01285 646 510 or jacqui.squires@mdc.org.uk

World wholesale prices decrease

World wholesale (butter and SMP) prices have started to decrease and are now significantly below EU export prices. EU SMP is now \$200/t more than US (world) SMP. The reason for the decrease in prices is partly due to extra end of season supply from South America and New Zealand/Australia; and also a 6% year-on-year increase in

production in the USA. The weakening of the Dollar against the Euro has also increased the gap between EU and world prices.

Traditionally, EU exports influence world wholesale prices over the spring period when EU milk is plentiful. Over the autumn period Oceania has tended to influence world prices; as milk is plentiful from this region at this time of the year.

However, the EU is currently having less of an influence on world prices due to the price differential; this could continue into the future depending on demand and supply. This is because product can now be sourced from a number of different countries, more competitively, compared with the past.

In context:

The influence of EU exports on world prices is currently reduced. Therefore, any upward price pressure on world prices caused by EU exports is now limited. Increasingly, world prices are influenced by factors from other parts of the world. If it continues, increased supply from other countries may lead to EU commodity prices being dragged down, especially if export refunds are reduced and sufficient surplus of commodities are produced in the EU. This then affects the farm gate price for milk produced for commodity products.

UK mild cheddar prices weaken

As expected, wholesale mild cheddar prices have fallen by £50/tonne since March, to £2,050/tonne. Recent increase in cheddar manufacturing has put increased pressure on cheddar curd (used by food processors for use in ready meals and other processed food products) prices, and, as a result, the mild cheddar market. Cheddar curd has been trading recently at discounts of up to £200/tonne below the mild cheddar price.

The reduction in the price of mild cheddar has resulted in MCVE falling by 0.25ppl over the past month. As a result, the gap between AMPE (butter and SMP) and MCVE has

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decreased slightly, to 3.46ppl.

Production of cheese remains high

February production figures continue to show high volumes of cheese manufactured (up 11% year-on-year) despite low milk availability. The majority of this extra production has gone into cheddar manufacture, which has experienced significantly better returns than commodities. The overall growth in cheese manufacture over the past year partly explains the recent pressure on prices.

Butter manufacture for the year to February was up 4% on the previous year. However, a significant amount of this increase appears to have been from last March to June, when butterfats were high in comparison with the previous year. A comparison of the last eight months shows butter production is only actually up 2% year-on-year.

UK butter and SMP prices remain steady

The weakening of Sterling against the Euro over the past month has resulted in a slight increase in intervention prices. Consequently, UK unsalted butter prices, which are at intervention price levels, have risen to £1,750/tonne. SMP prices continue to remain approximately 10% above intervention price levels. As a result, the return from AMPE is around 1ppl higher than IMPE, at 17.4ppl.

However, going forward, there are concerns about butter prices due to a butter surplus. The quota for EU butter going into intervention is filling up relatively quickly and exports are uncompetitive. Therefore, forthcoming intervention price cuts are likely to have a greater immediate impact on butter prices than in previous years.

Similarly, SMP is currently uncompetitive on the world stage. However, enough strong demand, especially for feed SMP, coupled with low availability, has kept prices high. However, further cuts, not only in intervention, but

also subsidies and export refunds could impact on prices in the medium term, especially if demand falls or supply increases seasonally.

First Milk ends monthly auction

First Milk will no longer run a monthly milk auction. The co-operative - which has cancelled its monthly milk auctions since April 2005 - is reported to have in place enough customer contracts for the entire volume of milk its membership produces (around 2 billion litres).

First Milk to change contracts

First Milk has announced it is to develop two new contracts from April 2007. These new contracts will move away from pooled pricing and towards more market-related contracts. The two contracts will be 1) a liquid contract with the emphasis on minimum protein, and; 2) a compositional contract which will pay out on the basis of protein and butterfat.

These new contracts are good news for First Milk farmers as it should align their milk price more with market returns. This should help reduce waste and increased value by focus on producing milk the market requires, which can only help improve farm gate milk price.

This news comes on the back of recent announcements from DFB and Milk Link (ML) that they are also moving towards more market-related contracts; although ML's contract is currently only for a small pool and is optional.

In context:

The recent changes in contracts follow some of the principles set out by the MDC Contracts report last year. These changes should be welcomed, as increasingly contracts will need to be clear, accurate and straightforward as the industry moves from a politically-controlled one into a competitive free market.

Quota Prices (4.00%)	Clean			Leased			Average Farmgate Milk Price: February						
Day End 27/04/06	3.97ppl			0.4ppl			2006	18.35ppl			2005	18.31ppl	
Wholesale Dairy Prices	Butter (unsalted)			Skimmed Milk Powder			Mild Cheddar			Bulk Cream			
27/04/06 £=\$1.803	Apr 06	Mar 06	Apr 05	Apr 06	Mar 06	Apr 05	Apr 06	Mar 06	Apr 05	Apr 06	Mar 06	Apr 05	
27/04/06 €=£0.695													
UK £/tonne	1,750	1,740	1,920	1,400	1,400	1,360	2,050	2,100	2,075	770	770	880	
World £/tonne	1,019	1,056	976	1,132	1,176	1,161	1,506	1,549	1,478	N/A	N/A	N/A	
Retail Prices	Liquid Milk (retail) 4 pint poly bottle (ppl equivalent)			Liquid Milk (doorstep) (ppl equivalent)			Butter Branded (p/250g)			Mild Cheddar Non-branded (p/kg)			
Mar 06	51.0			83.1			77			484			
% Change vs Mar 05	+0.6			+4.2			-7.2			+8.0			

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