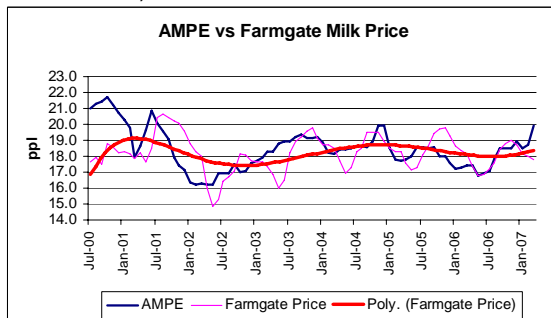




Farmgate prices to rise in line with AMPE?

AMPE is currently above average farmgate price. It is not expected that individual milk buyer's prices will directly shadow AMPE due to involvement in different markets. Historically however, as seen in the graph below, farmgate prices tend to follow the same trend as AMPE but on a lagged basis (although some of this may be due to seasonal factors).



Note: Poly (Farmgate Price) shows the trend in Defra reported farmgate prices over time (estimated figures used for February and March 07)

Therefore may we expect further announcements of farmgate milk price soon on the back of good performance in the commodity markets?

It is expected that farmers supplying some supermarket liquid milk contracts will see an increase in their milk price shortly as a result of the increase in retail price at the beginning of March. This increase is reported to be due to increased costs throughout the supply chain and not as a direct result of increasing returns from the commodity market. While it is certain that the supply chain has been facing increasing costs, is this the full reason for the price increase?

With commodity prices increasing, the gap in return between milk being used for commodity production and milk being used for a 'premium' market such as liquid milk has been closing. Therefore, with an alternative use for milk becoming increasingly attractive, did this perhaps assist the expected price increase?

In Context

Whether there is more behind the retail price increase than the stated increases in costs across the supply chain remains to be seen. However, if the link between farmgate price and commodity markets has truly been broken this is probably positive for farmers and we would not expect to see reductions in farmgate prices for farmers supplying supermarket liquid markets as a result of weakening commodity markets in the future.

Protein prices continue to surge

There has been a shortage in supply of dairy products containing protein on the world market due to lower than expected milk supplies and hence lower product production across many of the main exporting countries. This has been further exacerbated by the drought in Australia and as a consequence prices for dairy products containing protein have been rising since June 2006. SMP (skimmed milk powder) prices are now between 20% and 60% higher than in March 2006. Demand for whey powder has increased, due to its use as a substitute for SMP, and consequently prices have increase by 86% over the past 12 months.

As a result of these increases in wholesale prices, the market indicators; MCVE and AMPE have also increased over the past 12 months, by 14% for AMPE and 1% for MCVE - with some of the increase in whey powder being mitigated by falling mild cheddar prices.

	Mar 07 £/t	% change vs Feb 07	% change vs Mar 06
UK SMP	1,700	+8%	+21%
EU SMP*	1,817	+14%	+31%
EU whey powder	885	+19%	+86%
World SMP	1,802	+11%	+59%
AMPE	19.9ppl	+6%	+14%
MCVE	21.31ppl	+5%	+1%

*an average of feed and food grade prices

These prices are averages and are unlikely to reflect what individual manufacturers will actually receive for their product. This is due to a different mix of deals done on a spot and longer term whereas prices given above are mainly based on spot prices. It should also be remembered as prices are rising due to the tight supply situation there will be very little product sold that will actually be realising these high prices.

In Context

News of high protein commodity prices is welcome, especially as it means UK product is competitive on a world market. However, it should be remembered that the driver behind price increases is the tight supply situation. Therefore prices are volatile and would be expected to weaken if supplies increase.

For more information on any of these items please go to
www.mdcdatum.org.uk



Pre-close statements released

Dairy Crest (DC) and Robert Wiseman Dairies have this week released pre-close statements with both companies stating that performance has been in line with expectations.

DC highlights the acquisitions of Express Dairies from Arla and Uniq's St. Hubert spreads business, along with the disposal of their retailer brand cheese business in Cumbria to First Milk, as part of its strategy of improving earnings and reducing exposure to commodity markets. Elsewhere in the business, 'Cathedral City' continues to achieve good market growth.

Wiseman highlights new supply deals with the Co-operative group (taking sales from DFOB), Booths, Rachels and Organic Milk to Tesco along with new product development. Sales of extended shelf life products, Tesco Pure and Puriti are said to be making steady progress. Wiseman's new dairy in Bridgwater is said to be on course to be operational by the end of 2007 and there are plans to increase capacity of the plant further from 200m litres to 500m litres/annum.

Organic milk price increase

Dairy Crest (DC) has announced it will increase the price paid to its farmers on organic contracts by 0.75ppl from 1 April. This increases the base price payable to 27.75ppl. Based on the MDC's standard litre this would result in a total price of 29.69ppl.

It is reported that consumer demand for organic milk is outstripping supply. This lack of available supply may be a reason why TNS figures show that growth in liquid organic

milk is slowing and the market has remained at around 158million litres/annum since November.

Rapemeal prices increasing

Market reports show that prices for rapemeal have increased by £15/tonne over the past month to an average of £135/tonne and are 44% more than in March 2006. Much of this increase has been due to a shortage of supply as processors have cut production due to falling demand for rape oil. As a result, the availability of rapemeal - a by-product of the oil production process - has fallen.

Biofuels from cheese production

Muller in Germany has announced it is to enter the market for alternative car fuels – and will produce bioethanol from by-products of cheese production (whey). There is a major drive across the EU towards sustainable energy sources, with the UK government committing to a target of 5% biofuel inclusion in transport fuel by 2010. Therefore, producing biofuels from the by-products of cheese production could provide a new market for cheese by-products other than the traditional dairy commodity markets such as whey powder.

The current wholesale price of whey powder is at record levels, this is due to a tight supply situation in the protein market and is likely to ease as milk production increases seasonally and production in Australia recovers from the drought.

In context

If this initiative proves successful, a new, profitable use for a by-product of cheese production is positive news for dairy farmers and could help support farmgate milk prices in the future.

Quota Prices (4.00%)	Clean	Lease	Exchange Rate €£		Average Farmgate Milk Price: January				
	29/03/2007	1.43ppl	0.15ppl (09/03/07)	0.68014	2007	18.17	2006	18.65	
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)	
	March 07	14.8	19.9	21.31	4.16	1,660	1,700	1,900	760
	February 07	14.5	18.7	20.37	4.10	1,640	1,580	1,900	750
	March 06	16.3	17.4	21.11	4.19	1,740	1,400	2,100	770
Retail Prices	Liquid Milk (retail) (ppl equivalent)		Liquid Milk (doorstep) (ppl equivalent)		Butter Branded (p/250g)		Mild Cheddar Non-branded (p/kg)		
March 07	53 (February 07)		84 (February 07)		84		484		
% Change vs March 06	1.9%		3.7%		9.1%		NC		

*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.