



Dairy Market Update

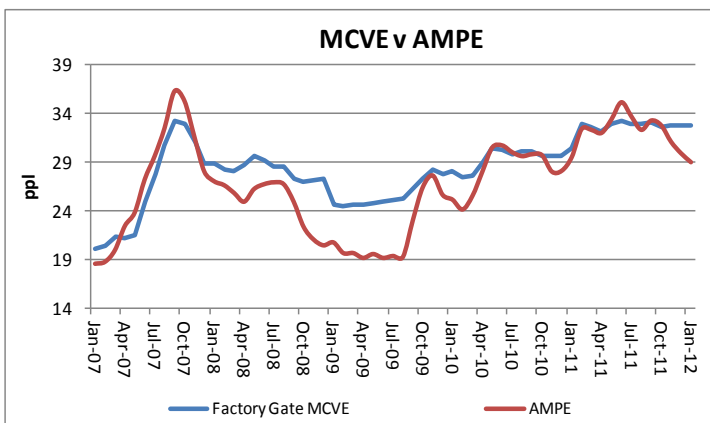
2 February 2012

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Gap widens between AMPE and MCVE

UK wholesale prices for fat and protein based products showed increasing divergence in January, following the pattern seen in EU markets. Butter fell by £100/tonne (3.3%) to £2,900/tonne with cream prices also falling. Butter supplies have been coming into the EU market from cheaper sources as global exporters switch into butter production and away from Whole Milk Powder (WMP). Consequently, the EU butter market remains weak. On the back of lower UK butter prices AMPE fell by 0.92ppl (3.1%) over the month of January to an average of 29.0ppl.

UK wholesale prices for mild and mature Cheddar remained stable at £2,925/tonne and £3,200/tonne respectively. MCVE decreased by 0.06ppl (0.2%) over the month to 32.67ppl due to a small decrease in whey butter prices. MCVE currently stands at 3.67ppl (12.8%) over AMPE, the largest premium since August 2009.



In context: If the value of fat continues to fall, processors may consider switching milk into cheese production to take advantage of the better potential returns. However, the Private Storage Aid (PSA) scheme for butter is set to open again in March with applications invited from mid-February. While it is not yet clear how much interest there will be in the scheme, it provides an opportunity to remove available supply from the market and may ease any further downward pressure on prices.

Cull cow numbers and prices reach record highs

In March 2011 dairy bred cull cow prices started to trade above 100 pence per kg for the first time since May 2009. Prices peaked in July and August reaching 111.3 pence per kg in the week ending 9 July, before the autumn influx of cows, both on the domestic market and the continent, eased the pressure on prices.

These high prices are thought to have influenced a considerable increase in slaughtering. Total cull cow throughputs at GB abattoirs in 2011 were 18% higher than 2010 levels, as the national herd declines.

Cull prices were high because continental supplies have been relatively tight due to a substantial increase in exports to non-EU markets, notably Turkey. Imports into the EU were also reduced due to falling production in a number of markets. Consequently, EU countries looked to the UK for supply which led to increased competition on the domestic market. The strength of the euro against the pound also increased UK demand for home-reared animals.

Cull cow numbers are expected to decline in 2012 whilst remaining at relatively high levels compared to pre-2011. Ongoing supply shortages are expected to keep supplies tight on the continent resulting in strong demand for UK beef. Latest figures show 2012 started strongly. In the week ending 28 January the average price for dairy bred cull cows set a new record at 112.3 pence per kg.

In context: Despite higher culling, UK daily milk production levels for the two weeks ending 21 January 2012 are 1.9% up on the previous year at an average of 36.1m litres per day. Latest British Cattle Movement Service (BCMS) data shows a higher proportion of younger cows in the national herd profile in 2011 compared to previous years – suggesting that culling out older less productive cows has so far also been beneficial to national productivity.

Cheese Expenditure and Volume 2011

In the year to 25 December 2011, cheese sales by value rose 5.9% to £2.6 billion. Cheddar sales contributed the most to value growth with the sub-category adding an additional £63.9m to the market. The average price of cheese increased to £6.26/kg, up 3.8% year-on-year (YOY). The sub-category to see the most significant price increase was hard continental where the average price increased by £0.95/kg to £9.08/kg. Cheddar prices averaged 4.1% higher YOY at £6.19/kg.

The total market increased modestly by volume in the year, up 2% to 415,843 tonnes. Cheddar increased 1,432 tonnes, whilst soft continental increased 2,632 tonnes and processed cheese increased 1,610 tonnes. Extra mature Cheddar contributed the most in terms of actual volume growth as consumers continue to opt for the stronger taste.

In the last quarter of 2011, which includes the Christmas period, the cheese market saw value growth of +8% YOY with total sales of £664.9 million. Cheddar contributed the most to value growth with sales up by +5.9% YOY adding £19.4 million to the market with the mature and extra mature varieties being the strongest performers. Soft continental was the nearest competitor to Cheddar with a sales increase of 22% that translates into an additional £8.3 million YOY. Over the quarter prices accelerated by 6% YOY with the average price per kg to £6.58.



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With the exception of vintage Cheddar, the Christmas period recorded only limited changes to sales volume, indicating steady consumer demand in a difficult trading climate with consumers absorbing higher prices.

12 w/e 25 Dec 2011	Volume (Tonnes)		Value (£000s)	
	Actual	YOY Chg	Actual	YOY Chg
TOTAL CHEESE	100,973	+1.9	664,881	+8.0
Total Cheddar	54,341	-1.4	349,601	+5.9
Mild	9,697	+1.3	54,820	+8.6
Mature	24,843	-1.0	161,795	+6.5
Extra Mature	10,708	+7.2	70,197	+14.4
Vintage	1,374	+28.3	10,105	+26.8

Source: Kantar Worldpanel

Company Review: Milk Link

An updated review of Milk Link's strategy and performance is available to download from the DairyCo website by clicking [here](#). The report provides a detailed analysis of the co-operative in terms of its milk procurement, contracts and milk pricing, production facilities, market activities and financial performance.

Milk Link has shown strong business growth over the last few years through acquisitions and the development of strategic partnerships, which has been supported by increases in its membership base. Looking forward, the purchase of the soft-cheese business, Cornish Country Larder, the joint venture with Volac to develop added-value whey processing at Taw Valley and the expansion of its Lockerbie Creamery should provide Milk Link with an improved ability to add value to its members' milk.

The business operates across a spectrum of products and marketing channels, allowing it to align production to the

most profitable sectors, but also requiring it to remain competitive in a broad range of markets. The reorganisation of its management structure to form two core business units; 'Milk Link – Cheese' and 'Milk Link – Milk' should allow it to focus on each segment and develop appropriate management strategies to deal with market pressures.

In context: As a co-operative with the aim of providing its farmer members with a competitive and sustainable milk price, the relative position of its milk price in the market could be viewed as an indicator of performance. During the 2010/11 milk year, and following on into the 2011/12 milk year, Milk Link has moved up the DairyCo league table, improving its milk price relative to other buyers. In December 2011, it announced that its current member milk price would be maintained until at least the end of March 2012, indicating that returns on its activities during the year have been sufficient to meet its targets.

Outlook Conference 2012

DairyCo, BPEX and EBLEX, will be hosting an Outlook Conference in London on Wednesday 2 May. The three AHDB divisions are joining forces to highlight economic and market trends affecting the UK livestock industry, as well as providing sector specific forecasting sessions.

According to David Swales, market specialist manager with AHDB Market Intelligence, "The conference will include a wealth of the latest forecasting information to help delegates make sound business decisions looking to the months ahead."

Booking details for this half-day event have yet to be finalised and are expected to be published by the end of March. To register to receive more booking information, please email outlook2012@ahdb.org.uk.

Feed Prices (Range £/tonne)	Intensive energy rations	High protein concentrates	Exchange Rate €/£ (January 2012)		UK Average Farmgate Milk Price: November								
					2011	2010							
December 11	235-246	330-338	0.83138			29.30		26.17					
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)					
					January 12	17.9	29.0	32.67	7.08	2,900	2,050	2,925	1,230
					December 11	18.3	29.9	32.73	8.34	3,000	2,100	2,925	1,450
					January 11	18.3	29.5	30.37	8.12	3,200	1,950	2,750	1,470
Retail Prices	Liquid Milk (retail) (4 w/e 25/12/11)		Doorstep (4 w/e 25/12/11)		Butter (25/01/12) Branded (p/250g)		Mild Cheddar (25/01/12) Non-branded (p/kg)						
December 11	0.60		1.07		161		572						
% change v December 10	-1.6%		+3.7%		n/a		n/a						

*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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