



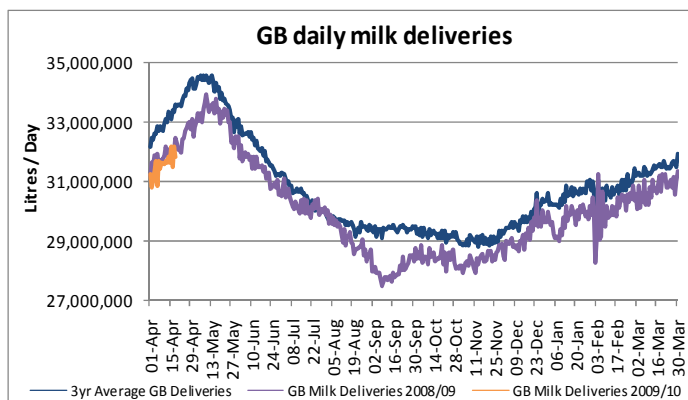
30 April 2009

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UK milk production at a record low

UK milk production for the 2008/09 milk year stood at 12,853 million litres, the lowest level since the 1971/72 milk year - 2.8% below last year's level and 8.6% lower than five years ago. Going forward, the May production peak will give an indication as to whether this year's milk production will continue the downward trend seen over recent years. Latest figures show that in the first 18 days of the 2009/10 milk year, UK daily milk deliveries to dairies averaged 37.0 million litres/day, a fall of 1.6% (0.6m litres/day) from the 2008/09 milk year.

When Northern Irish figures are excluded, British milk deliveries are significantly closer to the level seen in the 2008/09 milk year. In the first 18 days of the 2009/10 milk year, British daily milk deliveries to dairies averaged 31.6 million litres/day, just 0.6% (0.2m litres/day) below the same period in 2008/09. Although still at an early stage, these figures indicate that this year's peak could be close to last year's of 33.9 million litres on 10 May.



Tenders for SMP as intervention limit reached

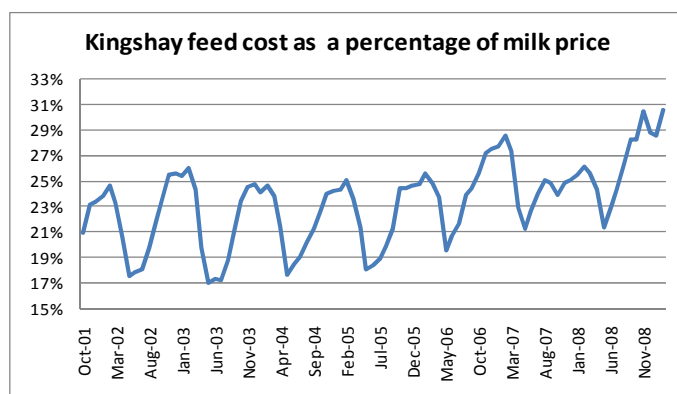
On the 14 April, the 109,000 tonne limit of Skimmed Milk Powder (SMP) intervention was reached. This means that, similar to butter, intervention prices for SMP will now be determined by a tender process on the first and third week of each month. The first tender, on the 23 April, saw a further 10,511 tonnes of SMP accepted into intervention.

The tender mechanism had opened up the possibility of butter and SMP prices falling further. However, the average price of SMP under the first tender stood at €1,685/tonne (£1,515/tonne), just 0.8% below the initial intervention buying in price. The move suggests that the European Commission (EC) may be keen to stabilise SMP prices around this level.

Feed costs remain high as milk price falls

Latest data from Kingshay for February 2009 shows that feed costs remained high, totalling 7.97ppl. This relatively

high per litre cost, combined with falling milk prices, pushed the ratio of feed costs to milk price to the highest level since 2001. Feed costs accounted for 30.5% of the milk price in February, 4.4% higher than a year ago and 2% higher than



in February 2007.

Feed prices began to increase sharply in the second half of 2007, at the same time as milk prices started to increase. As a result, much of the increase in farmgate price has been offset by increasing input costs. For example, the average price of high energy dairy feed has increased by 37.2% between July 2007 and February 2009, from £137/tonne to £188/tonne.

In context:

With milk prices falling since the beginning of 2009 and feed prices still high, the ratio of feed cost to milk price is expected to remain higher than historical levels for the coming months. However, it should start falling seasonally from March/April onwards as grazing increases and concentrate use declines.

The Co-operative Group ends fresh milk supply arrangements with Dairy Farmers of Britain

A joint statement made on 23 April confirmed that Dairy Farmers of Britain (DFOB) will stop supplying fresh milk to the Co-operative Group (CTRG) from 1 August 2009. The 153 million litres currently supplied by DFOB on an annualised basis to the retailer will be shared between Wiseman, (116 million litres), Dairy Crest, (29 million litres) and Yeo Valley (8 million litres). A joint statement issued last week by the different stakeholders explains that a co-ordinated approach will ensure that as much milk as possible is supplied from DFB farming members. However DairyCo understands that no specific supply arrangements have been agreed yet between the co-operative and the other dairies.

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Dairy Market Update

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Producer numbers falling at a lower rate in 2008/09

At the end of the 2008/09 milk year, there were 11,827 dairy producers in England and Wales according to figures from the Dairy Hygiene Inspectorate. Although numbers of producers continue to fall, they have been falling at a lower rate than previous years.

England & Wales	2005	2006	2007	2008	2009
March	14,979	13,962	13,012	12,403	11,827
Total year on year fall	1,052	1,017	950	609	576
% year on year fall	6.6	6.9	6.8	4.7	4.6

During the 2008/09 milk year 576 producers left the industry. This is slightly lower than the previous year and around 40% less than the number who left during the 2006/07 milk year.

In context

It is likely that the falling number of producers leaving the industry is linked to milk price. The 2007/08 milk year was the first time the annual average GB milk price was over 20ppl in 10 years, at 22.64ppl. Although the annual average price paid in 2008/09 is expected to show a further increase, with milk prices now falling it is predicted by some industry commentators that the number of dairy farmers leaving the industry will increase. Initial data from the 2009 DairyCo Farmer Intentions Survey shows that 14% of British dairy farmers intend to leave the industry in the next two years, up from 7% in 2008.

UK dairy trade balance at a record deficit in 2008

The UK dairy trade deficit leapt by 43.0% (£379m) to £1,198m in 2008, according to UK Customs and Excise data. The value of imports rose by 23.5% to £1,992m while the value of exports only grew by 8.5% to £794m between 2007 and 2008. In volume terms, dairy imports increased by 5.0% to 1.1m tonnes and exports by only 1.0% to 865,000 tonnes.

	2007		2008*	
	'000 Tonnes	£ Million	'000 Tonnes	£ Million
Total imports	1,044	1,613	1,096	1,992
Total exports	860	732	865	794
Net trade deficit	-184	-881	-231	-1,260

Source: PTF, DairyCo

*Figures include estimates

As a result, the average cost per tonne of imported dairy products rose by 18% to £1,818/tonne between 2007 and 2008 while exports were valued on average at £918/tonne – an 8% increase compared to 2007. With imports valued at almost double that of exports this shows that the UK exports low value commodity products and imports higher cost value-added products such as speciality cheese, fermented products and branded butters.

In context

As UK milk production continues to decline with milk deliveries for 2008/09 falling to 12.9billion litres – the lowest level in the UK for more than three decades, the UK is increasingly reliant on imports to meet domestic demand. In addition, it is likely that the increased import figure reflects an increased volume of non-domestic products undercutting domestic products, for example in the mild cheddar market, due to the higher returns available in the UK compared to other European countries.

UK dairy commodity market relatively stable

The UK commodity market has been relatively quiet over the past month with prices remaining at March levels except for SMP which decreased by £50/tonne to £1,500/tonne and the price of bulk cream for export which increased by £40/tonne to £820/tonne. The fall in the SMP price caused AMPE to decline by 0.5ppl over the month to 19.1ppl. Sterling strengthened by 1.6% against the Euro in April compared to March which reduced the value a UK processor receives from selling into intervention, as a result IMPE fell by 0.6ppl to 19.4ppl.

Quota Prices (4.00%)	Clean	Lease	Exchange Rate €/£		Average Farmgate Milk Price: February				
	23/04/09	0.25ppl	0.10ppl	0.90260	2009	24.52ppl	2008	25.62ppl	
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)	
	April 09	19.4 (for the first 20 days)	19.1	24.65	4.71	1950	1500	2500	820
	March 09	20.0	19.6	24.63	4.42	1950	1550	2500	780
	April 08	17.3	24.9	28.67	5.31	2150	2000	2850	940
	Retail Prices	Liquid Milk (retail) (ppl equivalent)		Doorstep (ppl equivalent)		Butter Branded (p/250g)		Mild Cheddar Non-branded (p/kg)	
April 09	68 (average price for the 4 weeks ending 22/03/09)		101 (average price for the 4 weeks ending 22/03/09)		114		689		
% change vs April 08	9.7% (average price for the 4 weeks ending 22/03/09)		8.6% (average price for the 4 weeks ending 22/03/09)		nc		+13.3%		

*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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