



## Dairy Market Update

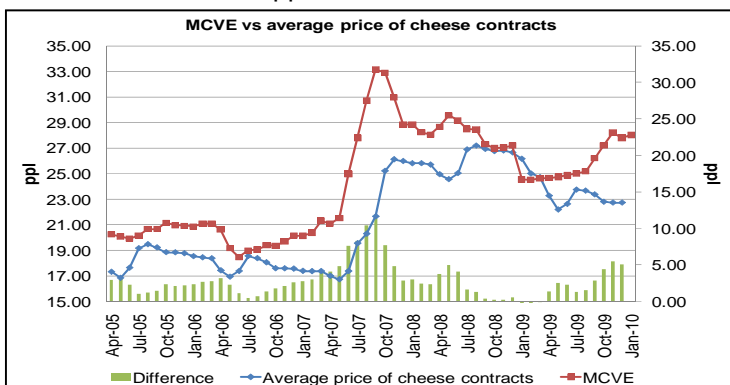
4 February 2010

Page 1

### Milk price increases for some cheese contracts

Milk price increases have been announced by some cheese processors for January and February as cheese markets show signs of firming. Effective 1 January, Barber's increased its price by 1ppl, Saputo by 0.75ppl and Belton Cheese by 0.50ppl. First Milk, a major cheese processor in GB, also announced an increase in its milk price of 0.25ppl effective 1 February. With the exception of Saputo, which operates in the mozzarella market, these are the first price rises on cheese contracts for over a year. 2009 saw most cheese manufacturers reducing their prices, with cuts ranging between 2.9ppl and 5.1ppl depending on the contract.

MCVE, which provides a benchmark for the value returned from milk used for mild Cheddar, averaged 25.63ppl in 2009, 2.54ppl lower than the 2008 average of 28.17ppl. MCVE started to rise in the second half of 2009, mainly as a result of better returns from whey powder and whey butter. In January 2010, it stood at 28.03ppl, the highest value seen since August 2008, with the exception of November 2009 when it stood at 28.21ppl.



### In context:

As the graph above shows, the difference between MCVE and the average price of the cheese contracts listed on the DairyCo league table started to increase from July 2009. The difference was approximately 5ppl in December compared to the 4-year average difference of 3ppl. This may explain why some cheesemakers have been able to increase the price paid to their milk suppliers.

### Cheese sales up

Latest data from Kantar Worldpanel (formally TNS) shows that retail cheese sales in GB have risen by 4.2% (15,926 tonnes) in the 52 weeks ending 27 December 2009, to stand at 395,105 tonnes. The main driver is the Cheddar market, which has seen retail sales increase 4.4% (9,058 tonnes) to 214,927 tonnes over the period. The growth in Cheddar sales has been within the branded and mature markets, at the expense of value, mild and medium Cheddar. Mild and medium Cheddar sales have fallen by 9.3% and 13.5% respectively over the period, while mature Cheddar sales

have risen by 22.1% (18,063 tonnes) to 99,795. Mature Cheddar's share of the market has risen to 46.4% of retail sales compared to 39.7% in 2008. The increase in mature Cheddar sales is likely to have been driven by the fall in average price of branded Cheddar, with the majority of branded Cheddar being mature. The average price of branded Cheddar fell by 4.5% due to heavy promotional activity, while over the same period supermarket label rose by 0.2%. This has increased the gap in price with branded Cheddar now significantly cheaper than standard label, at £5.99/kg. The price differential has helped branded Cheddar sales increase by 21.5% (16,894 tonnes) to 95,472, increasing the value of the branded Cheddar market to £572 million.

Cheddar market—52 weeks ending 27 December 2009				
	Volume (tonnes)	Yr/yr % change	Aver. Price (£/kg)	Yr/yr % change
<b>TOTAL CHEDDAR</b>	<b>214,927</b>	<b>+4.4%</b>	<b>6.00</b>	<b>-0.3%</b>
Branded	95,472	+21.5%	5.99	-4.5%
Standard supermarket label	74,377	+0.7%	6.42	+0.2%
Value supermarket label	45,078	-15.5%	5.33	+4.3%

Source: Kantar Worldpanel

### In context:

The combination of increased household demand for Cheddar in GB, decreasing imports and a low domestic Cheddar output in 2009 compared to 2008, suggests that the Cheddar market is strengthening. If increasing volumes of milk go into added-value products (branded over own label) as suggested by processors, and with the rise in the value of MCVE to 28.03ppl for January, this would suggest improved returns in the cheese market, and should therefore translate into improved returns for those farmers on cheese contracts.

### Sainsbury's to expand Dairy Development Group

Sainsbury's has announced that from October 2010, up to 25 new farmers will join its Sainsbury's Dairy Development Group (SDDG), increasing the number in the pool to 359. The additional milk volume will be supplied by Arla and is part of the supermarket's planned expansion to increase total store space by 15% in the two years to March 2011.

The deal will see Arla distribute to around 70 stores mainly in the East, while existing suppliers Dairy Crest, Wiseman and Graham's Dairies will continue to supply the rest of Sainsbury's requirements. Alongside increasing the milk pool, Sainsbury's has committed to invest an extra £40million in the SDDG over the next three years, to be used for key on-farm

**To sign up for your free copy of the DairyCo Dairy Market Update, visit [www.dairyco.org.uk](http://www.dairyco.org.uk)**



## Dairy Market Update

4 February 2010

Page 2

initiatives in the areas of herd health and husbandry, environment and energy, collaborative working and business improvement. Farmers currently supplying SDDG through Dairy Crest will receive an additional 0.5ppl, to bring them in line with the rest of the group.

### In context:

This is a positive step for the industry increasing the number of British dairy farmers receiving a premium for their product and improving investment in the industry through involvement in dedicated supply groups. However, it should be noted that only around 15% of British dairy farmers are on dedicated liquid milk contracts attracting a premium price.

### What's next in commodity markets?

January was a quiet month on the EU and UK commodity markets, with most products seeing only small changes in prices between December and January. UK butter prices dropped by £100/tonne (3.6%) to £2,700/tonne while bulk cream prices fell £20/tonne (1.7%) to average £1,130/tonne in January.

In powder markets, EU and world SMP prices fell by €140/tonne (6.8%) and \$400/tonne (12.5%) respectively, bringing them in line with the UK price of £1,750. With EU export subsidies reduced to zero from November 2009, any movements on the world market will therefore affect the UK market, making predictions on future price movements in this market difficult. During 2009, around 400,000 tonnes of SMP went to US and EU public stores to balance supply and demand, which is now over-hanging the market. While it is expected that milk output in the main milk producing countries such as the US, Oceania and the EU will be lower in 2010, which will help to maintain prices, there is concern by some operators whether output will be reduced enough to avoid price decreases.

In the cheese markets, the only movement between December and January was in the world price for Cheddar,

which fell by \$200/tonne (4.9%) to average \$3,900. There were no changes to the UK prices for mild and mature Cheddar, remaining at £2,600/tonne and £2,950/tonne respectively.

### In context:

The UK fat market was affected by the weakening of the EU market, as the supply situation is improving while demand remains low in the post-Christmas period. The removal of all EU export refunds has made it more difficult to export butter and Cheddar as EU and UK prices continue to be uncompetitive on the world market. The market continues to be hesitant due to the uncertainty of the effect that the release of intervention stocks will have on wholesale markets.

### Milk yields up in 2009

According to Defra's latest provisional figures, milk yields increased to average 7,084 litres/cow for farms in the UK in 2009. This represents an increase of 141 litres/cow from the average milk yield/cow of 6,943 litres in 2008. This is the largest annual increase in average milk yields for four years, when the average yield increased by 3.3%. Milk yields have been relatively stable since 2006, varying by less than 1.0% between each year.

Assuming an average herd size of 113 in 2009, the increased yield/cow translates into approximately 15,930 additional litres of milk per farm. Expressed in terms of additional revenue, the increased yield would be worth £3,917 to the average farmer (based on the 11-month average farmgate price of 24.59ppl for 2009).

### In context:

The 2.0% increase in average milk yield will be in part driven by the improved grazing conditions in 2009 compared to the previous year. This is supported by the Pro-mar Milkfinder costings data which showed that yields from grazed forage increased by 9.4% on average in the year ending November 2009, compared to the increase of 2.2% achieved from all forage for the same period.

Quota Prices (4.00%)	Clean	Lease	Exchange Rate €£		UK Average Farmgate Milk Price: November				
	29.01.10	0.40	0.10	0.8739		2009	24.49	2008	27.08
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 10	19.0	25.1	28.03	6.30	2,700	1,750	2,600	1,130
	December 09	19.3	25.6	27.78	6.43	2,800	1,750	2,600	1,150
	January 09	20.0	20.7	24.55	4.53	1,900	1,700	2,500	800
Retail Prices	Liquid Milk (retail) (ppl equivalent)		Doorstep (ppl equivalent)		Butter Branded (p/250g)		Mild Cheddar Non-branded (p/kg)		
January 10	66 (average price for the 4 weeks ending 27/12/09)		100 (average price for the 4 weeks ending 27/12/09)		110		641		
% change v January 09	-2.9% (average price for the 4 weeks ending 28/12/08)		nC (average price for the 4 weeks ending 28/12/08)		nc		+4.6%		

\*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.

The Dairy Market Update is published once a fortnight, and contains information available via DairyCo Datum in order to provide a summary of conditions in the dairy market. As with all parts of DairyCo Datum, we endeavour to publish the information that is required by readers and users – please contact us with your suggestions. Disclaimer: DairyCo is a division of the Agriculture and Horticulture Development Board (AHDB). AHDB/DairyCo seek to ensure that the information contained within this document is accurate at the time of printing. However, subject to the operation of law AHDB/DairyCo accept no liability for loss, damage or injury howsoever caused or suffered directly or indirectly in relation to information and opinions contained in or omitted from this document. For enquires regarding this information, or to receive a free copy of the Dairy Market Update by post or e-mail every fortnight then please send your name, address, and e-mail to DairyCo Datum, DairyCo, Agriculture and Horticulture Development Board, Stoneleigh Park, Kenilworth, Warwickshire, CV8 2TL.; or e-mail [datum.info@dairyco.org.uk](mailto:datum.info@dairyco.org.uk) Phone: +44 247 669 2051