



Dairy Market Update

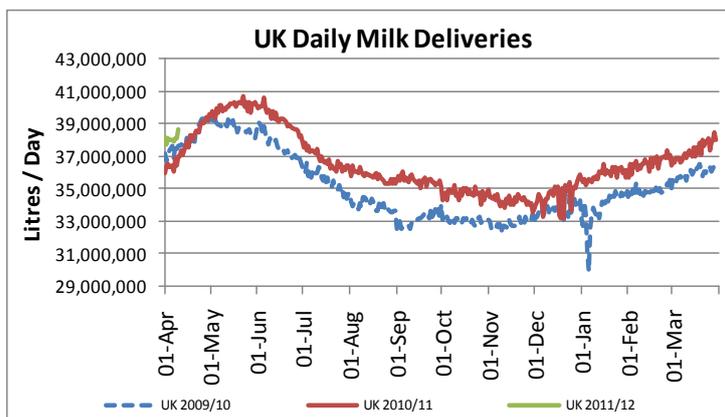
21 April 2011

Page 1 © AHDB 2011

Milk production up in 2010/11

Provisional figures from the RPA show that UK total deliveries for 2010/11 stood at 13,339m litres, an increase of 514m litres (4.0%) compared to 2009/10 and the highest level since the 2006/07 milk year. However, these figures are still a distance from levels seen in previous years with 2010/11 deliveries 10.2% below quota. While cumulative GB deliveries improved by 3.2% (356m litres) over the year, Northern Ireland saw the biggest increase year on year especially as its export market benefited from increasing commodity prices seen in recent months; rising 9.0% compared to the 2009/10 milk year.

While the 2010/11 milk year began slowly after a particularly cold winter, conditions improved considerably through the summer towards autumn with September deliveries up by 7.1% compared to the previous year at 1,065m litres.



In context

The 2011/12 milk year has kicked off to a more positive start compared to last year. UK daily delivery data show a 4.4% increase for the first week of April. Going forward, there are likely to be two factors that will influence further production increases: production costs and the weather. Although milk prices have been improving, increasing feed costs could impinge on production if adverse weather conditions reduce the amount of grazed forage available.

Farmers in Oceania more positive

Rabobank has released its latest rural confidence surveys for farmers in New Zealand and Australia with the general view looking more positive than previous surveys.

Looking at New Zealand, 42% of dairy producers surveyed felt optimistic about the agricultural economy, up from 31% in the previous survey. Looking at their own performance, 51% of dairy producers expected an improvement in business performance. When asked why they expected conditions to improve, rising commodity prices was predominantly believed to be the main contributing factor. Australian results suggest that despite the recent flooding in eastern Australia, farmer sentiment has improved for the coming milk season.

Emerging economies show appetite for dairy imports

The increase in dairy production among many emerging markets is struggling to keep up with the increase in consumption resulting from increased affluence, growing populations and changing tastes. Data from the IFCN shows that between 2005 and 2009, markets showing rapid economic growth such as India, Brazil and China have shown greater increases in dairy consumption than dairy production.

	Change (2005-2009) million tonnes			
	Production	Consumption	Diff	Consumption (kg/capita)
India	18.29	19.28	0.99	9
China	5.55	7.18	1.63	5
Brazil	2.94	3.29	0.35	12
UK	-1.15	-0.03	1.12	-7

While these figures are historic, recent developments suggest that this trend is likely to continue in the future. For example, regulators in China are to close nearly half of the nation's dairy companies following a nationwide safety crackdown after the melamine scandal which saw 426 dairies out of 1,176 outright fail the license renewal inspection and a further 107 forced to suspend production until improvements are made to their operations. In addition, India recently boosted world dairy trade by sanctioning a major increase in SMP, butter and butteroil imports in an attempt to control rising domestic prices as increasing national production is failing to keep up with surging demand.

In context

While emerging markets show growth opportunities, UK consumption was virtually unchanged between 2005 and 2009. Despite an increase in retail sales volumes in 2011 compared to 2010, constant promotional activity resulted in the equivalent sales value decreasing. With the current imbalance between production and consumption in emerging markets, domestic processors may consider selling more produce onto EU and world markets as First Milk has started to do with its recent contract in partnership with Eilers & Wheeler.

Company Strategy and Performance Report - Milk Link

Milk Link remains the fourth largest milk buyer in the British market, purchasing approximately 1.2bn litres of milk from its direct suppliers in the 2009/10 milk year, which represents 11% of total GB milk production. Milk Link's supply base increased during the year with the recruitment of 200 new member suppliers and 200 new direct suppliers, which has added approximately 160m litres of milk to its pool. Milk Link's stated objective is to build its business through adding value to its milk in a manner which obtains the best return from the market for its members. It has increased its

To sign up for your free copy of the DairyCo Dairy Market Update, visit www.dairyco.org.uk



Dairy Market Update

21 April 2011

Page 2 © AHDB 2011

involvement in the cheese sector through its recent acquisitions of the Llandyrnog Creamery in Wales and the Trevarrian Creamery in Cornwall. It has also moved to improve returns by developing an added value whey processing facility at its Taw Valley Creamery in a joint venture with Volac, a leading international ingredients firm. The transfer of its production of long life and flavoured liquid business to its Crediton dairy has improved efficiencies and streamlined operations.

The net effect of these activities has meant that Milk Link has been able to improve its financial position, and improve returns to farmer members through both price increase and the removal of the 0.5ppl capital levy for existing members. In the 2010/11 milk year, Milk Link made several increases to its milk prices and has moved up in the DairyCo league table.

In context

In January 2011, Milk Link acquired the Cornish Country Larder (CCL) cheese business which has provided it with the ability to further develop its range of cheeses and give it access to a wider market. It has recently announced a £4m first-phase investment to build a new production facility at CCL's Trevarrian Creamery which will allow it to increase its production and maturation capacity for its range of speciality cheeses. The investment allows Milk Link to gain efficiencies in production and to further diversify its product portfolio, allowing it to align the use of its milk to the most profitable markets.

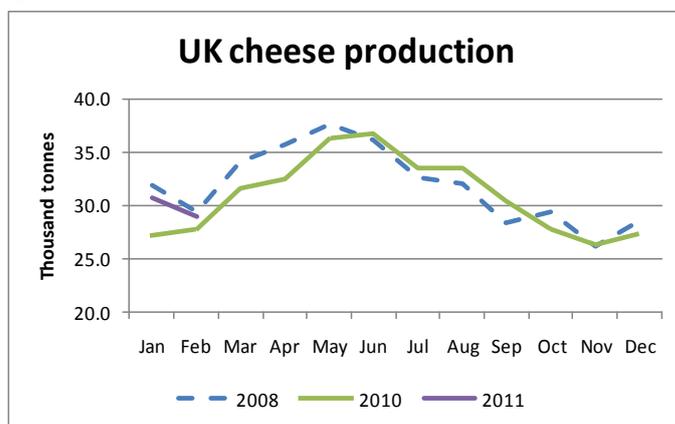
Outlook 2011 - CAP: Towards a greener future

DairyCo is jointly hosting the AHDB Outlook 2011 Conference with BPEX and EBLEX, on Wednesday 27 April in London. A must for all involved in the dairy, red meat and livestock industries, it will look at the key issues surrounding the reform of the EU CAP, stimulate forward thinking and examine the options. Presentations will cover the proposed CAP reforms and the potential impact on the supply chain, from farmer through to retailer. Three parallel sessions will run in the afternoon exploring in greater detail the medium and long term outlooks for the dairy, pig and cattle and sheep

sectors, including supply forecasts and discussions on the impact of global volatility and environmental issues on the industry. To register for the conference, contact Dorian Harris at outlook@ahdbms.org.uk or download a registration form from www.eblex.org.uk.

Cheese production continues to gather pace

Latest figures from Defra show that cheese production has started strongly in 2011. Figures for February put cheese production at approximately 28,900 tonnes, an increase of approximately 1,200 tonnes (4.3%) compared to the previous year. Figures for the year ending February 2011 stand at almost 376,000 tonnes which is an increase of nearly 19,000 tonnes (5.3%) compared to year ending figures for February 2010.



In context

As shown above, cheese production remained strong through the end of 2010 and has started 2011 at levels last seen in 2008. At present wholesale prices for mild and mature Cheddar are at similar levels to those in 2007. As a result of higher prices in 2007, cheese production increased substantially during 2008 and may have gone some way to explain the fall in wholesale Cheddar prices during 2009. Manufacturers will be keen to ensure that this situation does not repeat itself in the future.

Feed Prices (Range £/tonne)	Intensive energy rations	High protein concentrates	Exchange Rate €/£		UK Average Farmgate Milk Price: February								
					2011	26.08	2010	24.19					
March 11	£217-£231	£322-£331	0.87553										
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)					
					March 11	18.6	32.3	32.60	8.56	3,400	2,150	2,950	1,550
					February 11	18.3	32.4	32.88	9.11	3,500	2,100	2,850	1,650
					March 10	19.6	25.5	27.63	6.82	2,600	1,850	2,600	1,225
Retail Prices	Liquid Milk (retail) (ppl equivalent)		Doorstep (ppl equivalent)		Butter Branded (p/250g)		Mild Cheddar Non-branded (p/kg)						
March 11	58.9		1.04		119		643						
% change v February 10	-9.0%		13.4%		5.3%		0.3%						

*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.