

# SMP stocks disappeared – butter prices up – Irish prices firm to '07

KERRY & Glanbia were too quick off the starting blocks in the milk price cutters race. The current situation is that SMP stocks internationally have disappeared with prices on the increase. Even butter prices are up. The Australian drought will significantly cut supplies. All factors which

were not known when Glanbia and Kerry made the drop.

The September league shows that prices are holding. Indeed the indications from the industry are that there will be no further reductions in 2006. There is even some optimism for the first half of 2007.

The halving of the Government levies was price positive. However, there must be a continuous onslaught to get all levies out of the way while the current crisis continues. One must not accept the status quo. There is a need to continue "to dream of things that never were and ask why not?"

IFA's livestock sector shows what can be achieved with their new suckler support system and the Brazilian expose, all accomplished in the current year.

The September league prices are encouraging. On a payout basis Boherbue and Newmarket beat 28 c/l or the

£1/gal mark. While only marginally behind those top performers are Barryroe 27.8c/l, Lisavaird 27.55 c/l, Drinagh 27.40 c/l, Dairygold 27.35 c/l.

Even Glanbia have come up in the world paying 27.30c/l. But this still leaves them 1.4c/l or 5p/g behind the top payer who only has 4m gallons of milk compared to Glanbia's 230m gallons. There is obviously disappointment that the Government's €100m restructuring plan has not resulted in an industry lift off.

One of the factors impeding development is that where milk suppliers rationalised in the past and created larger units it has not resulted in a

higher milk price for them. Especially when that price is compared with the price paid by those creameries who did make the leap of faith.

There is a worry at the back of the minds of many competent decent Board members as to whether or not milk price will be better in a new structure. However the West Cork model coupled with top management must be the way ahead.

Since the Paris IDF conference in 2002 it emerged at the Shanghai conference that there was over two dairy mergers or alliances happening every week. This trend cannot be ignored in Ireland.

## September 2006 milk price league

All cash price in column (A) are based as follows: ★ No volume conditions ★ 3.60 per cent butterfat ★ 3.30 per cent protein ★ Protein bonus not included ★ SCC 400,000 ★ TBC 50,000 ★ Dairy Board and state levies at rate deducted by creamery ★ Transport charges based on 30,000 gallons per year collected ex-farm. ★ Farmer not required to have more than bulk size for five milkings.

Creamery	Cash Price c/l Sept 06	Cash Price c/l Sept 05	Collection Charge	Price diff Sept 06 v Sept 05	Avg cr Fat	Avg cr Protein	B/F diff per each 0.10%	Price Diff per each 0.10%	Price based on Avg Cr Fat & Pro	Ranking on Avg Cr Fat & Pro
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### Division No. 1 Over 25.50

*Barryroe	25.96	26.52	0.28	0.56	3.96	3.47	0.29	0.47	27.80	3
North Cork	25.76	26.65	Nil	0.89	3.91	3.43	0.30	0.40	27.20	9
*Lisavaird	25.70	26.30	0.28	0.60	3.98	3.47	0.27	0.44	27.55	4
Newmarket	25.70	26.65	Nil	0.95	4.06	3.51	0.34	0.37	28.05	2
Boherbue	25.75	26.62	Nil	0.87	4.05	3.53	0.29	0.47	28.10	1
*Drinagh	25.60	25.65	0.39	1.05	3.96	3.43	0.33	0.44	27.40	5
*Dairygold	25.50	27.00	Nil	1.50	3.99	3.48	0.25	0.46	27.35	6
*Bandon	25.50	26.30	Nil	0.80	3.96	3.48	0.25	0.50	27.30	7
Wexford	25.50	26.55	Nil	1.05	3.96	3.42	0.27	0.46	26.95	10

### Division No. 2 - 25.50 - 25.00

Kerry	25.40	26.70	Nil	1.30	3.93	3.51	0.24	0.47	27.25	8
Monaghan	25.30	26.30	0.50	1.00	3.80	3.35	0.36	0.40	26.30	14
Lakeland	25.14	26.62	0.39	1.48	3.93	3.45	0.17	0.37	26.30	14
Centenary Thurles	25.06	26.00	Nil	0.94	4.02	3.47	0.20	0.50	26.80	11
**Glanbia	26.06	26.00	Nil	0.94	3.86	3.43	0.23	0.43	27.30	7
Arrabawn	25.02	26.30	0.50	1.28	3.96	3.41	0.29	0.40	26.40	13
Tipperary	25.02	26.20	0.18	0.18	3.97	3.47	0.25	0.56	26.95	10

### Division No. 3 - Under 25.00

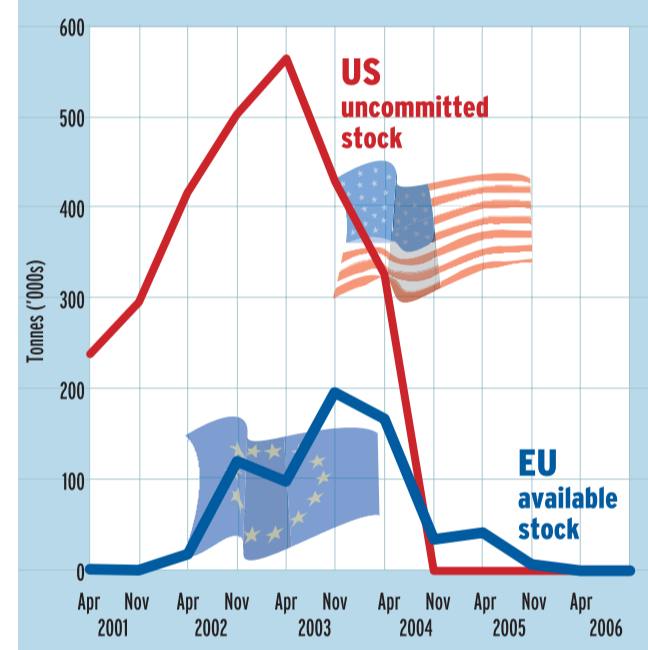
Donegal	24.85	25.82	1.20	1.03	3.96	3.45	0.26	0.46	26.50	12
Oldcastle	24.60	26.00	Nil	1.40	3.92	3.42	0.25	0.56	26.15	15
***Connacht Gold	24.30	26.92	X	1.62	3.92	3.45	0.25	0.52	26.00	16

\* Price incl S.C.C Bonus for Under 200,000; \*\*Glanbia requires over 4.3% lactose for top price

\*\*\*Connacht Gold requires space for 7 milkings for top price also the collection charge is new built into the C element of the new

A+B-C price system.

### SMP: USA uncommitted stock and EU available stock



Source: USDA; EU Commission

## US-EU stocks at zero

THERE are many reasons why Kerry and Glanbia were too quick on the draw. Obviously their plc status was a pressure point more important than milk price.

Today there is continuing emerging positives on the international dairy market. One of the most striking figures I came across was the current level of US SMP stocks. Their stocks in Com-

modity Credit Corporation the equivalent of our Intervention are now down to zero. In 2003 this figure was 550,000 tons. This change is due to massive exports, growing world demand and a weak dollar (see graph SMP stocks above). This graph shows clearly that both US and EU stocks today are at zero.

## EU trends

A SIMILAR situation to the US exists in the EU on SMP. There is now no SMP in Intervention. This means the Commission can no longer manipulate the powder market. Prices are continuing to rise.

The accompanying graph on German SMP prices demonstrates actual market prices compared to Intervention level. German market prices are now over 30% above the support price.

Now the unbelievable has happened. It may be just a chink. Even EU butter prices



have risen. They are now over 6% above Intervention but down 7% compared to a year ago. I would not bet on increasing butter prices in 2007 but the accompanying graph on French butter prices does show a positive trend. It is also



of interest that at the recent IDF Conference in Shanghai there was a view that high oil prices could push up butter prices. Reason - more demand for vegetable oil for biethanol production causing a switch to butter oil.

## Drought in Oz

ANOTHER factor which will affect world dairy markets is the current serious Australian drought.

There will be a fall of 10-15% in milk production.

A trend that will continue into 2008 with increased cattle slaughtering.

The extend of this drought can be gauged from the fact that the output of winter grain will be down from 50% to 60% this season.

This will be a plus for grain prices internationally.

## United price down by 2.50 c/l

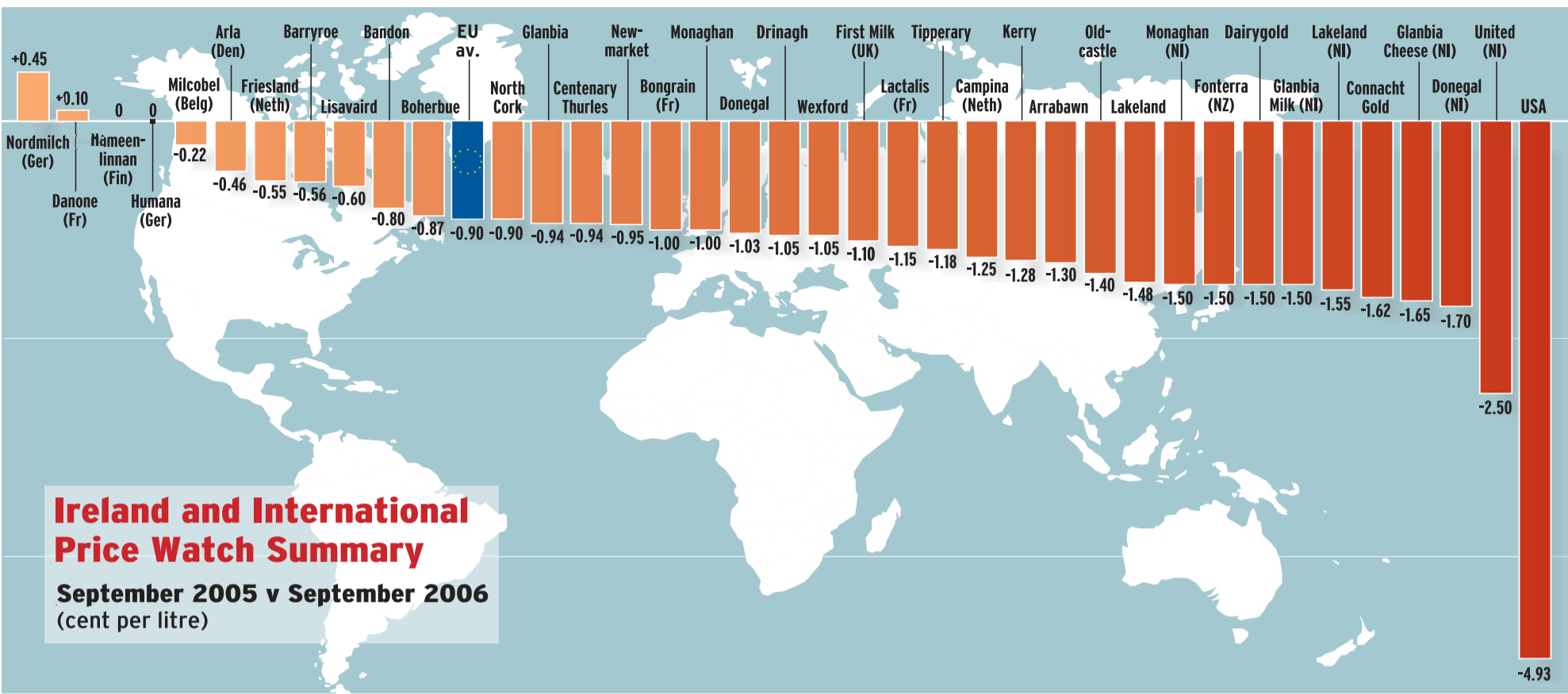
WITH the exception of the US the highest reduction in milk price Sept 06 v Sept 05 is recorded by United. Their Sept 06 v Sept 05 price is down by 2.50 c/l (9p/g).

However despite this they still top the Northern League paying 25.46 c/l. This means that they just miss Division One status in our League Table for the Republic. In fact their price is ahead of Kerry

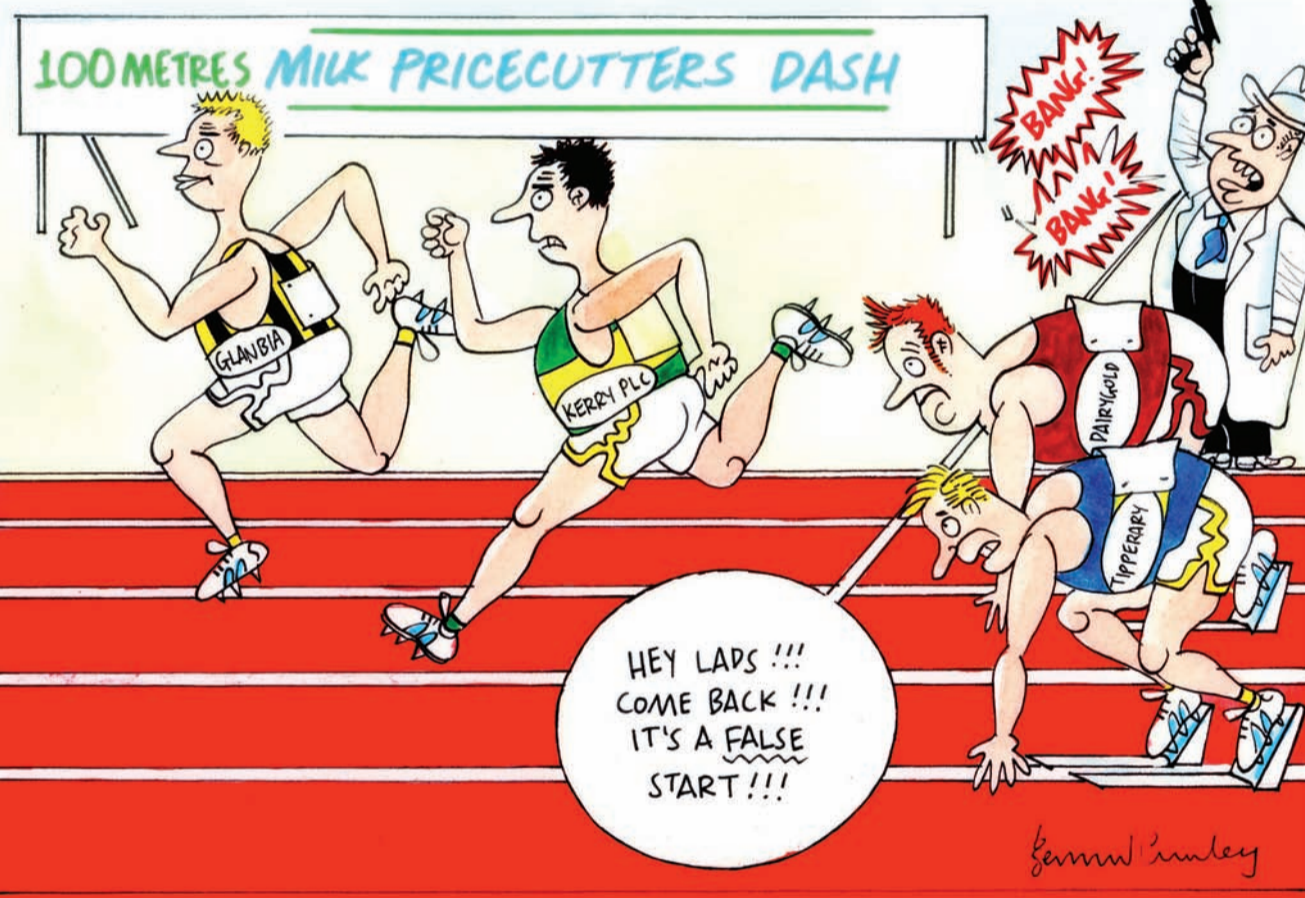
and only marginally below Dairygold.

Second place in the Northern League goes to Lakeland at 24.89. This compares to their South price of 25.14. Donegal are in third place paying 24.54 c/l.

This south of the Border price is ahead at 24.85 c/l. The gap between the top and bottom in the Northern League is 1.65 c/l (7.5 p/g).



**Ireland and International Price Watch Summary**  
September 2005 v September 2006 (cent per litre)



## World price watch

AVERAGE milk price reduction September 06 vs September 05 is 0.90 c/l or a minus of 3% over the period.

This figure emerges from the continuing excellent analysis by William Koops and his team at the Dutch Dairy Board.

This analysis is based on an assessment of 16 EU processors including Glanbia and Kerry (see graph above).

Significantly a number of Irish creameries have returned figures which are less than the EU average reduction.

As one has come to expect the West Cork group of Barryroe, Lisavaird and Bandon all beat the average. Also beating the average are Boherbue and North Cork.

Only marginally missing the EU average cut are Glanbia, Centenary

Thurles and Newmarket. Disappointingly Northern Ireland's United are two and half times over the cut down 2.5 c/l.

On the international front the US records the highest drop. They are down by 4.93 c/l or 5 times over the average. This in old money is a reduction of 17.64 p/g.

There are a number of good performances internationally.

Finland's Hameen and Germany's Humana hold their Sept 06 price at the Sept 05 level.

Indeed the other major German creamery Nordmilch show an increase of 0.45 c/l over the period but from a low base.

The highly impressive Danone (France) increased price marginally in this case from an excellent base of 32.84 c/l (117p/g).

## September 2006 NI milk league

Milk buyer	Price (litre)	Transport charge (55,000)	Price litre plus 4.8% VAT (55,000)	Price in € plus 4.8% VAT Sept 05	Estimated share of total milk %	Euro price diff Sept06 v Sept 05
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### Division No. 1 - Over 16.00p

United Dairy Farmers	16.41	0.65	17.20	25.46	56	2.50
Lakeland Dairies	16.05	0.22	16.82	24.89	14	1.55

### Division No. 2 - Under 16.00p

Donegal Creameries	15.82	0.57	16.58	24.54	3	1.70
Town of Monaghan	15.71	0.65	16.46	24.37	19	1.50
Glanbia Milk	15.61	0.50	16.36	24.21	2.5	1.50
Glanbia Cheese	15.35	0.74	16.09	23.81	5	1.65

## International standardised milk price – Sept '06

All prices based as follows: Vat Rate 4.8%; Fat 3.60% Protein 3.30% and SCC 249,999, TBC 24,999. Every other day collection with Annual Milk Supply 350,000 Litres.

Creamery	Country	Sept 06 c/l	Sept 05 c/l	Sept 06 v. Sept 05 Price diff	Rolling Avg Last 12 mts c/l
Hameen	Finland	36.65	36.65	NC	35.70
Danone	France	32.94	32.84	+0.10	29.31
Bongrain	France	30.55	31.55	-1.00	28.90
Lactalis	France	30.30	31.45	-1.15	28.75
Friesland	N.L.	30.27	30.82	-0.55	28.50
Nordmilch	Germany	29.50	29.05	+0.45	27.46
Campina	NL	28.50	29.25	-1.25	28.32
Milcobel	Belgium	28.46	28.68	-0.22	28.12
Humana	Germany	27.86	27.86	NC	27.11
Arla	Denmark	27.22	27.68	-0.46	28.93
First Milk	UK	25.70	26.60	-1.10	25.04
US	US	23.93	28.86	-4.93	24.30
Fonterra	NZ	15.50	17.00	-1.50	16.75

\* Rolling avg. is weighted avg. for each month which inc. bonus payments.

\* Based on payout forecast of Fonterra. Based on Class III US price

All figures based on original date from the Dutch Dairy Board

More information available at [www.milkprices.nl](http://www.milkprices.nl)