

## STANDARDIZED MILK PRICE CALCULATIONS for JANUARY 2008 deliveries

(for standardized (1) milk and based on payment systems of the companies, all prices in euro/100kg)

Company		Quality adjustment	Quantity adjustment	Seasonal adjustment	MILK PRICE this month	Most recent supplementary payment	Rolling average last 12 months (4)
Milcobel	BE	0.73	1.38		40.05	0.19	36.12
Humana Milch Union eG	DE				39.71	0.00	34.54
Nordmilch	DE		0.15		38.72	-0.15	33.18
Arla Foods Denmark	DK	0.75			38.03	1.07	32.25
Hämeenlinnan O.	FI	2.14		3.91	37.41	3.40	37.54
Bongrain CLE (Basse Normandie)	FR	0.74			40.83	none	31.58
Danone (Pas de Calais)	FR	0.58			41.42	none	32.73
Lactalis (Pays de la Loire)	FR				40.66	none	31.38
Sodiaal	FR				37.07	none	30.54
Dairy Crest (Davidstow)	GB	-0.26	0.39		33.76	0.00	30.18
First Milk	GB	0.65	2.43		32.72	0.00	28.01
Glanbia	IE			6.78	45.55	0.00	34.47
Kerry	IE				38.80	none	33.03
Campina	NL	0.05	0.75		38.23	1.87	34.94
Friesland Foods	NL	0.04			36.31	1.79	34.37
<b>AVERAGE MILK PRICE THIS MONTH 2)</b>					<b>38.62</b>		<b>32.99</b>
New Zealand (5)	NZ				27.55	none	24.76
United States of America (3)	US	0.15			32.11	none	32.66

### Remarks:

- (1) All prices are VAT excluded, paid to producers and assuming milk collected every other day  
Price per 100 kg standard milk with 4.2% fat, 3.40% (crude) protein, 500,000 kg per year, total bacterial count 24,999 and somatic cell count 249,999.
- (2) Arithmetic average.
- (3) Class III prices adjusted for 4.20% fat, 3.4% protein and somatic cell count 249,999.
- (4) Including most recent supplementary payment.
- (5) Based on payout forecast of Fonterra, adjusted for 4.2% fat and 3.40% protein.

## **ADDITIONAL REMARKS MILK PRICES JANUARY 2008**

### **MILK PRICE**

The average milk price calculated for January 2008 deliveries is € 38.62 per 100 kg standard milk. This is compared with the same month last year € 10.11 higher (plus 35,4%).

For the time being the continuing surge in milkprices has come to an end. Mounting price pressures for basic dairy commodities during the last months have changed the pattern of continuing milkprice rises. Most dairy companies also have lowered their milkprices for January.

After declining during the latter part of 2007 prices of most basic dairy commodities rebounded again from the start of the year. But not for long; recently quotations came under new pressure as fears took hold that the (seasonal) expansion of milk supplies on the one hand and lack of export demand on the other could easily push the market out of balance. It looks like EU prices, especially for butter, have to come down further in order to be able to face competition (a.o. USA) on the worldmarket.

### **General remarks**

From January 2008 only Danish milkprices will be calculated and published; this is because Swedish dairy farmers do not receive the same milkprice as their counterparts from Denmark. Also Arla Foods UK has been replaced by Dairy Crest. Most important reason is that milkprices of both Dairy Crest (Davidstow cheese) and First Milk are more representative for the British market for milk. Fast all milk of Arla Foods UK is processed as milk for consumption. In our calculation model and thus also at the calculation of the averages for all companies this modification has been implemented retrospectively from January 2006.

#### **• The Netherlands and Belgium**

Friesland Foods has lowered the calculated advance payment for January by € 4.19 per 100 kg standard milk, compared to December 2007. February's payment is kept unchanged. Compared to last year the advance payment is € 9.57 higher. Also Campina lowered the calculated advance payment for January compared to December 2007. This decrease with € 2.42 is mainly due to the fact that no additional payment is paid that month. In December this additional payment was € 2.00 per 100 kg. Compared to last year the advance payment is € 12.69 higher; part of this is due to the changed payment system. From January onwards Campina strives to pay 97% (was 95%) of the definitive milkprice in advance.

Milcobel has lowered the calculated advance payment for January by € 2.09 per 100 kg standard milk, compared to December 2007. Compared to last year the advance payment is still € 11.02 higher.

- **Germany**

Also in Germany the advance payments for January are still remarkably higher than in 2007: € 11.88 and € 11.39 respectively for Nordmilch and Humana. However Humana lowered its payment by € 1.84 compared to December due to the decreased basic price and the payment in December 2007 of an extra € 0.65 which expired in January. Nordmilch did not change its milk price in January.

- **France**

For the first quarter of 2008 representatives of dairy farmers along with the processing industry have agreed to increase the basic milk prices with € 103.70 per 1000 litre, compared to the same period last year. Except for Sodial all French milk prices have risen by more than € 10 per 100 kg standard milk. Dairy farmers of this company did however receive in January an additional payment of € 1.50 /1000 litre over the final payment for 2007.

- **Arla Foods**

In spite of the modification in the payment system January's advance payment was similar as in December last year. Compared to January 2007 the milk payment is € 10.40 per 100 kg higher.

As from January 2008 Arla has increased its prices for fat and protein remarkably, while the market allowance is expired. Furthermore there are more adjustments of their payment system:

- the seasonal levies and allowances are imposed/paid at the two weekly milk payment. So far these amounts were booked in the administration and the surplus was paid at the end of the marketing year.
- As from 2008 Danish dairy farmers, who deliver more than 900.000 kg of milk on one year basis receive a volume bonus. However this does not change the calculated milk price because our standard model accounts for 500.000 kg on one year basis.
- As from April dairy farmers may receive a bonus of dkr.2,00 (appr. € 0.27) per 100 kg if they allow milk to be collected every moment of the day.

- **Oceania**

New Zealand export (whey included) was booming last year with an export value of NZ\$ 8.361 billion, 20,4% more than in 2006 and 44,1% more than in 2005. Because shipments are usually covered by contracts negotiated several months ago, export values may rise further despite weakening world market prices since the beginning of this year.

Exports of various dairy products for calendar year 2007:

Product	Quantity (tons)	% change	Total value (million NZ\$)	% change	Total value (US\$ per ton)
Skimmed milkpowder.	281.200	- 10.9	1290.9	+ 27.3	3378
Cheese	309.100	+ 3.4	1304.2	+ 5.3	3106
Butter	238.250	- 5.1	759.0	+ 15.0	2345
Butteroil	122.500	- 9.1	429.1	+ 5.3	2578
WMP	680.490	+ 5.6	2785.0	+ 28.7	3012
Lactose	23.600	- 35.6	94.4	+ 66.2	2945
Casein	55.021	+ 10.6	502.5	+ 13.5	6721
Caseinates	32.100	+ 8.3	339.8	+ 11.4	7790

NZ\$ = US\$ 0,736 (average 2007)

## • USA

### General

The continuing decline of the US dollar exchange rate versus important currencies as the euro has made of the USA a competitor on the world dairy market that cannot be ignored. Increased US presence on the international markets make it more useful to watch price trends on US dairy markets. **The trend in US prices could easily influence world market prices in 2008, which in turn has an impact on EU internal prices.**

### Market

USDA's report of preliminary figures on January production showed production 2.4% higher than a year ago. The number of cows on farms was 8.40 million head, which was 120.000 head more than January 2007 and 15.000 more than December 2007. Production per cow was on average 1% above a year ago.

Milk production is expected to continue at higher than previous year's levels in 2008 and end the year about 2,7% higher at appr. 86,5 billion kgs. The projected herd increase comes in the face of soaring feed prices and already gradual declining ( but still high) milk prices. It is supposed that the effects will likely dampen herd expansion and consequently milk production later in the year.

The cheese market is resilient and many buyers continue to operate with minimal inventories and so need to reorder frequently. Also export activity is good. After prices dipped earlier to \$1.65. (= €245/100 kg). the 40-pound block cheddar prices recovered to a level of app. **\$2.02. (= €300/100 kg)**

Nonfat dry milk production remain in excess of current domestic and export needs, which took prices lower to **\$1.40 /lb (=± €210/100 kg).**

Dry whey production is also higher with stocks building and prices that were near \$0.80 per pound this summer are now **\$0.20 to \$0.30 per pound (=± €37/100 kg).**

Butter prices have dropped below **\$1.18 per pound. (=± €176/100 kg).**

The expected 2,7% rise in US milk supplies could outpace the increase in consumption, which may eventually exert further downward pressure on product prices in the USA. High retail milk and dairy product prices have dampened demand, but total sales remain favorable, plus continued exports of skimmed milk powder and whey products, as well as increasing cheese and butter exports will help support milk and dairy product prices.

Cheese and butter prices are already below world market levels and could stimulate export growth to the world market.

## Export

Recently published figures show that for 2007 USA ran a dairy trade surplus of \$ 502 million. It was the first time since 1993 that the US dairy trade balance was positive.

Total US dairy export value jumped 60.9% and reached a record \$ 3,014 billion (= € 2,04 miljard), which was more than \$ 1,1 billion from 2006. One of the most important factors was undoubtedly the lower conversion rate of the US dollar against the major currencies.

Total value of US dairy product imports also set a new record and reached \$ 2,512 billion (= € 1,70 miljard), up 7.6% from 2006.

Exports of various dairy products for calendar year 2007:

Product	Quantity (tons)	% change	Total value (million \$)	% change	Total value (\$ per ton)
Skimmed milk powder.	257.800	- 10.1	835.6	+ 42.0	3241
Cheese	99.420	+ 40.0	387.5	+ 58.3	3898
Butter(fats)	40.650	+276.9	111.6	+486.5	2745
Wheypowder	265.100	+ 16.8	295.3	+ 85.7	1115
WPC	93.440	+ 42.4	234.8	+122.8	2512

Two most important destinations are Mexico with an export value of \$ 857,7 million (+93%) and Canada with \$ 358,2 million (+36%). Other leading markets:

- Japan : \$ 185,1 million (+61%)
- China : \$ 152,9 million (+31,5%)
- Filippijnen : \$ 152 million (+58,9%)
- Indonesië : \$ 136,3 million (+52,4%)
- Maleisië : \$ 102,2 million (+93,3%)
- Zuid Korea : \$ 92,5 million (+40,6%)
- Thailand : \$ 76,8 million (+112,3%)
- Nederland : \$ 60,8 million (+148,7%)

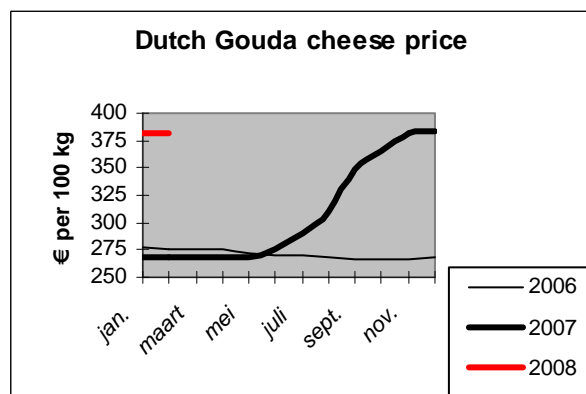
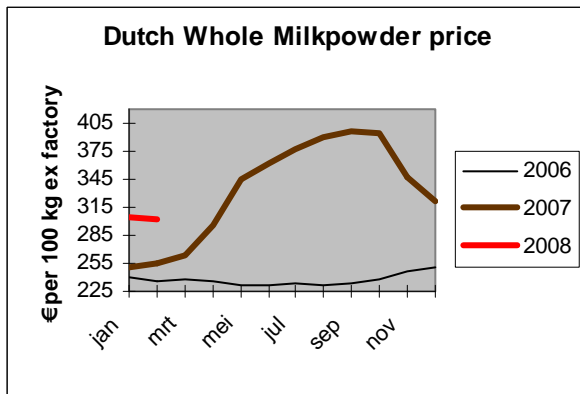
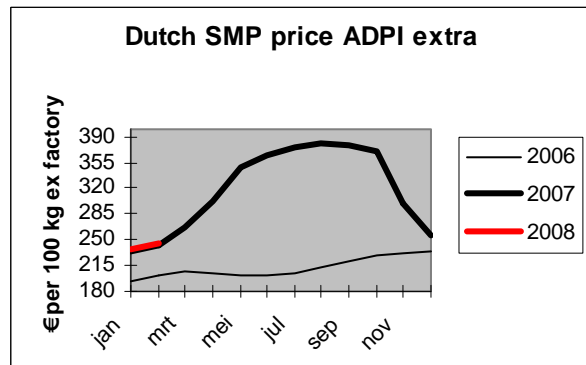
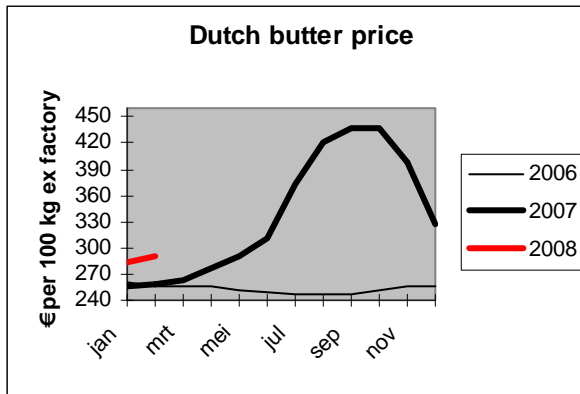
Imports of various dairy products for calendar year 2007:

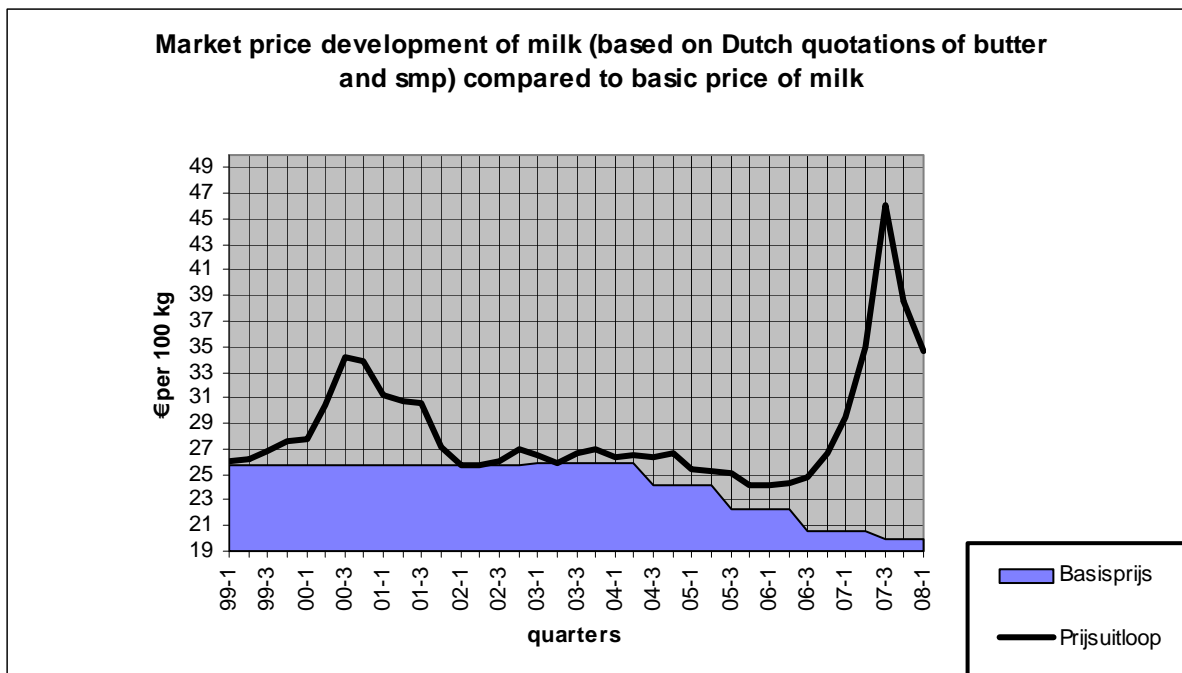
Product	Quantity (tons)	% change	Total value (million \$)	% change	Total value (\$ per ton)
Milkprotein concentrate	61.100	- 3,5	240,9	+ 1,5	3942
Cheese	197.630	- 4,2	1.108,0	+ 7,6	5606
w.v. Italy	36.600	+ 6,8	301,2	+ 25,0	8230
N.Zealand	27.900	- 5,8	67,5	- 16,1	2419
France	21.320	+ 7,0	149,0	+ 11,1	6990
Netherlands	11.800	- 13,4	64,4	+ 0,4	5450
Casein	59.740	+ 18,6	363,6	+ 20,6	6085
w.v. India	12.000	+ 73,6	81,7	+ 109,9	6805
N.Zealand	31.520	+ 29,6	185,7	+ 32,6	5890
Ireland	7.440	+ 38,2	46,8	- 40,3	6290
Caseinates	29.930	- 1,9	207,4	+ 6,0	6930

## MARKETSITUATION

€ per 100 kg

Dutch Quotations				
	1 january 2008	6 march 2008	index	trend
Butter	280	290	103,50	↓
Whole milkpowder	310	299	96,40	↓
Skimmed milkpowder	238	220	92,40	→
Wheypowder	57	37	64,90	↓
Gouda cheese	± 385	± 380	98,70	→





## Market comments

In the Netherlands milk output during January 2008 was 960.4 million kg or appr. 2% higher, compared to the same month last year. The average milk fat percentage during this period was maintained at 4.47% equal to last year. The protein percentage was 0.01% higher.

The cumulative milk output figure for the current quota year ( April to January 2008) amounts to 8.97 million tons, which was 0.7% more, taking account of the fat correction and compared to the same period last year. The cumulative milk output figure in the EU-25 for the period January to December 2007 is only 0.01% higher than the previous milk production year. For coming months milk deliveries are forecasted to improve further.

On the internal marketplace butter prices are weakening again as fears grew that the supply-demand balance will worsen when export demand will not pick up. Also in the milk powder market came under renewed downward pressure. The cheese market has to cope with price pressure, especially for the bulk segment of the market .

The international market for dairy commodities is dominated by lower American dairy product prices.

However the fundamental forces that drove prices upwards in 2007 still remain in place. There is still a shortfall in the supply of dairy products on the worldmarket relative to (potential) demand. Prices are unlikely to fall significantly while this situation prevails.