

FORMULA CONTRACTS - OCTOBER '14 - CONFIRMED



AUGUST Dairy Co data declared impacting the Formula contract milk prices for **OCTOBER**. (Core Formula example below seasonality/profile variant). All prices milkprices.com 'flagship'



<u>Contract</u>	<u>Launch</u>	<u>Base Price</u> <u>Sep 14</u>	<u>Std Litre</u> <u>Sep 14</u>	<u>Price Change</u> <u>OCT 14</u>	<u>Base Price</u> <u>OCT 14</u>	<u>Std Litre</u> <u>OCT 14</u>
CORE FORMULA	Jul/Oct 14	27.760p	31.732p	-0.498p	27.262p	31.234p
SIMPLIFIED FORMULA	April 14	30.132p	31.732p	-0.498p	29.634p	31.234p
Core Formula	April 14*	27.760p	31.922p	-0.498p	27.262p	31.424p
Standard Liquid Comparison		26.238p	30.210p	-1.750p	24.488p	28.460p

*Core Formula standard litre includes +0.19p/l premium only available for April 14 commitments.

COMMENTARY

All five August Dairy Co parameter results applied to the DC/DCD Formula have decreased, the resultant price change from October **-0.498p/l**, the largest single cut to apply to the Formula since launch April 2013. Despite this, the October result increases the differential between the Simplified/Core Formula price vs. Std Liquid to provide an advantage of **+2.774p/l** to the two Formula contracts. This advantage will also apply to successful applicants to the two Formula Contract options for the month of October.

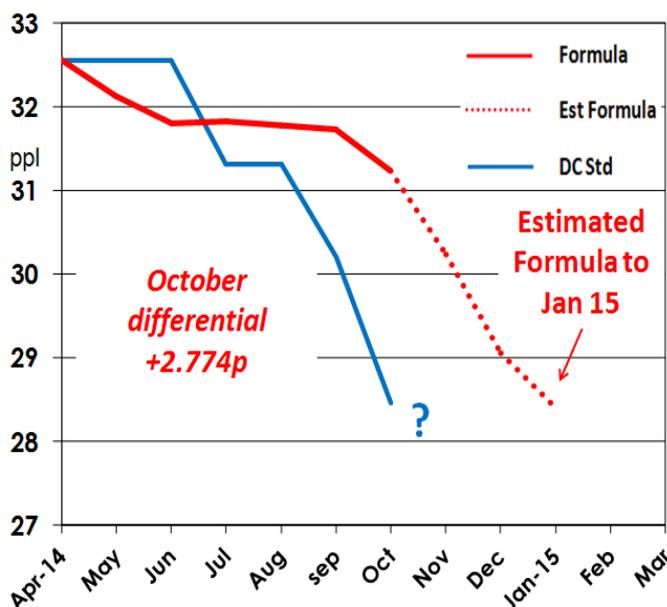
Outlook - The principal drivers within the Formula are cream and concentrate market prices, with the remaining three factors having less influence. As both cream and concentrate values reduced during August, cream recording it's largest single month reduction since Apr '12 (-£180/t), and feed down by £12/t, the largest monthly reduction for 12 months (Aug '13), if this trend is set to continue, the Formula price will also fall over coming months. This month's commentary therefore focuses on the potential decreases analysts suggest may result.

Cream is now trading at/or below £1,080/t, therefore a further decline of £120/t for September vs. August may be expected. Some seasonal resilience in cream markets may apply in the lead up to Christmas, although underlying cream/butter markets remain fragile.

HE 18% concentrates fell by £12/t to £249/t in August. Some analysts suggest that reductions of £40/t/£50/t from peak (£266/t May 14) may result this winter. August wheat prices (Dairy Co) fell from £144/t to £120/t, and predictions suggest c.£110/t later this season. A year ago wheat traded at £163/t, £43/t above today's level, sustained reductions should see lower concentrate prices result. That said, Soya as a protein price indicator increased £17/t during August.

In conclusion, if cream and concentrates remain at the lower levels analysts suggest, then the next two months Formula price moves for Nov/Dec will be in the region of -0.9p/-1p/l each month, with a potentially smaller reduction c. -0.70p/l for Jan, before leveling off if markets stabilise. The resultant January Formula price would reduce to c. 28.5p/l, but does provide some price certainty. Despite these estimated reductions, the January Formula price would still deliver a higher milk price than the recently reduced October Std Liquid contract. In the current uncertain market, at what level will the equivalent comparator standard liquid price actually record for January?

FORMULA - Related Price 2014 p/l



October Formula Sign Up

The next sign up opportunity to consign milk volume on to either the Simplified or Core Formula Contract options will be available from 22nd September at 9:00 by email only. As the remaining Formula volume available is now extremely limited, this will be allocated on a 'first come, first served' basis for the period from October 2014. See the companion September re 'Formula Sign Up Opportunity' for further details.

Data below as declared through each month's Datum review. Any subsequent data revisions are incorporated in the rolling sequencing. Revisions indicated through the struck through data below - i.e. fuel data.

FORMULA INDICES - UPDATE

		<u>MAY 14</u>	<u>JUNE 14</u>	<u>JULY 14</u>	<u>AUGUST 14</u>
Cream	£/t	£1,290	£1,400	£1,380	£1,200
Cream Index	ppl	7.360p	7.980p	7.870p	6.85p
Four Pints Retail	4 pints p	116p	117p	117p	115p
Feed - concentrate	£/t	£266	£263	£261	£249
Fertiliser - AN	£/t	£299	£254	£254	£253.50
Fuel - red diesel	p/l	66.83p 66.61p	66.14p 66.03p	66.67p 66.53p	64.64p

Indices applied via the milk price on a 'month after next basis' i.e. August impacting October price.

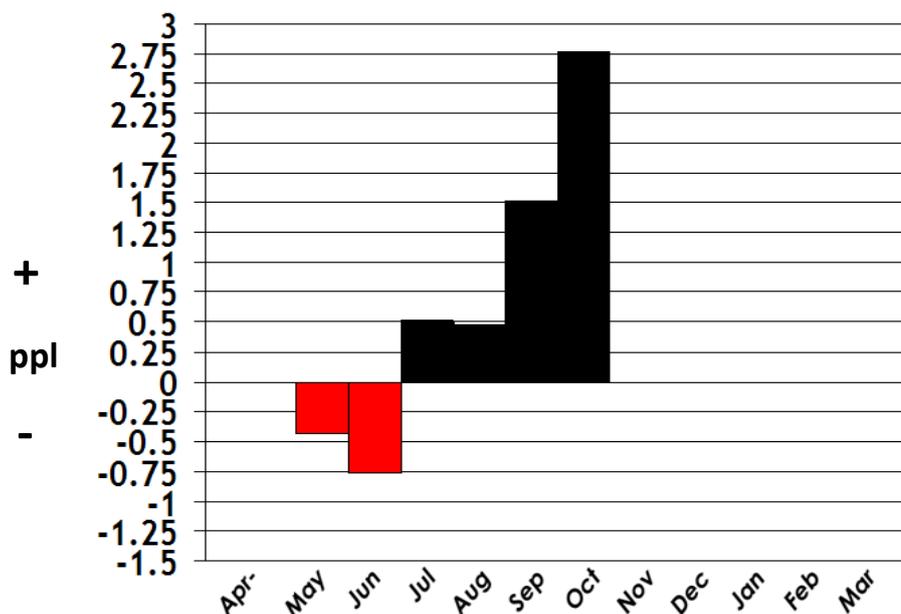
MILK PRICE APPLICABLE	<u>JULY 14</u>	<u>AUGUST 14</u>	<u>SEPTEMBER 14</u>	<u>OCTOBER 14</u>
MONTHLY FORMULA CHANGE	+0.028p	-0.044p	-0.053p	-0.498p

*Formula & DC Std Litre p/l comparison for consistency based on mp.com flagship table profile inclusion of 1.27p/l at April '14 Formula launch based on latest Jan 14 data. Latest mp.com RPA production profile data for Jun = 1.21p/l. All data rounded to 3 decimal places.

2014 Formula Summary - update

AUGUST Dairy Co Datum data is utilised to generate the OCTOBER milk price. The differential for the month of October between the DC Standard Liquid Contract and the Simplified and latest Core Formula applicants now resulting in an advantage worth **+2.774p/l** for the Formula options. The price differential across the entire first six months of the 14/15 milk year between the Simplified and latest Core contracts is +0.585p/l in favour of the Formula contracts - based on a standard litre/same volume supplied each month. Chart below +/- per month.

FORMULA vs. Std Liquid Price +/-



Please see updated parameter charts below - all declared for AUGUST 2014

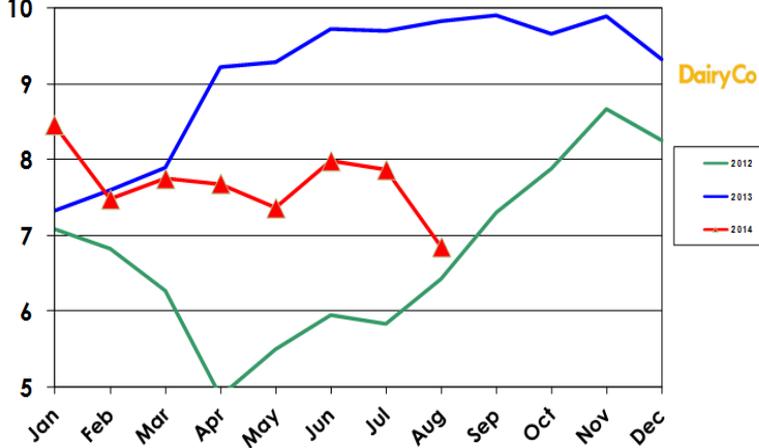
by Dairy Co Datum - with permissions.

FORMULA DATA HIGHLIGHTS - AUGUST 2014

- Cream - decreased by £180/t (-13.04%), and by -1.02p/l applied to the cream index.
- Retail four pints - decreased by 2p/4pints to 115p/4pints.
- Feed/concentrates - decreased by £12/t (-4.6%) to £249/t.
- Fert - decreased by 50p/t to £253.50/t.
- Fuel - decreased by +1.89p/l to 64.64p/l for August, plus backdated review for July reduced fuel to 66.53p/l from the previously declared 66.67p/l.

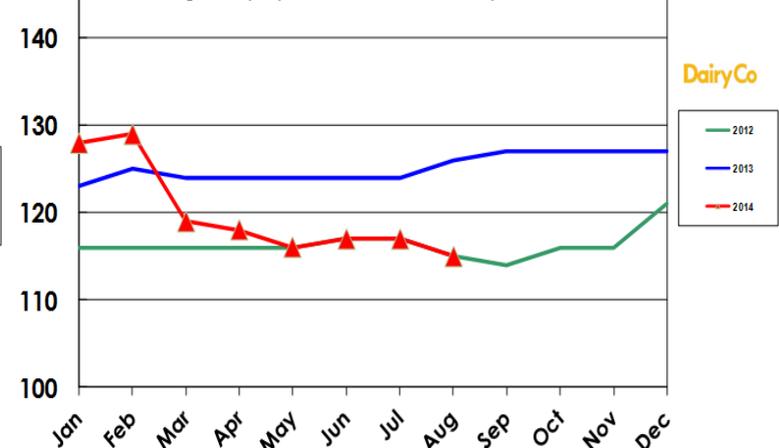
FORMULA - Cream Index - p/l

August - decreases £180/t from £1,380/t to £1,200/t.
Dairy Co Cream Index therefore reduces from 7.87p/l to 6.85p/l



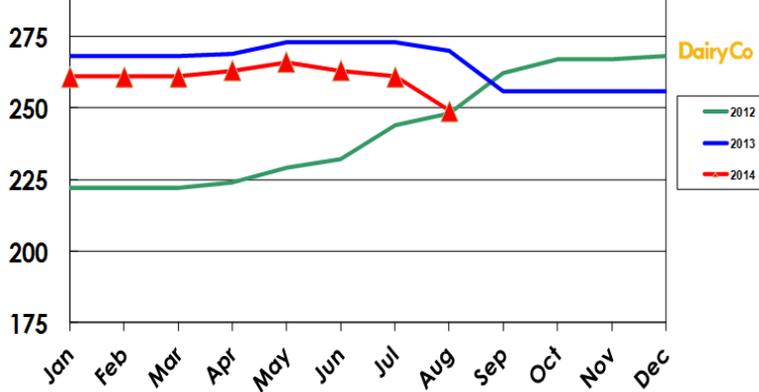
FORMULA - Retail Sales - 4 pints

August - 2p/4pints, down to £1.15/4 pints



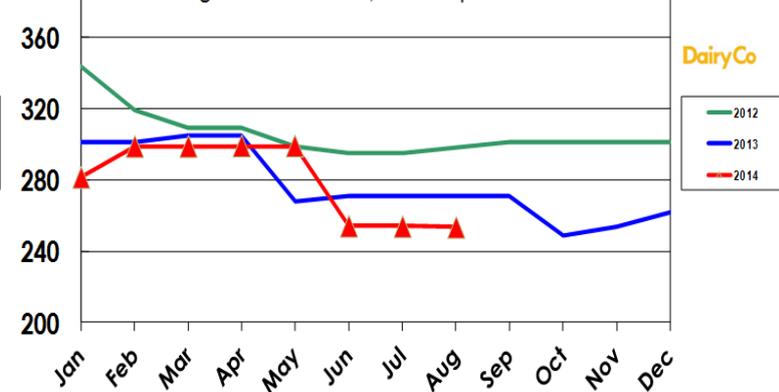
FORMULA - Feed £/t

August - HE 18% conc, -£12/t at £249/t



FORMULA - Fert £/t

August - AN fertilizer, down 50p/t at £253.50/t



FORMULA - Fuel p/l

August red diesel, -1.89p to 64.64p/l,
July revised data from 66.67p/l to 66.53p/l.

