

FORMULA CONTRACTS - OCTOBER '16 - CONFIRMED



AUGUST AHDB DAIRY data declared impacting the Formula contract milk price for **OCTOBER '16**
(Core Formula example below seasonality/profile variant). All prices milkprices.com



Contract	Launch	Base Price	Std Litre	Price Change	Base Price	Std Litre
		Sept 16	Sept 16	OCTOBER 16	OCTOBER 16	OCTOBER 16
CORE FORMULA	Jul/Oct 14	20.733p	26.005p	+1.247p	21.980p	27.252p
SIMPLIFIED FORMULA	April 14	23.405p	26.005p	+1.247p	24.652p	27.252p
Core Formula	April 14*	20.733p	26.195p	+1.247p	21.980p	27.442p
Standard Liquid Comparison		12.848p	18.120p	+1.189p	14.037p	19.309p

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

DIRECT MILK DPO COMMENTARY

AHDB Dairy's five Formula parameters for August 'combined,' result in a monthly increase of **+1.247p/litre** to apply for October. This is a third consecutive Formula monthly price increase, and again records a new highest monthly change since the April 2013 launch of the innovative processor and farmer rep organization developed price Formula. This October Formula delivered price exceeding 27p/l, is principally the result of the ongoing increases in the AHDB cream income performance from 4.62p/l in April, to the latest August results at 8.60p/l; a +3.98p/l or 86% increase in just four months.

Cream – AHDB reported an increase of £100/t for August vs. July providing a 'monthly average of £1,470/t'. That said, AHDB also report within their August wholesale market report, 'cream prices quoted between £1,550/t - £1,600/t in the final week of August'. This reinforced by analyst reports that cream markets have increased further still. If sustained, when translated into AHDB's cream income to a liquid processor will see results 9p+/l for September, the highest level since 2013.

Concentrates – No change in the month, but as AHDB reports feed wheat at a three year high at £124/t, along with protein ingredients (Soya/Rape) increasing by over 40% since this spring, winter concentrate ration costs are expected to rise.

Fertiliser – AHDB recorded the first increase in Ammonium Nitrogen costs for 17 months, up by £3.50/t in August.

Red Diesel – As the price of oil has recently declined, after five months of increases, red diesel prices fell slightly for August.

Retail 4 pints – No change at 102p/4pints, retaining a 15 month high point at retail level.

Formula Outlook: - As milk production levels decline year on year in the UK and in virtually all EU countries, cream and butter markets have increased to a three year high, and continue to climb. As prospects for concentrate feed markets are also indicating inflation, when combined, and as the two primary drivers of the Formula (*representing markets and costs*), if sustained, will transparently deliver additional Formula derived milk price increases beyond 27p/l in future months.

Data below as declared through each month's AHDB Dairy review. Any subsequent data revisions are incorporated in the rolling sequencing. Revisions indicated through the struck through data below - i.e. fuel and four pint data for June/July & August etc.

FORMULA INDICES - UPDATE

		MAY 16	JUNE 16	JULY 16	AUGUST 16
Cream	£/t	£860	£1,100	£1,370	£1,470
Cream Index	ppl	4.99p	6.40p	7.99p	8.60p
Four Pints Retail #	4 pints p	100p	100p 102p	102p	102p
Feed - concentrate	£/t	£208.50	£210.50	£211.00	£211.00
Fertiliser - AN	£/t	£192.00	£169.50	£169.50	£173.00
Fuel - red diesel	p/l	44.30p 44.08p	46.51p 46.40p	47.36p 47.07p	45.71p

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

MILK PRICE APPLICABLE	JULY 16	AUGUST 16	SEPTEMBER 16	OCTOBER 16
MONTHLY FORMULA CHANGE	-0.090p	+0.452p	+1.172p	+1.247p

*Formula p/l comparison for consistency based on mp.com flagship table profile inclusion of 1.272p/l at April '14 Formula launch based on Jan 14 RPA data. All data rounded to 3 decimal places.

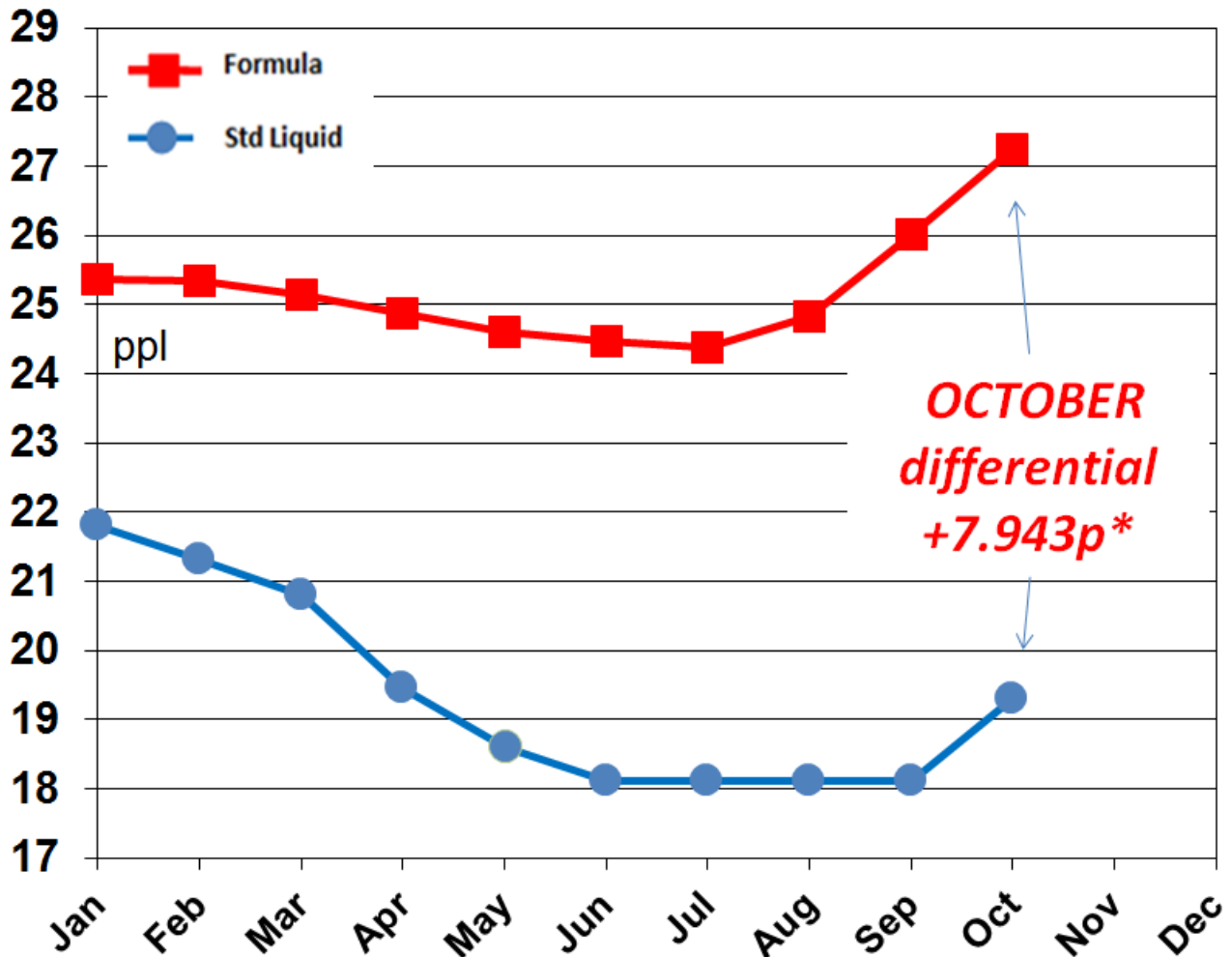
2016 Formula Summary - update

AUGUST AHDB Dairy (Dairy Co) published data is utilised to generate the OCTOBER milk price.

The price differential vs. Standard Contracts for August provides **+7.943p/l** (excluding retail supplement payments with a latest +2.894p payment for July, so if remaining at this level for October would reduce the premium to **+5.049p/l**) advantage towards Formula priced litres compared to the equivalent standard litre.

(Formula priced litres do not attract retail supplementary payments).

FORMULA – Related Price 2016 p/l



*** Excluding any retail supplements**

NOTICE TO FORMULA – January 2016

In order to provide the appropriate time and flexibility for a thorough review process of all farmer contracts, Müller Milk & Ingredients have served notice on the Core Formula and Simplified Formula pricing schedules. For the avoidance of doubt, this is notice on the Formula payment terms and not the Milk Producer's Agreement.

Effective dates involved 31st January 2016 12 months-notice, new arrangements following the thorough review process 1st February 2017. These Formula reviews will now only continue to run for **three** more months, the September/November period relating to the November/January payments.

Please see updated parameter charts below - all declared for AUGUST 2016

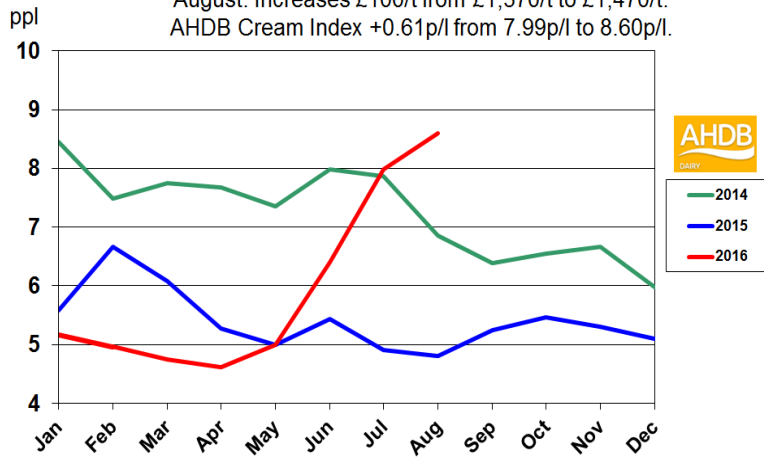
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FORMULA DATA HIGHLIGHTS – AUGUST 2016

- Cream – increased £100/t, and by +0.61p/l applied to the cream index now at 8.60p/l.
- Retail four pints – no change at 102p/4pints.
- Feed HE 18% - no change at £211.00/t.
- Fertilizer – increased by £3.50/t to £173.00/t
- Fuel – decreased by 1.36p/l to 45.71p/l for August. Plus further a backdated adjustment applied by DECC for July -0.19p/l to 47.07p/l.

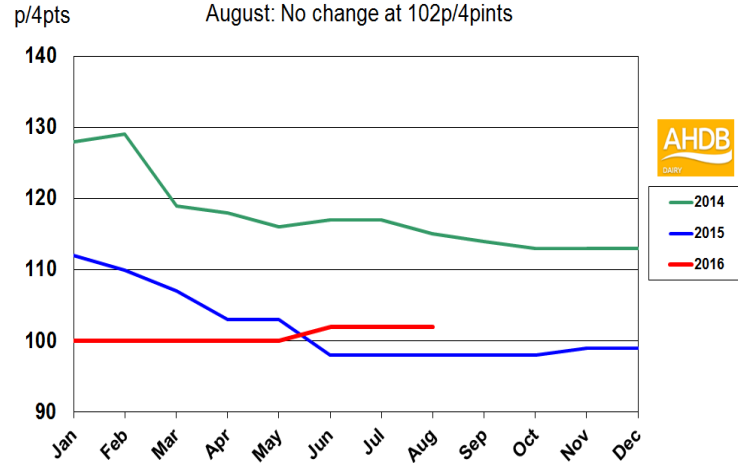
FORMULA – Cream Index – p/l

August: Increases £100/t from £1,370/t to £1,470/t.
AHDB Cream Index +0.61p/l from 7.99p/l to 8.60p/l.



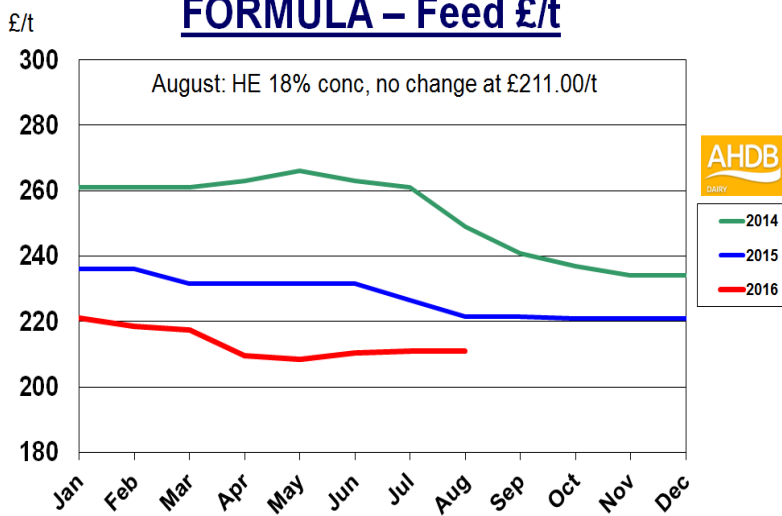
FORMULA – Retail Sales – 4 pints

August: No change at 102p/4pints



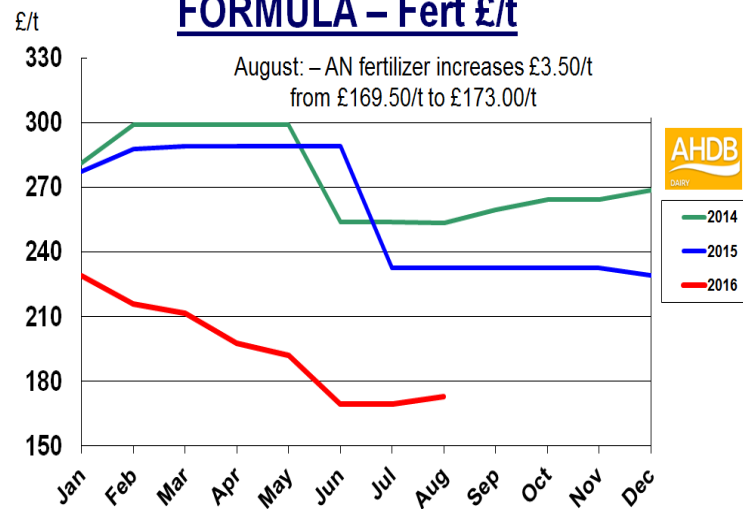
FORMULA – Feed £/t

August: HE 18% conc, no change at £211.00/t



FORMULA – Fert £/t

August: – AN fertilizer increases £3.50/t from £169.50/t to £173.00/t



FORMULA – Fuel p/l

August: red diesel, -1.36p to 45.71p/l,
July: revised data from 47.36p/l to 45.71p/l.

