PRICE RISK MANAGEMENT FOR THE UK DAIRY SECTOR - COWS LOOKING OVER THE HEDGE

lan Pye
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Conference
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Thank you to the Harold Cowburn Trust & Nuffield Farming Scholarship

PLAYBARN DAIRY 01524 791200

IAN PYE





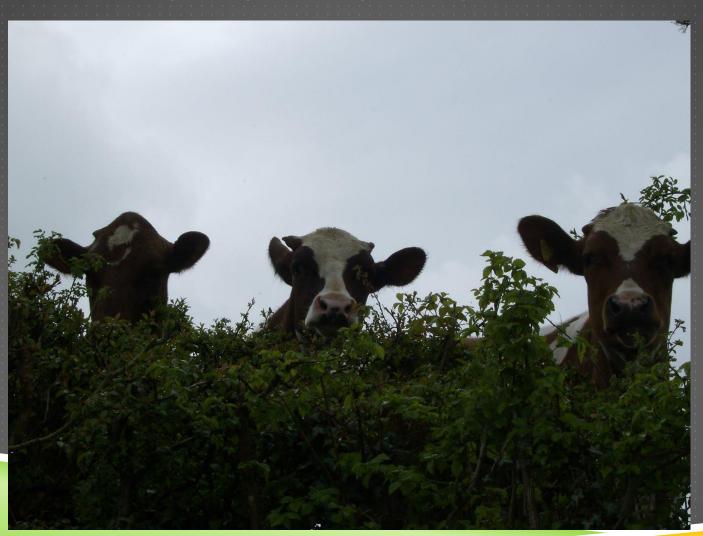




THE WHY

- Involved with several boards including NFU
- Externalities beyond my control

PRICE RISK MANAGEMENT = MANAGING PRICE VOLATILITY



MY JOURNEY INTO USING THE MARKETS!



RISK MANAGEMENT FOR DAIRYING?

Using financial tools to provide long term business stability

EUCOLAIT – SEEING THE PROBLEM

- Financial Problems
- High Prices- product substitution
- Confidence in the supply chain eroded
- Investment, R&D and innovation become limited
- Loss of skills

EU FARMING UNIONS AND MEP'S

SEE A STORM IS GATHERING – BUT WHY DO WE NEED THIS!

EU EXPANSION- MARC HAVERMAN



EXPANSION IN IRELAND

► 1% excess in production = 14% change in market price

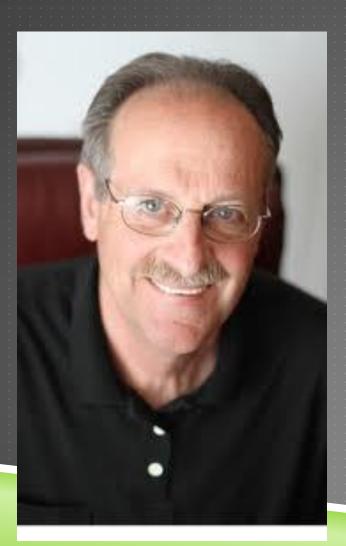
THIS IS HOW WE CURRENTLY NEGOTIATE MILK PRICE



...OR EVEN LIKE THIS!! #SOSDAIRY

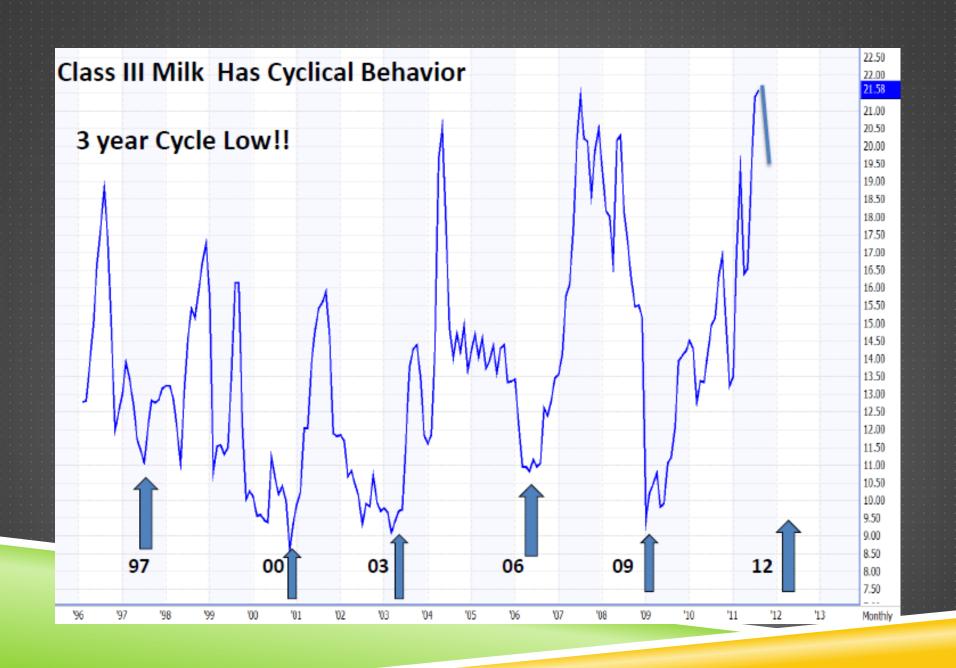


WHAT A BREATH OF FRESH AIR!



"DAIRY FARMERS LOOSING MONEY IS THEIR CHOICE"

CARL BABLER
PRINCIPAL, ATTENBABLER
MARCH 2012



USA

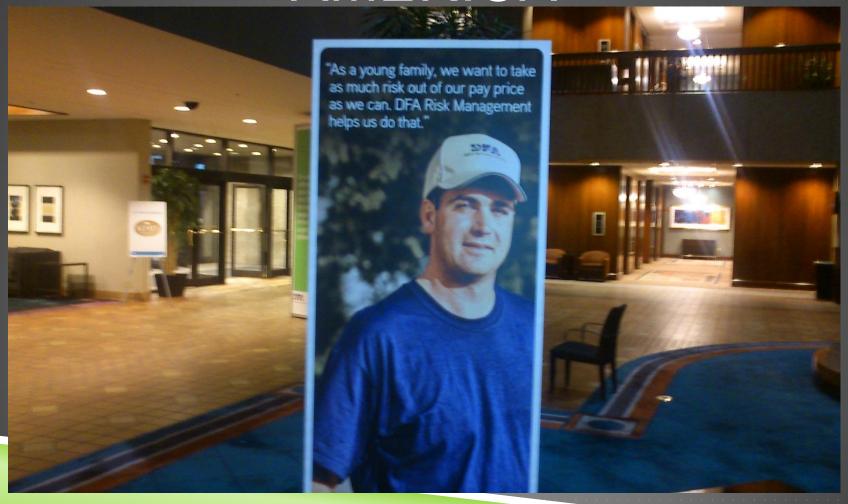
- Unprotected producers lost \$14 Billion in 2009
- Cyclical behavior of milk market

THE HISTORY OF THE FUTURE

- Hershey Chocolate manufacturer exposed to price peaks
- Could trade futures on all other inputs
- Protect menu price



DAIRY FARMERS OF AMERICA



DFA- VOLATILITY IS A DIRTY WORD!

- Contracts to match producer cheese, milk (class 3)
- Advancing into Milk-Feed Margin
- Volume is limited per producer & Credit Checked
- Contract 1-24 months ahead
- Min 9000l /month

THE 'VANILLA' HEDGE

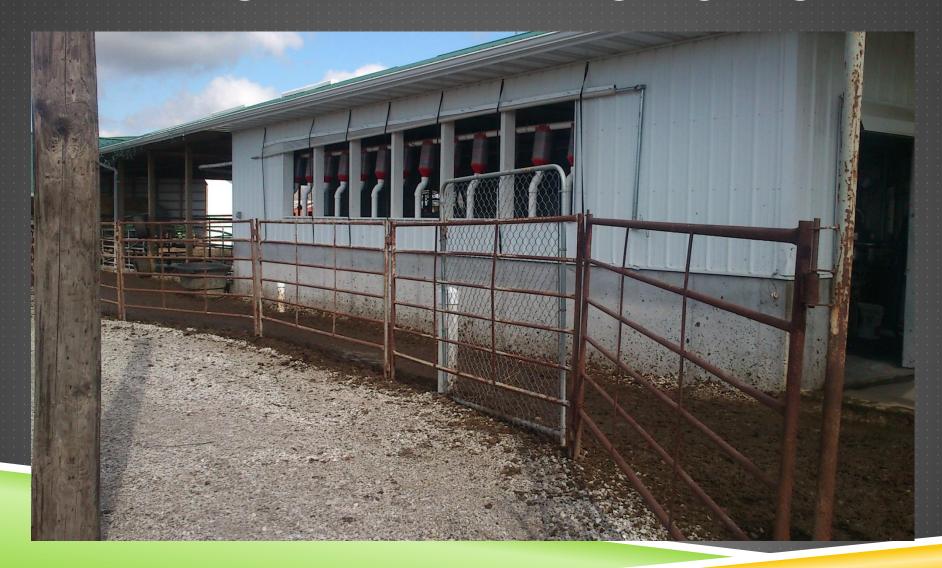
- Establish risk level in business
- Purchase an Option that suits
- Now have the Right to Sell this Futures contract at known time and cost



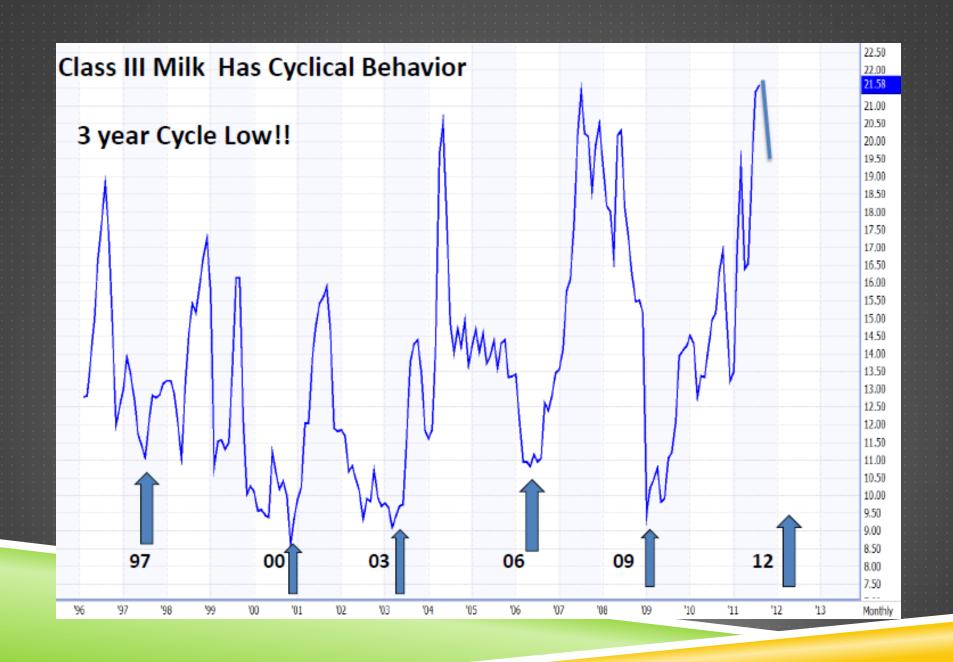
HEINS DAIRY



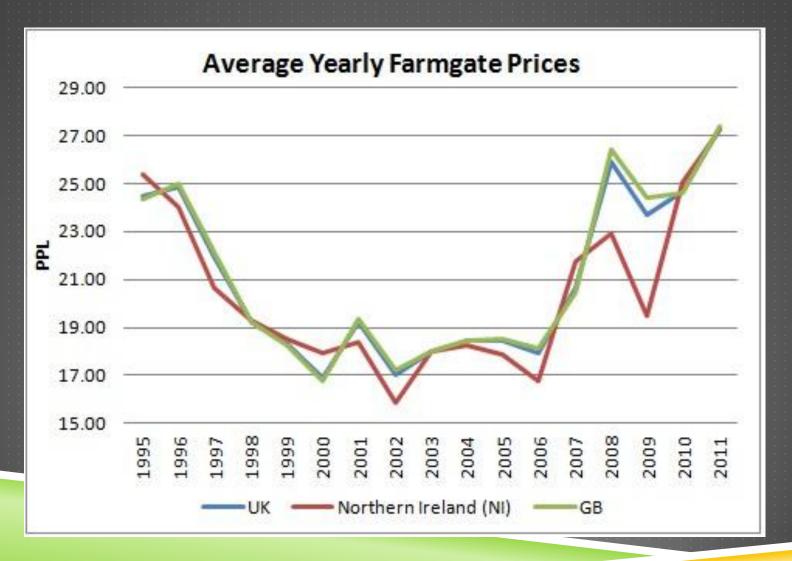
NIALLS DAIRY - MANAGING RISK



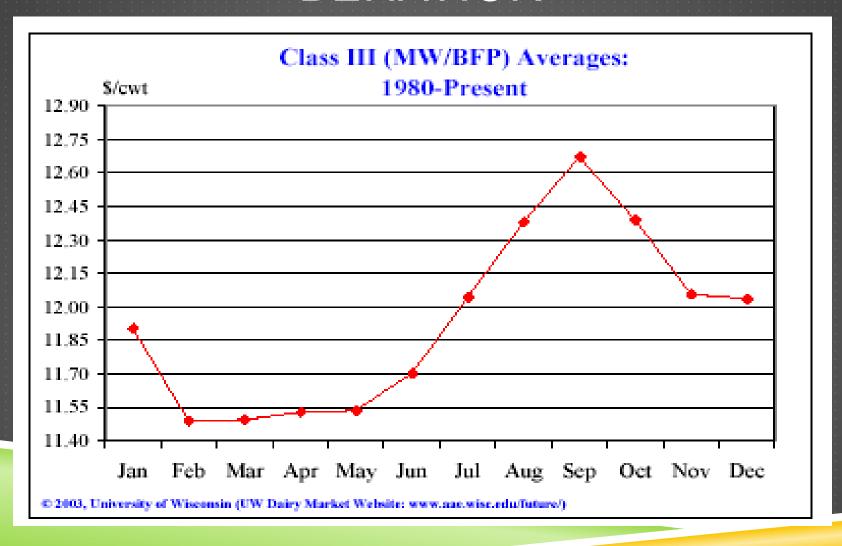
WHAT DOES THIS ALL MEAN TO ME-A Humble Dairy Farmer



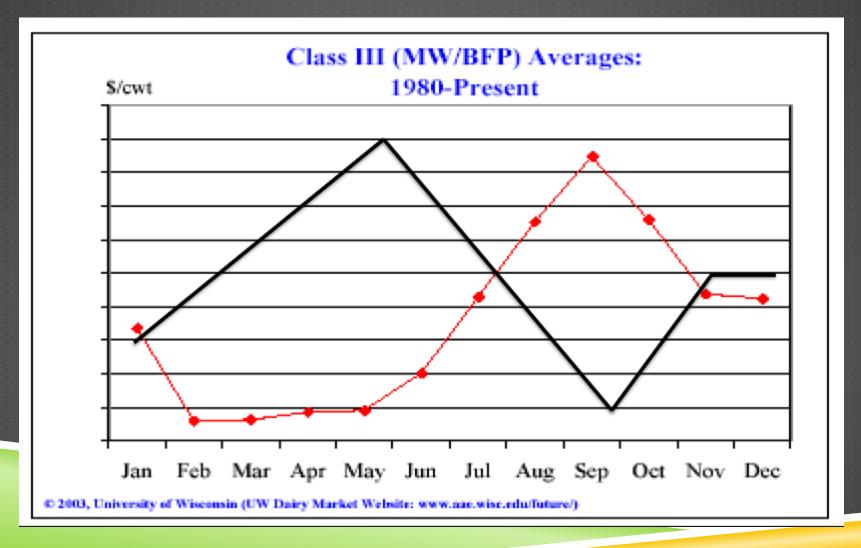
UK PRICE VOLATILITY



MILK PRICE HAS SEASONAL BEHAVIOR



FUTURES MILK PRICE CONTRA SEASONAL BEHAVIOR



UK EXPOSURE

- Dairy Co encouraging exports
- NFU recently visiting Japan
- New manufacturing facilities coming on line
- Diary buyers consolidating

EU DAIRY FUTURES

- European manufacturers want to trade
- The Exchange infrastructure is already in place
- Where are the EU farmers.....?
 Waiting for the trough?

UK SITUATION:

- Manufacturer / dairies take the lead
- Farmers need to understand their own exposure
- Dairies need to co-ordinate and take a proactive approach
- Need has to be understood by Unions and Government

SUMMARY

- THE MARKET WILL BECOME MORE UNSTABLE POST QUOTA
- FUTURE OF THE SECTOR
- DAIRY'S THAT USE RISK

 MANAGEMENT CAN ENSURE THEIR

 STABILITY

THANK YOU

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