

Market information update

Cooked and imported chicken products
June 2011

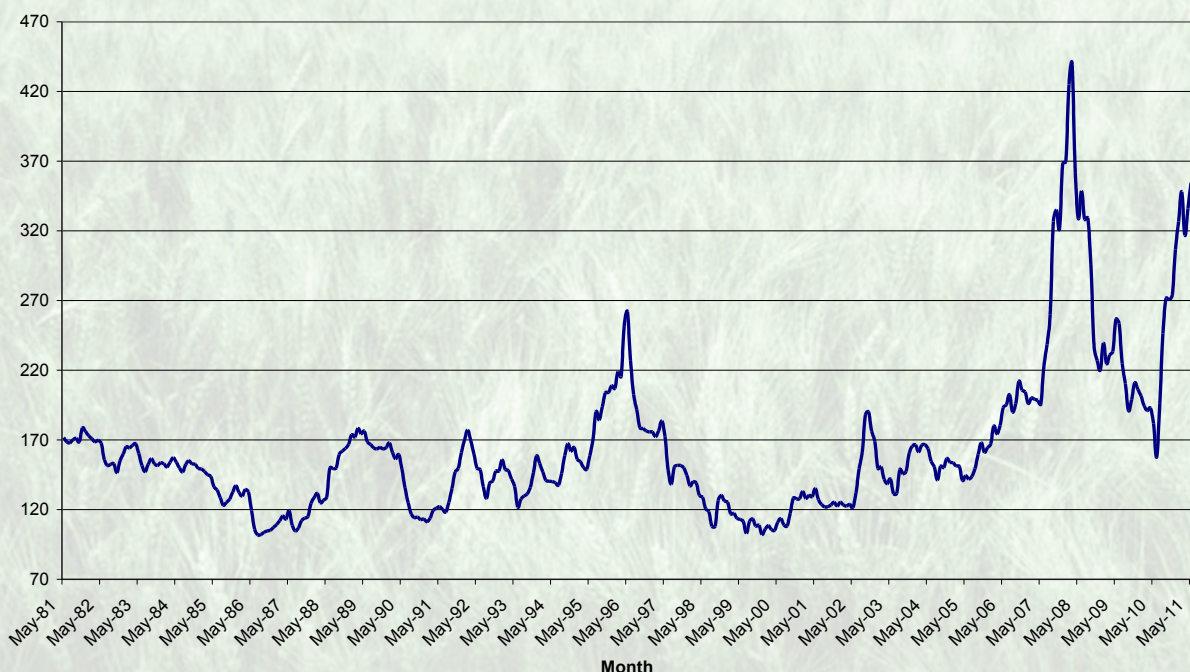
This time it's different?

In February's update we talked about the three main drivers affecting the supply of both imported and domestically produced poultry products: commodity prices, currency and changing legislation. Most of these trends look set to continue and become the new 'norm' rather than reverting to the previous cycle.

Commodity prices

From cotton to cocoa, wheat to meat, the headlines are pessimistic about the increases in prices. A recent article in a report by the European Food and Farming Partnerships (EFFP)¹ likened the change in soft commodities to that of the structural shift seen in oil consumption in the 1970s. Better diets worldwide and strong third country growth has resulted in a much higher level of consumption and unless we see Asia reverse its rise, we must assume it's here to stay. Graph 1 shows feed wheat prices for the last thirty years: when we consider that two thirds of the cost of producing chicken is feed, its importance is obvious.

Graph 1: Wheat, No. 1 Hard Red Winter. US\$/metric tonne¹



¹ www.effp.com/DEFAULT.aspx

In addition to the increase in demand, there have been a number of environmental factors which have had a huge impact on prices – see table 1 below. When these factors are combined with an already low world wheat stock position, it's clear to see why prices are going up and up. This has prompted Oxfam to warn of a doubling of food prices by 2030².

Country	Environmental factor	Ranked importance as wheat producer
EU	Low yields	1 st
China	Drought	2 nd
Russia	Drought	5 th
Canada	Early frosts	6 th

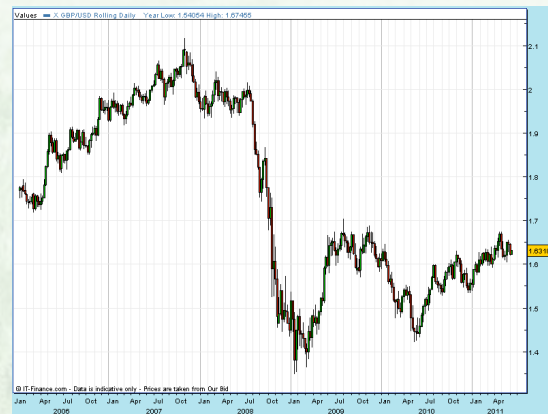
Currency

Sterling remains weak in comparison with the Euro and US Dollar (USD) and while this helps us in exporting our way out of the economic downturn, it also has the effect of importing inflation into the country.

Graph 2: GBP/EUR 2006 – date⁴



Graph 3: GBP/USD 2006 – date⁴



There has been a retail food price inflation of 34% since 2004 in the UK versus 22% in the EU and 19% in the US⁵⁶. Sterling's forward position is uncertain and will mostly depend on the inevitable interest rate rises which are coming in the western economies. Higher levels of consumption, environmental factors and the weakness of Sterling have all contributed to the increase in the price of food.

Legislation

As discussed in our February update, the legislation for importing cooked preparations from Thailand has now changed.

We are dealing with a new set of rules which have yet to take effect (starts July 1st 2011). We will report back on how these are progressing in our next Market information update. Initial thoughts, though, are that there will be little change before late Autumn.

² www.guardian.co.uk/environment/2011/may/31/oxfam-food-prices-double-2030

³ www.fao.org/docrep/013/al977e/al977e00.pdf

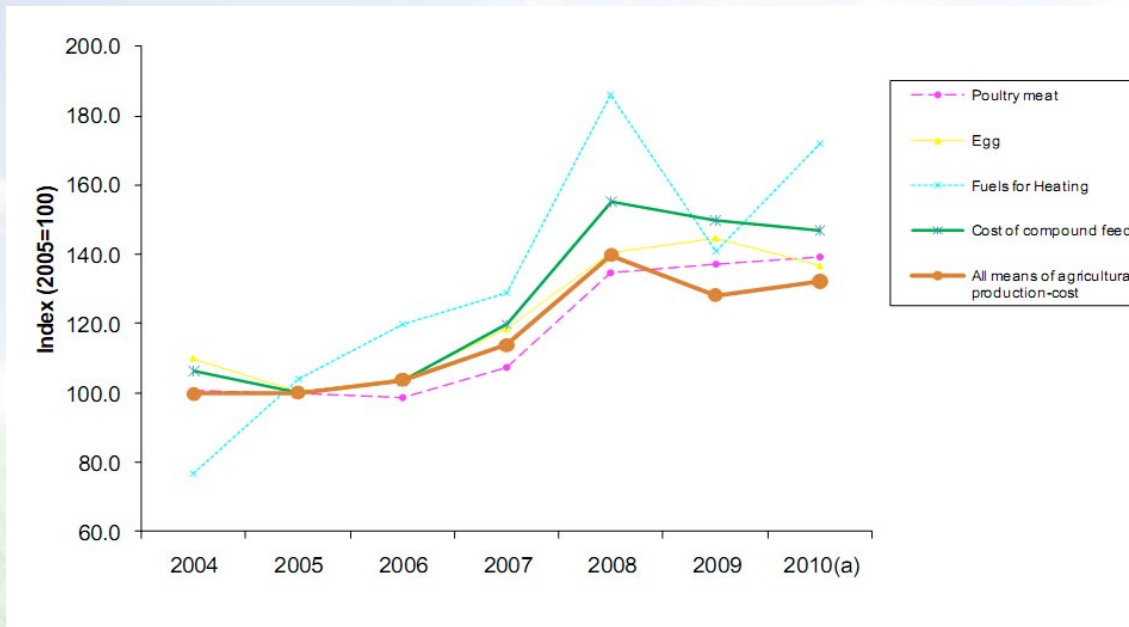
⁴ www.capitalspreads.co.uk

⁵ www.effp.com/DEFAULT.aspx

Meat prices

Bearing in mind the above issues, meat prices remain on the rise. The graph below is from a 2011 UK study and shows that input cost inflation is rising in all components of the chicken growing process.

Graph 4: Index of producer prices for poultry and eggs and cost of production⁶



What is Meadow Vale Foods doing about it?

Despite all the above forces, poultry remains relatively cheap in comparison with other proteins.

Meadow Vale Foods provides poultry products to the foodservice and retail sectors of Europe from our own factories as well as from supply partners. We are present in all stages of the supply chain; from producing animal feed to processing to cooking. Meadow Vale Foods understands the importance of having a dependable supply chain of consistent, competitively priced products.

We firmly believe that good quality products will always be in demand and will continue to deliver these to our customers.

We will keep you updated, but please visit our website for more information about what we do, to register for our e-newsletter and other downloads such as point of sale support materials.

Yours sincerely

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⁶ Rural Business Research – University of Reading 2009-10, Poultry production in England; Crane et al; April 2011



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