

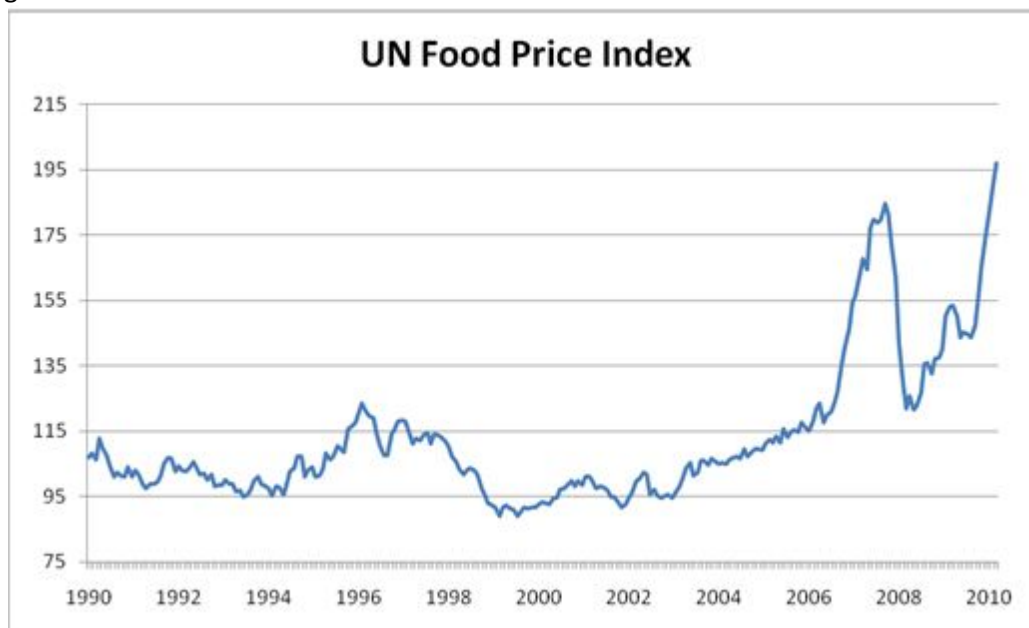


Market Report July 2011

Reading about Domenico Crolla's \$4,200 "Pizza Royale 007" in *The Most Expensive Journal*, a resource dedicated to showcasing the costliest consumer items confirms our worst fears that something strange is happening to food prices. Sure the 12 inch pizza pie is liberally endowed with expensive ingredients, such as lobster marinated in cognac, caviar soaked in champagne, venison medallions, prosciutto, and vintage balsamic vinegar. Alongside the cheese topping, Crolla has added a layer of edible 24-carat gold flakes.

Even consumers with less exotic tastes are having a tough time. Go back to the 11th century and you will find that the average British serf worked one day a week to pay for his house, the land that he fed himself off of and access to the lord of the manor's wood for heating fuel. Not too many of us can earn our mortgage payment, our heat, and our food on a single day's work.

The United Nations Food Price Index has moved to a record high and is up 62% from its recessionary low in 2009. Sugar prices are up 122% and dairy is up 92%. The USDA (US Department of Agriculture) has suggested that overall food prices will probably rise by another 3-4% this year, but that did not take into account weather constraints in Mexico, Florida and other areas where winter produce is grown.



The world is now bracing for the pressure of consumers in places like China, India and Brazil, the so called BRIC countries, whose increasing wealth is encouraging their diets to become less focused on starchy staples like rice to the Western habit of eating meat. That's fast becoming a serious problem as meat requires more resources in land, feed, water and energy to produce, so pushing food costs up further still. According to the work of the British Government Office for Science the global cattle population is predicted to increase by around 70%, from 1.5 billion in 2000 to about 2.6 billion by 2050, while the goat and sheep population jumps nearly 69% from 1.7 billion to 2.7 billion. This looks like a doomsday scenario for food prices generally.

Now for the good news: Although the pressure on the demand side of the food equation is undoubtedly building up, there are slivers of light on the supply side. India, not considered a cheese

loving nation a few years back, is now a major consumer. McKinsey, a global management consulting firm, has predicted annual growth in the demand for cheese in India is likely to be 25 percent-30 percent. Whilst at first that sounds like more pressure on demand, in fact the Indian's have actually added to the cheese supply chain. From a modest beginning back in the 1950s India now exports more cheese than any European country. A good example is the business set up Giuseppe Mozzillo and two Indians who set up Exito Gourmet in Chandigarh, which makes and markets mozzarella and seven other cheeses under the Impero label. Himalaya International employs 500 people in the foothills of the Himalayas and is exporting totally vegetarian buffalo mozzarella and ricotta to the US sold under the name Bufflabella. Their factory is ISO, HACCP and GMP certified by international Audit agencies.

Even luxury products such as champagne look set to have their supply increased to ease demand pressure. Farmers in Ningxia, a less than salubrious Chinese province have eked out a living for centuries growing watermelons and berries on the fertile flood plains of the Yellow river. Enter Moët Hennessy, the makers of Dom Perignon and Krug, and now they have signed a deal to switch to growing Pinot Noir and Chardonnay grapes to create China's first-ever "Champagne". Moët is hoping its Chinese bubbly, which will sell under its Chandon label, will be ready for consumption in 2015. The dairy market has been very firm in the first two quarters of the year which is not the normal trend for that time of year, as demand is slow and dairies want to move on last year's stock before the new production starts. But, what is normal these days? Sentiment is driving the markets and a little bit of water or not in any major dairy producing country and the prices head for outer space. At the start of June we saw a bit of an ease off in prices due to Russia not purchasing Edam and Gouda from Holland and Germany. Therefore more milk became available for other products like Mozzarella, butter and whole milk powder. On top this other markets, such as the Middle East & North Africa became very volatile to trade into.

This was short lived as butter prices and whole milk powder are back to their peak again and the main flush of milk is passed. In essence cheese prices are going to stay firm in Q3 and in all probability increase in Q4. Mild Cheddar prices are over £3000 pmt at present and could hit £3100 or above by the end of the year. Mature cheddar is anywhere from £3200 to £4000 pmt depending on age and flavour profile or brand.

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