PRESS INFORMATION from

The Dairy Group

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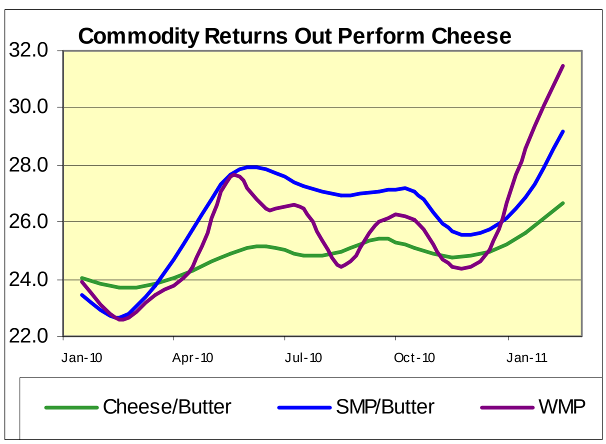
The Market Price Equivalent (MPE) February 2011

***By Nick Holt-Martyn, Director,* The Dairy Group**

Cheese price needs to rise by £500/t

"The cheese price needs to rise by £500 per tonne to enable milk producers to get their just rewards from the market place" says Nick Holt-Martyn, Director of The Dairy Group. He goes on to say "The surge in commodity prices is leaving cheese well behind which will frustrate many milk producers and leave the UK rooted at the bottom of the milk price league. With production cost pressures increasing producers will be looking for an end to retailer discounting and a fair return for their efforts. The cheese price needs to rise by £500 per tonne to enable milk producers to get their just rewards from the market place. Nothing is more demoralising to producers than to see the failure yet again of the "best dairy industry in Europe" to deliver real market returns. We expect to see a production cost increase of at least 1.7ppl in the year to March 2011 taking the average cost of production to around 30ppl. As the commodity markets repeat 2007's boom now is not the time to hold cheese prices down.

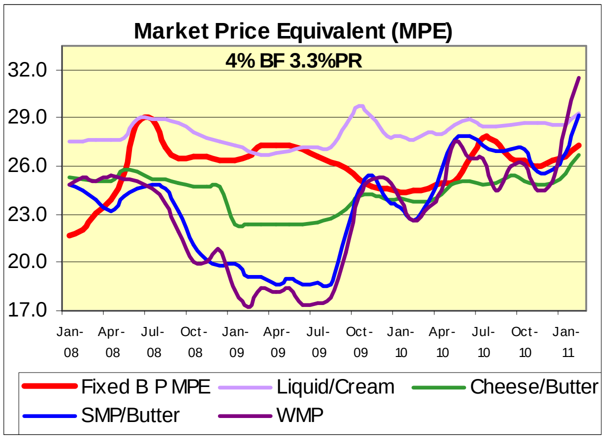


As the graph shows the cheese market has been underperforming powders for over a year and yet the discounting goes on. The whole UK market is resting on the cheese price, as the liquid price is controlled by retailers, who will pay just enough and the cut throat middle ground who pay as little as possible. If/when the cheese price rises the whole of the UK market will rise with it. Failure to deliver again will encourage more to quit, particularly if they can see good returns from grain or other enterprises.

The sharp upward move in the whey price suggests this boom will last for several months, although long term prices slipped a little at the Fonterra auction indicating a feeling that this boom is yet again due to a supply side deficit instead of inexhaustible demand. When the next Southern hemisphere season gets going in the autumn supply should be higher. This should provide the time needed for the cheese market to provide a better return and deliver significant increases in farm gate prices across the board.

Production cost inflation has a habit of sticking and with 5% inflation in the wider economy, farm gate prices need to move from its 3 year average of 24.7 ppl to 27.7 ppl, with the current boom delivering at least a 10% premium. This would put the farm gate price at 30 ppl at the turn of the year. Only then could we say that the industry has delivered real market returns and be confident about the future direction of the dairy industry."

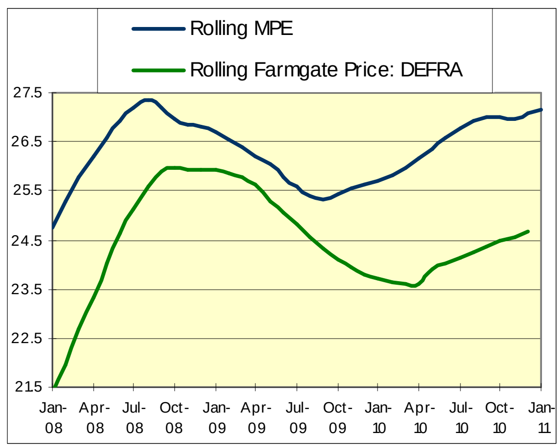
Market Prices



The only way is up at present on the commodity markets with cheese price being left behind in their wake. The Northern Ireland auction price rose again to 29.88 ppl which suggests more milk is being switched to higher return commodities. The Market Price Equivalent (MPE) rises to 28.47 ppl, up 0.85 ppl on January, up 1.28 ppl since August 2010 and up 2.44 ppl on last year. The heady combination of weak supply, rising GDP and general inflation is leading markets to levels not seem for 4 years. This is starting to look like a repeat of 2007 with energy and food inflation rampant.

Farm-gate Prices

Milk price rises are coming thick and fast and need to just to keep up with commodity markets. The non-aligned liquid suppliers are seeing modest increases although the gap with market returns is not closing. Pressure will start to build on the cheese sector as commodities outstrip core milk products. Countries with more dynamic milk utilisations will see faster market responses than the UK, with its 80% core supply in liquid and domestic cheese.



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<u>For further information please contact:</u>

- **Nick Holt-Martyn,** The Dairy Group (01823 444488/e-mail: nick.holt-martyn@thedairygroup.co.uk)
- **Visit www.thedairygroup.co.uk**
- The MPE is calculated from the weighted actual wholesale prices for liquid milk, cheese, butter and powders after the normal processing costs. The MPE accounts for 90% of the UK market utilisation of milk. The MPE is calculated from wholesale market values, whereas IMPE (Intervention Milk Price Equivalent) accounts for just 11% of UK milk production and is effectively determined by the Council of Ministers and the prevailing exchange rate. The MPE provides a far superior indicator of the wholesale value of milk and therefore the likely market returns available to the dairy farmer.