PRESS INFORMATION from

The Dairy Group

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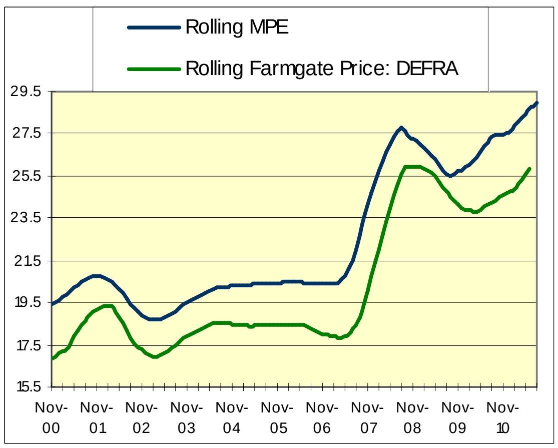
The Market Price Equivalent (MPE) August 2011

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

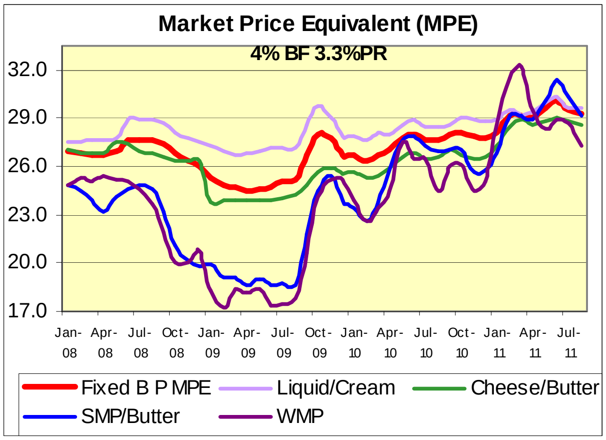
The farm gate price gap needs to reduce

"The 1.85ppl price increase from 1st October announced by Wiseman is encouraging by their recognition that the upward movement of milk prices needs to continue even though commodity markets have cooled over the last 2 months." says Nick Holt-Martyn of The Dairy Group. He goes on to say "as we enter the autumn it is time for the rest of the dairy industry to grasp the nettle and follow Wiseman's lead with price increases that recognise the high market returns of the last 7 months and the continuing increased costs of milk production. Commodity returns are only slipping, with core products maintaining their level, so there is plenty of evidence that prices should be still rising as is shown in the graph below.



As the graph shows, the gap between rolling market returns and farm gate prices is large at over 3 ppl, compared to 2ppl over most of the last 10 years. In the next 6 months we should see the gap close as the market transmission time lag delivers price increases in the UK market even when commodities are cooling.

So what of the future? Globally, GDP growth is stagnating, milk supply is up in the US and the EU while the southern hemisphere starts its new season with damp, but cold conditions. Without GDP growth, demand is likely to be stable with less growth from China and Russia over the next 6 months. Production is up 1 to 2% in the northern hemisphere while forecasts for New Zealand are still for 3 to 5% growth, despite unexpected snow in Auckland. This suggests that production is likely to outweigh demand in the short term and hence the markets have softened. Further forward there is more uncertainty with the 6 month auction prices above the short term and firming slightly, indicating concerns about supply in 2012. So overall the prognosis is stability with no crashing markets or prices to undermine the upward movement of UK prices and so the gap with market returns should narrow. If the industry follows Wiseman's lead then the gap would be back around the long term average providing a welcome boost to fragile producer confidence."

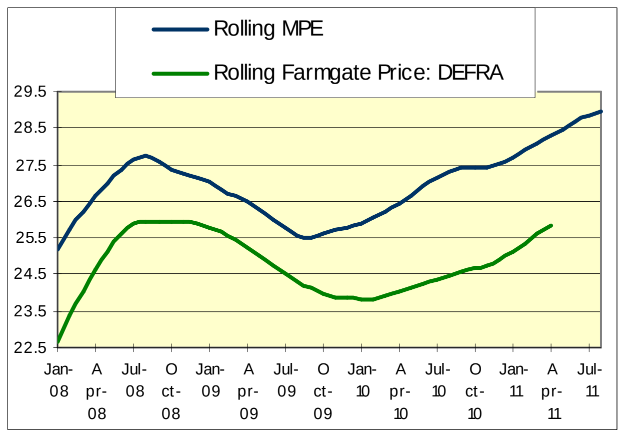


Market Prices

The Market Price Equivalent (MPE) has slipped further by 0.29 ppl to 29.24 ppl in July. However, the Northern Ireland auction price is stable at 29.53 ppl as the seasonable supply trend continues. With further falls in butter and SMP, returns are relatively close to cheese with WMP now the weaker commodity. The Fonterra auction saw prices easing in the short term, but firming slightly 6 to 9 months ahead. The MPE is up 1.6 ppl on the year and 0.12 ppl since March 2011. The market fundamentals remain stable with early New Zealand production limited by cool weather. Globally markets continue to remain stable at these relatively high levels.

Farm Gate Prices

With market returns stable the rolling milk price should continue to rise for 6 months until the gap with MPE has narrowed towards 2 ppl, which would be equivalent to an average farm gate milk price of over 27 ppl. The rolling Defra average milk price to June 2011 was 25.8 ppl, which indicates that the rolling milk price needs to increase by a further 1.4 ppl.



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- **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.