

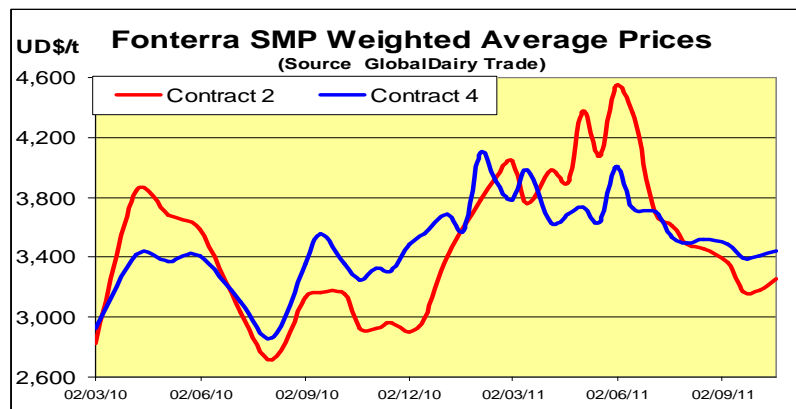
PRESS INFORMATION from *The Dairy Group*

28th October 2011

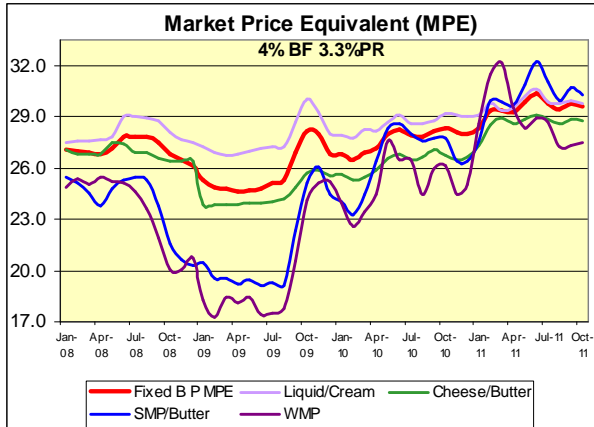
The Market Price Equivalent (MPE) October 2011 By Nick Holt-Martyn, The Dairy Group

Mixed Indicators for 2012

“While UK markets still play catch up due to the interminable time lag between market returns and the farm gate the rest of the world is contemplating the next move in the global dairy cycle. Weakness in commodity prices and currency changes has led to a reduction in the forecast payout in New Zealand of 7%, although the latest Fonterra Global Trading event showed an increase in shorter term contracts.” says Nick Holt-Martyn of The Dairy Group. He goes on to say “recent production figures for EU and NZ show production levels up 2% and 5% respectively with most northern EU countries showing production growth and Ireland looking at a large quota problem next March. Add in the turmoil in the EU economy, flat growth in western economies and faltering growth in the developing nations and the picture becomes even cloudier. Conventionally rising production and weak GDP growth would indicate weaker prices in the future, but we now have a crystal ball that allows us to look forward - the Fonterra Global Dairy Trading Platform.



The graph above shows the price achieved for their short term contract 2 (2nd month after trading) and long term contract 4 (6th to 8th month after trading) since SMP trading began. Not surprisingly, the short term contract has been more volatile and the contracts have generally moved in tandem. There is a pattern that the short term contract tends to move towards the long term when its volatility runs out of steam. For the most recent auction the long term contract is for late spring/early summer which is showing a higher level than the short term and has done for some time with the short term contracts surprisingly rising at the last auction. The other important factor is that this is a physical market not a futures market, with real transactions of physical material. With confidence in the Euro shored up for now the focus will return to preventing a double dip recession. If global GDP maintains its steady progress and the production growth is restrained by quotas in the EU and logistical/weather issues in NZ then weakness in commodities may be limited and already factored into current pricing. The supply side will tighten towards the end of the quota year helping to hold EU prices up through further tightening of cheese supply.”



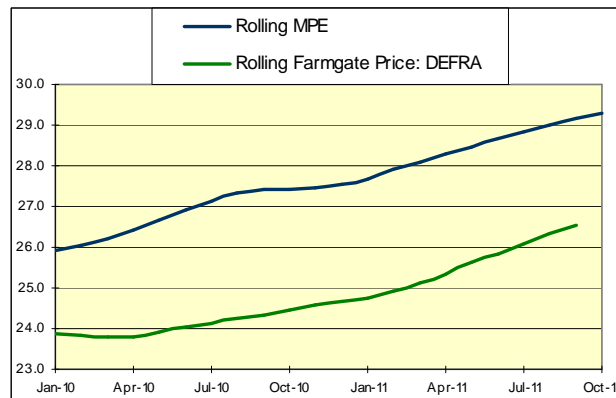
Market Prices

The Market Price Equivalent (MPE) has slipped by 0.16 ppl to 29.54 ppl. Meanwhile the Northern Ireland auction price remains stable at 29.55 ppl as the tight seasonable supply trend continues. After falls in cream, butter and mild cheddar, returns from SMP/Butter are still leading the way with WMP the significantly weaker commodity. EU cheese production is now trending down which is likely to tighten markets in the near future. The Fonterra auction saw prices rise in the

short term, but stable 6 to 9 months ahead. The MPE is still up 1.25 ppl on the year and 0.33 ppl since April 2011. The market fundamentals for the rest of 2011 remain stable with markets looking forward to 2012 for any significant changes.

Farm Gate Prices

The graph appears to show a slight narrowing of the gap between market returns and the farm gate milk price. The latest round of price rises should lift the rolling farm gate milk price past 27 ppl in spite of mild cheddar prices easing down contrary to the currently low EU cheese production. The Defra average milk price for September 2011 was 28.04 ppl, which is a record although this does contain an element of seasonal pricing.



With market returns stabilising just below 30 ppl the rolling farm gate price should continue to edge up.

- Ends -

For further information please contact:

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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.