PRESS INFORMATION from

The Dairy Group

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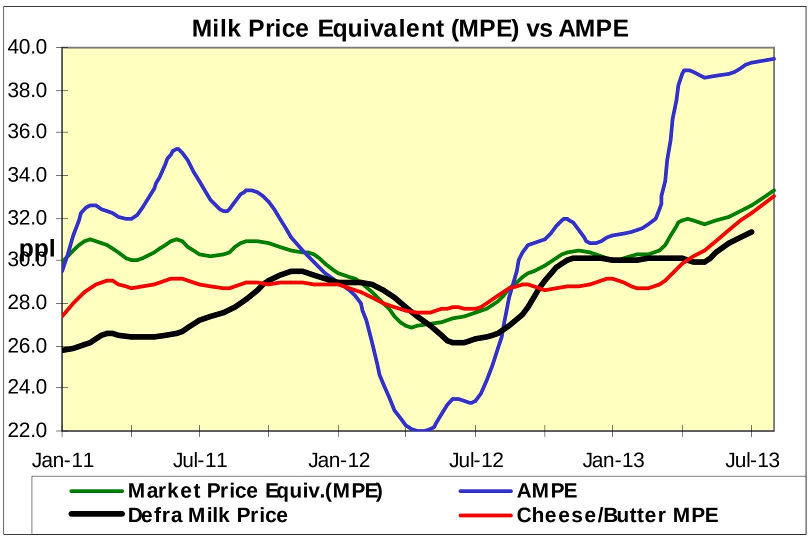
The Market Price Equivalent (MPE) Update August 2013

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

Track Mature Cheddar not AMPE!

"The demand for price rises on the back of record levels of AMPE shows how short or selective memories are" says Nick Holt-Martyn of The Dairy Group. He goes on to say "just one year ago we were relieved that farm gate prices were not following AMPE down to 22 ppl, but now there are calls for prices to follow AMPE into the high thirties. The same arguments apply today as last year, i.e. that very little milk is actually made into AMPE products and sold in to commodity markets. The market figures reflect the marginal value of commodity products and not what processors receive for all their product. UK prices are more driven by the cheese sector which by virtue of the time from cow to consumer is much more stable, but still affected by the normal supply and demand dynamics. During the autumn it competes with liquid for the limited supply that together account for 84% of milk, but which drops to only 76% in the summer.



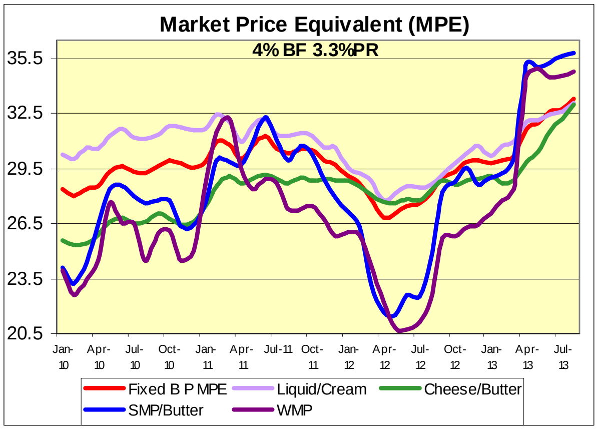
Source: The Dairy Group

As the graph shows AMPE has been highly volatile in the last 3 years on the back of global supply, which has lurched from feast to famine due to droughts in the southern hemisphere and the European deluge of 2012. During the market weakness in 2012 liquid and cheese supported the farm gate price, mitigating the extremes of the commodity market. Linking too closely to AMPE will forego that support and bring periods of very low prices that will test even the most robust and efficient of producers. For most UK farmers the best indicator will be Mature Cheddar or our Cheese/Butter MPE which combines mature and mild cheddar with whey and butter which are co-products of the process.

Having said that, prices will still rise in the next few months due to strong rises in the cheese sector which are now at record price levels. This is due to a 5% reduction in cheese production in the last year and low supply to date. The differentials between cheese and butter/powder should mean that cheese production will remain 5% down with spare milk processed into commodities. So through the autumn previous lower production will maintain firm market prices for the next 6months which will steadily feed into the farm gate price. A firm cheese market will keep liquid prices competitive and the whole industry will benefit.

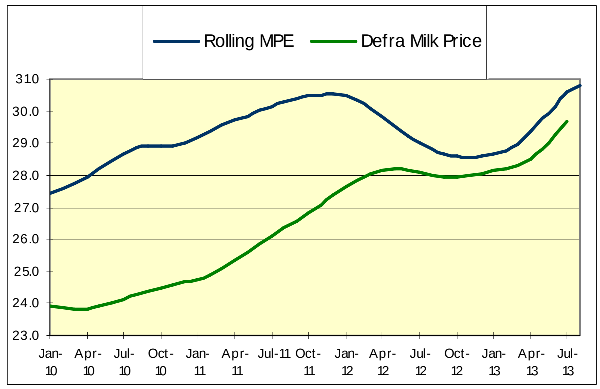
The only factor to limit the upside will be the level of milk supply both at home and abroad. UK supplies have normalized and are now showing signs of growth due to the excellent summer weather which has helped repair the damage of the previous 12 months. The prospects for lower feed prices this winter are good which should lead to rising margins encouraging higher production.

With a good start to milk production in both New Zealand and Australia means there is just a hint of improved global supplies in the next 6 months. This is not reflected in markets as yet as both the EU and New Zealand are starting from a low production base. If production continues to improve then markets will begin to weaken next year. As always it is the supply side of the supply/demand balance that determines market prices. Demand will rise on the back of an improving global economy, but supply is more dynamic mainly due to weather events.



Market Prices

The Market Price Equivalent (MPE) is still increasing, up 0.54 to 33.31 ppl due to further rises in liquid, mature cheddar, mild cheddar, cream and butter, although powders have stabilised at their high level. The range across the sectors continues to narrow as the core products respond to sustained high commodity prices. The latest GDT auction was up 2.3% due to WMP and butter values with rises across all time periods. The MPE is now up 5.18 ppl on the year and up 3.34 ppl since February 2013. New Zealand and Australia are having a good start to their season with good weather, but while the EU and New Zealand are still recovering from previous supply deficits, markets will remain firm.



Farm Gate Prices

The graph shows the rolling MPE continuing to climb on the back of liquid, cheese and butter prices. The farm gate price is over 31 ppl due to seasonality and is on track to be 33 ppl by October or November with headline prices over 35 ppl. Price is up 5 ppl on the year, but only 1.35 ppl in the 6 months to July. The drought was brief and the weather has now delivered a good summer with a good quantity and quality of forage. There should be positive effects on production and there are firm expectations of lower feed prices for the winter. UK production is well ahead of 2012 and looks set to exceed the 5 year average for the rest of the quota year. The 2013-14 production forecast is up to 13.3 B litres, up 400 M litres on 2012-13.

- 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.