

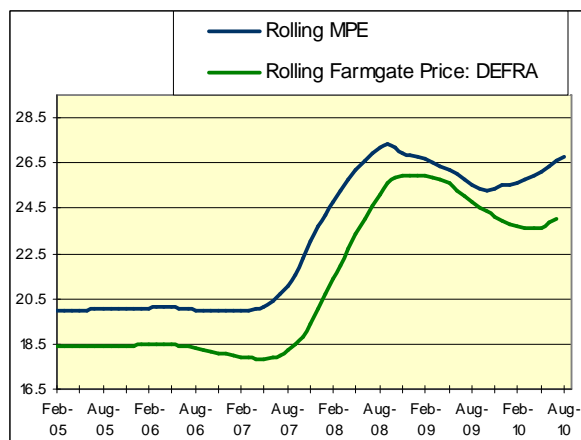
PRESS INFORMATION from *The Dairy Group*

31 August 2010

The Market Price Equivalent (MPE) August 2010 By Nick-Holt Martyn, Director, The Dairy Group

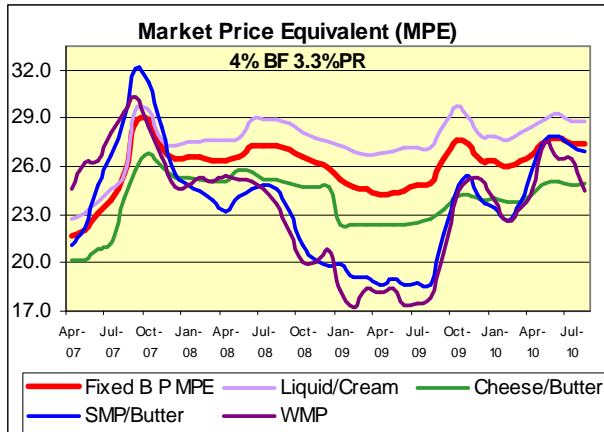
UK milk price gap increases to 3ppl

“The UK is yet again lagging behind in the EU price league as countries with a commodity based industry pass market returns back to the farmer. The UK finds itself well down the milk price league in 17th place, amongst the new member states, with Ireland paying more at 25 ppl, says Nick Holt-Martyn, Director of The Dairy Group. He goes on to say “the gap between market returns and the farm gate has increased to 3 ppl, which is far too high for a sustainable industry. While world markets continue to ease back from the May peak, with improved weather conditions in the southern hemisphere, the UK market returns have stalled at their summer level. Despite the stability of returns the rises over the last year have not been translated into a comparable price increase for the dairy farmer and this market detachment is costing farmers a great deal of money. With Fonterra moving to fortnightly auctions and hoping to open trading up to other sellers, price movements are likely to be more dynamic with fewer booms or busts which will mean that market returns will become very fluid. Market sentiment on the status of supply and demand will be clearly displayed and farmers should expect a more visible demonstration of market dynamics with prices moving more frequently.”



“With a more dynamic market in the future the UK has to speed up price transmission from market to farmer. It almost appears that UK processors drag their feet hoping the markets will turn down nullifying the need to raise prices. We typically see a 6 to 9 month time lag between a change in the market price and the price paid to farmers, but this only serves to dilute market feedback and breed resentment and mistrust. The fact that Milk Link has been leading the recent milk price increases suggests there is a different policy at work with the Co-ops transmitting prices faster than PLCs.”

Market Prices

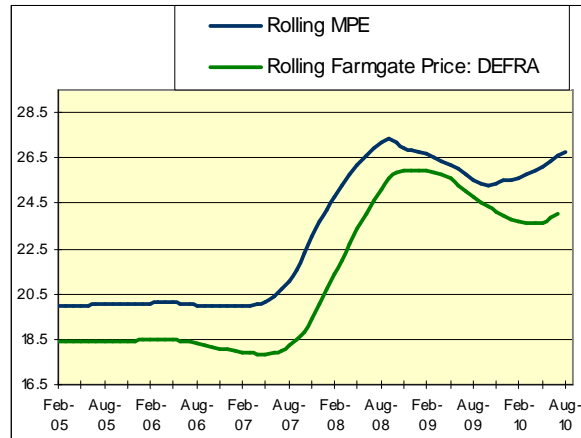


Commodity markets continue to cool with declines in WMP. However, the overall market returns remain high with Whey rising. The cream/butter returns are stable helping liquid and cheese to stabilise. EU production is up 0.8% since April with no SMP sales out of intervention, so the supply position remains good. The Market Price Equivalent (MPE) improves to 27.35 ppl. Market returns are up 2.47 ppl on the year and up 0.77 ppl since March 2010. Most of the price indices have eased, but the jump in the whey price suggests that

commodity prices may be about to stabilise.

Farm-gate Prices

Despite the improved milk prices the gap between market returns and farm gate prices has barely narrowed indicating further farm gate increases are now over due. The rises are beginning to show in the rolling Defra Farm Gate price with a rise to 24.12 ppl in July which will continue as the cheese sector price rises feed through. Despite falls in the wider commodity market, UK prices should still be moving up to close the gap with market returns. Generally cows are milking well with quality forage available, but the rise in feed prices due to the world wheat price will have an effect on production costs and winter milk production. Stable market returns should deliver milk price increases across the whole industry by this autumn.



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For further information please contact:

- **Nick Holt-Martyn**, Director, 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.