

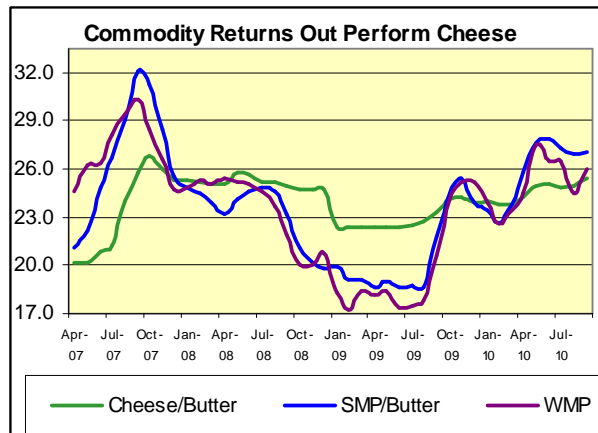
PRESS INFORMATION from *The Dairy Group*

30 September 2010

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

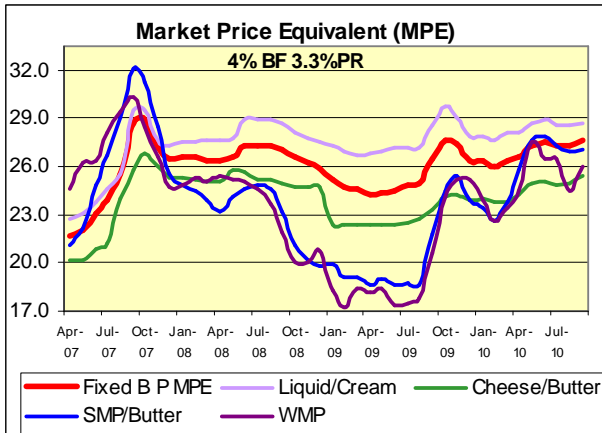
Feed cost increase will add 1.5ppl to production costs this winter

“Dairy farmers are facing a 25% increase in the cost of purchased feed this winter which will add 1.5ppl to the cost of milk production” says Nick Holt-Martyn, Director of The Dairy Group. He goes on to say “This makes the Tesco cost tracker increase look very modest since it includes an increase of just 0.57ppl for all variable costs including purchased feed. It is also interesting to note the timing of the recent profit warning from Wiseman Dairies which is a revelation as over the last 10 years or so Wiseman have been consistent performers with a rock solid margin while volumes have trebled. Wiseman have long majored on their retailer relationship to build significant volumes through reinvestment in efficiency and scale of operation. If this model is coming unstuck it points to pressure being exerted by the retailers to shore up their margins during the current liquid milk price war, prices that have fallen by 29% in the last year.”



He goes on to say “with commodity markets on the rise due to adverse weather in the southern hemisphere the UK market appears to be running in reverse. Mild cheddar has weakened while SMP, cream and whey are on the rise. As the graph above shows commodities have outperformed the cheese sector over the last 12 months, despite UK cheese production falling another 2%. Cheese imports exceeded UK production in the 2nd quarter for the first time this year, which should indicate good demand and an improving market, yet the rises in the cheese sector have been very modest indeed. With liquid under pressure and cheese returns wobbling, the UK market is exhibiting a disconnect from the external EU market, a market that is rising aided by recent falls in sterling. The UK is back down to 16th in the EU milk price league despite an under supplied home market where the product of choice is UK produced. With Tesco raising their price on the back of production cost increases rather than market pressures and no response from other retail contracts, the prospects for price increases across the board look slim. All the indicators point to rising milk prices across the board, but precious little is on the horizon.”

Market Prices

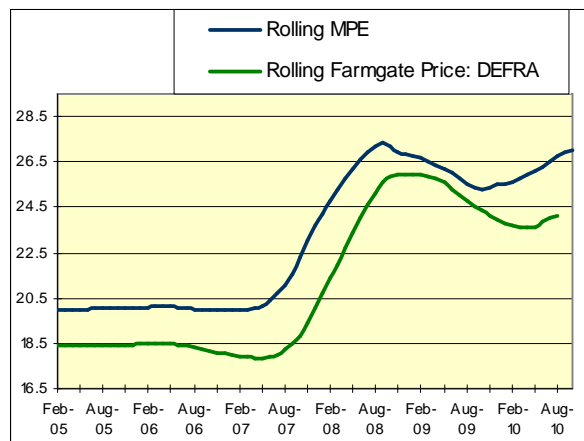


Commodity markets have changed direction while they continue to rise. The cream/butter returns are stable, although liquid returns are under pressure due to discounting. The first limited SMP sales out of intervention have taken place, but the market remains firm. The Market Price Equivalent (MPE) improves to 27.62ppl, up 1.2ppl since March 2010. Most of the price indices have moved up following the jump in the whey price, suggesting there is further to go as the southern hemisphere suffers earthquakes and adversely cold

spring weather.

Farm-gate Prices

Milk prices continue to firm but the gap between market returns and farm gate prices hasn't narrowed, indicating further farm gate increases are over due. The rises are beginning to show in the rolling Defra Farm Gate price with a rise to 24.25 ppl in August which will continue as the cheese sector price increases feed through. With rises now in the wider commodity market UK prices should be moving up to close the gap with market returns. World wheat price continues to have an effect on production costs and milk production with 25% increases in purchased feed costs this winter already evident. Stable market returns need to deliver milk price increases across the whole industry by the October if confidence is to be maintained.



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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.