PRESS INFORMATION from

The Dairy Group

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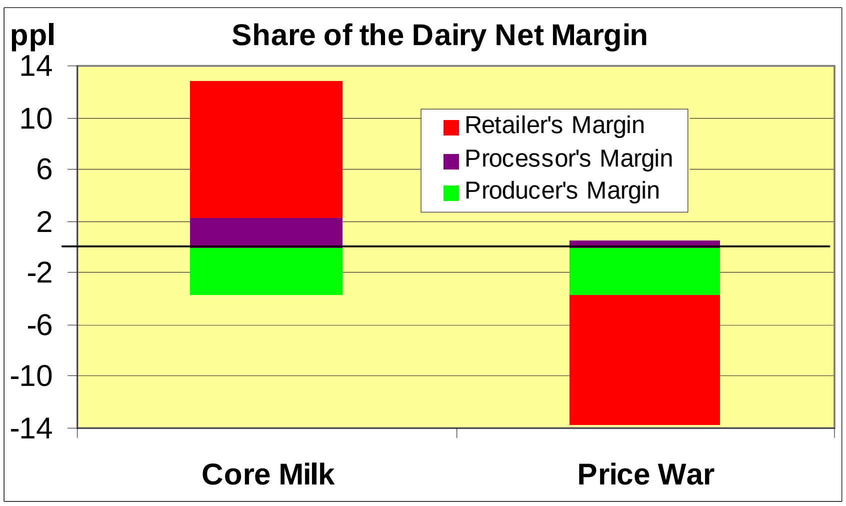
The Market Price Equivalent (MPE) October 2010

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

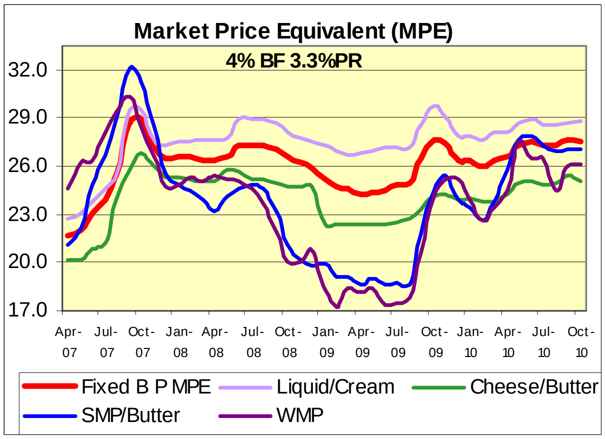
Retailer Price War Trashes Market Stability

"The fresh milk price war which has lowered the standard 4 pint semi-skimmed milk to just 55ppl threatens to deny UK farmers the benefit of stable markets, especially if the widespread special offer price of just 44ppl continues" says Nick Holt-Martyn, Director of The Dairy Group. He goes on to say "the recent DairyCo Datum Supply Chain Margin Report is already out of date as it uses a retail price of 65ppl which applied in the spring. At the 'price war' level of retail prices everyone is losing money ~ retailers, processors and farmers". The table below shows the 'normal' share of the dairy margin similar to that described in the DairyCo report and the share under 'price war' conditions.

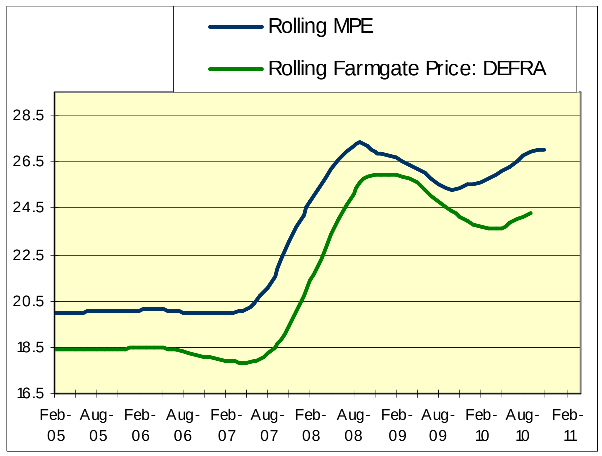


He goes on to say "at the start of the summer we knew the retailers were creaming off the increased margin with the processors maintaining a normal processor margin of around 2ppl, while farmers were losing almost 4ppl. As the graph shows under 'price war' conditions the processors margin is squeezed to 0.5ppl, the dairy farmer continues to lose 4ppl and the retailer loses 10ppl, which the retailer can fund from the high margins made earlier in the year and from branded products. Selling products below the cost of production is prohibited in some EU countries but in the UK it is lauded as consumer friendly! Clearly it is not in anyone's interests, not least the consumer, for the dairy industry to sell milk below the cost of production. The hope must be that from this unsustainable position margins can be reinstated for all players and especially for farmers. This means lifting the retail price back up to a more sustainable 65ppl. The current stability in wider market returns suggests a farmer milk price of around 26.5ppl with a range from 27.8ppl for nonaligned liquid to 25ppl for commodity cheese production. This is also a level that would allow processors and retailers to make a reasonable margin without penalising the consumer. This would represent an increase in the farmer milk price of 2ppl and would go some way to meeting milk production costs this winter of around 28ppl."

Market Prices



UK Commodity markets have benefited from the rise in the Euro to 87p leaving commodity prices unchanged. There is a small rise in the cream price which suggests sustained values for butterfat, but weakness in SMP, WMP and whey follows a weaker world market. The Northern Ireland auction price rise of 3.2ppl to 29ppl indicates demand for raw milk despite stronger autumn production. The Market Price Equivalent (MPE) improves to 27.85ppl, up 0.85ppl since May 2010. Most of the price indices remain stable reflecting the higher northern hemisphere production is still counter balanced by the slow start to production in the southern hemisphere. The prognosis for 2011 is less favourable if production stays strong in the EU and US.



Farm-gate Prices

The modest pace of milk price rises continue, but the gap between market returns and farm gate prices still hasn't narrowed, indicating further farm gate price rises are increasingly over due. The gap between market returns and the farm gate price is around 2.5 ppl, 0.7 ppl above the 10 year average. With production cost rises from this winter's feed bill and next season's fertiliser purchases dairy margins will come under increased pressure as the winter progresses. Forage stocks have largely been replenished due to good autumn production, but the stable market returns need to deliver milk price increases across the whole industry if confidence is to be maintained. With NVZ regulations biting next year there is a risk of an increase in herd retirements during 2011 as dairy farmers decide whether to invest in slurry storage or quit milk production.

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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.