

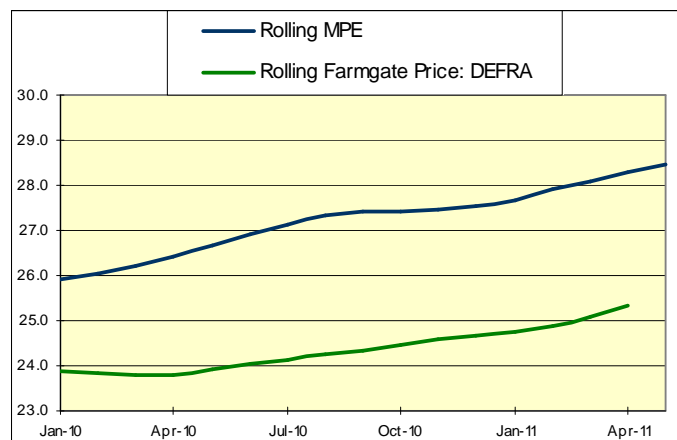
PRESS INFORMATION from *The Dairy Group*

29th June 2011

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

MPE exceeds 30ppl

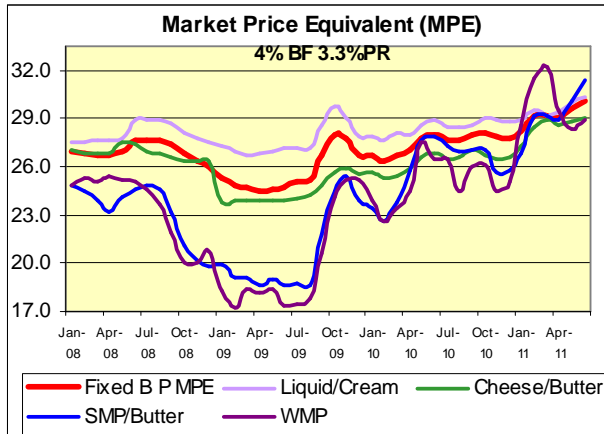
“For the first time ever the MPE has exceeded 30ppl, reaching 30.15ppl in April 2011” says Nick Holt-Martyn, The Dairy Group. He goes on to say “the previous peak in MPE was 29.39ppl in October 2007. The northern hemisphere spring flush has passed and markets are still rising with butter and cream hitting new highs due to the rapid fall from peak production. The drought has eased for Ireland and western Britain but the reduction in output across most of Europe will have had some impact, with production expected to follow a lower seasonal pattern. The rise in cream values ties in with the soft fruit season and is likely to be sustained, provided production and butterfat levels follow the usual pattern. These increased market returns apply across all sectors through increased cream or butter income and therefore should bring a further firming in farmgate prices. The market tone is set for the summer period and there is little expectation of any significant decline in wholesale prices until the southern hemisphere season gets underway from October onwards.



As the graph shows the rolling MPE has continued to trend up for the last 18 months with the farmgate price only responding in the last year. The effect has been to widen the gap between the MPE and the farmgate price from 2 ppl to more than 3 ppl, suggesting further price increases are over due.

The prognosis for the summer and autumn is for markets to be sustained at these high levels until the southern hemisphere production season is well underway. Then it will depend on what production levels are being achieved and whether market demand is being satisfied to determine price levels for the winter. In recent months the Fonterra auction has indicated a stable outlook with limited price reduction before February 2012. The outlook for the next 6 months is stable and increased returns should be passed down the supply chain to dairy farmers.”

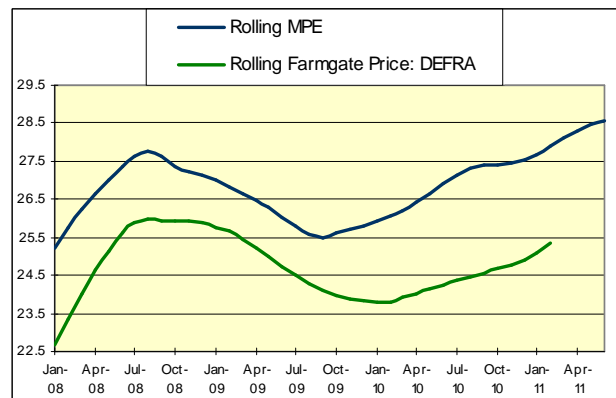
Market Prices



The effects of drought have impacted on EU commodity prices to raise the Market Price Equivalent (MPE) by 0.47 ppl to 30.15 ppl. The Northern Ireland auction prices firmed again to 27.91 ppl as the commodity returns increased. The Fonterra auction saw a mixed picture with prices easing overall. The (MPE) is up 2.3 ppl since December 2010. The market fundamentals are firming with dry weather accelerating the post spring flush decline in the EU. Globally markets remain stable at relatively high levels.

Farmgate Prices

Milk price rises should continue until the gap with MPE has narrowed towards 2 ppl. The rise in cream and butter values benefit all sectors to varying degrees and should allow an across the board increase. The strong returns from Butter/SMP should switch milk away from cheese helping firm the cheese market in the coming months. With higher market returns prices should lift before the autumn or milk processors will yet again stand accused of failing to share the benefits in favour of their own profitability.



- Ends -

For further information please contact:

- **Nick Holt-Martyn**, 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.