PRESS INFORMATION from

The Dairy Group

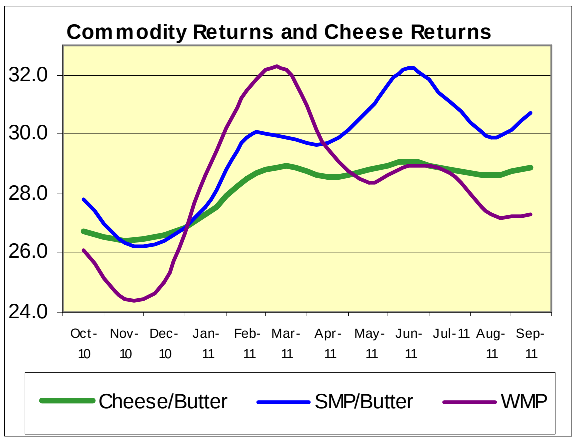
28th September 2011

The Market Price Equivalent (MPE) September 2011

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

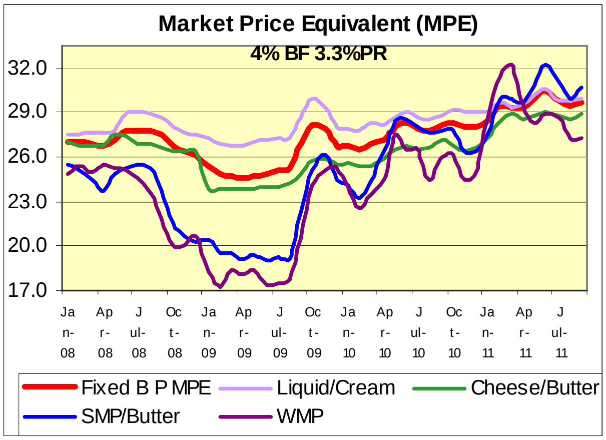
Cheese Fails to Follow Commodity Lead!

"The latest round of price increases has been very welcome, but hopes of 30 ppl across the board by the year end appear to be fading." says Nick Holt-Martyn of The Dairy Group. He goes on to say "while commodity returns, particularly SMP, butter and cream have held up well, cheese has been relatively static since the late winter. With the cheese sector a key component of the UK farm gate price, failure of cheese to follow commodities has held back the average UK market price. Liquid prices tend to take their lead from the cheese sector to maintain a differential, without cheese returns matching SMP/Butter the whole market has been far more static than was expected at the start of the summer.



As the graph shows, the gap between SMP/Butter and Cheese has been over 3 ppl in the mid summer and is starting to increase again at over 2ppl. Much of the increased milk supply over the last 12 months was used for cheese production which has led to an increased supply to the domestic and EU market. The utilisation of milk for commodities in the EU generally follows market returns, so a period where SMP/Butter returns are high often leads to a switch in milk away from cheese. The signs are that things may be about to change with a sharp reduction in cheese imports this summer, due in part to the better returns available from SMP/Butter, coupled with a decline in UK milk production, cheese supply should fall. A tightening supply is always good for prices as demand remains fairly stable leading to an increase in market returns, which eventually finds its way to the farm gate.

So what's next? Indications from the Fonterra Global dairy auction, which has shown declines in short term contracts this summer, now indicates stability for early 2012, which is 10% higher than the shorter term contracts. The price balance between WMP and SMP appears to have been restored, so for the moment, subject to the level of milk production over the next 6 months, the markets look stable. This should allow UK returns to establish the "normal" hierarchy with cheese at or above powders and liquid keeping their price just ahead of cheese."

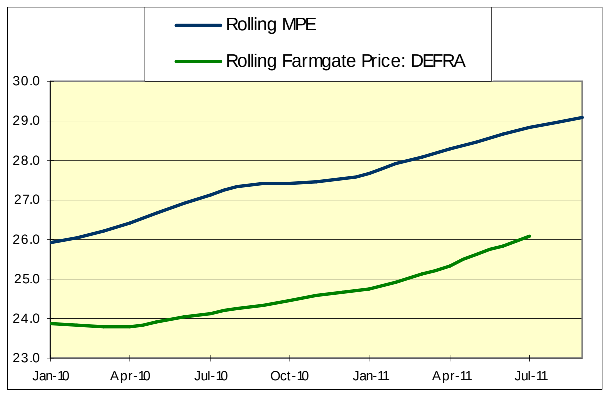


Market Prices

The Market Price Equivalent (MPE) has risen by 0.5 ppl to 29.53 ppl. Meanwhile the Northern Ireland auction price remains stable at 29.5 ppl as the seasonal supply trend continues. With the rise in cream, butter and SMP, returns from SMP/Butter are now leading the way with WMP the significantly weaker commodity. The Fonterra auction saw prices easing further in the short term, but stable 6 to 9 months ahead. The MPE is still up 1.6 ppl on the year and up 0.24 ppl since April 2011. The market fundamentals, as for much of 2011, remain stable.

Farm Gate Prices

For much of the last 2 years the gap between rolling market returns and farm gate price has not narrowed, maintaining a 3 ppl differential. Recent price rises should lift the average farm gate milk price towards 27 ppl. However, if the cheese market firms the average market returns should rise towards 30 ppl lifting the rolling farm gate target to 28 ppl. The rolling Defra average milk price to July 2011 was 26.1 ppl, which indicates that the rolling milk price needs to increase by a further 1 to 2 ppl to show full market price transmission.



- 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.