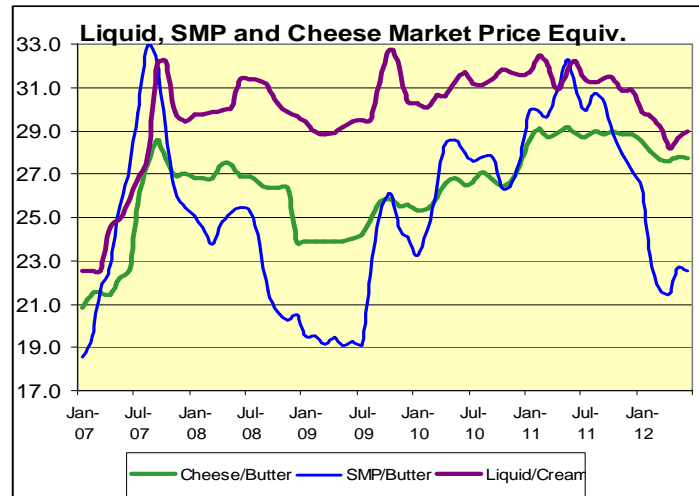


PRESS INFORMATION from *The Dairy Group*

31st July 2012

The Market Price Equivalent (MPE) Update July 2012 By Nick Holt-Martyn, The Dairy Group *Notable Victory in Liquid Price Setting For the Future*

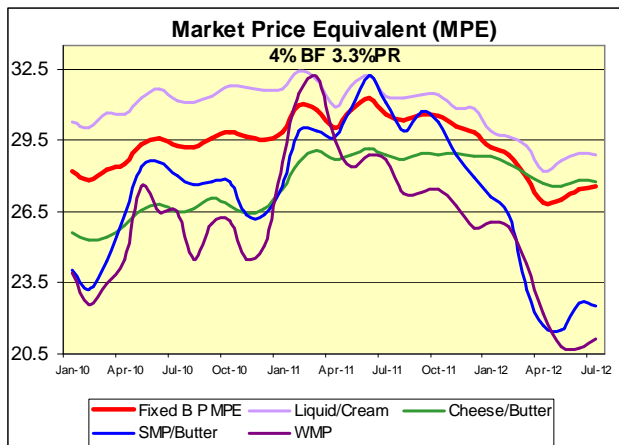
“The almost across the board restoration of the August price cut and the swell of public support for British liquid milk may prove to be a turning point in the price setting mechanism, but for some the cut is only suspended” says Nick Holt-Martyn of The Dairy Group. He goes on to say “while cream returns have an influence the real driver of liquid prices at the farm gate is what the processors need to pay to secure supplies. The retailers have long maintained that the retail price is an irrelevance to the farm gate, but at a time of double dip recession any competitive advantage is eagerly sought.



Source: The Dairy Group

The graph above identifies the market return equivalents from liquid, SMP and Cheese during a time of significant volatility in cream/butter and commodities, but far less so in cheese. While there is clearly an across the board link through to that cream/butter volatility, liquid and cheese have maintained a close relationship which has provided the UK with a more stable if unspectacular farm gate price performance in the last 5 years. A comparison with EU prices shows greater stability in the UK due to 80% of milk going to liquid and cheese instead of commodities. With cheese remaining stable, to cut liquid milk so sharply suggests it was processors falling over themselves for market share and sacrificing the farm gate price to get there. The only beneficiaries were retailers, of all sizes, who not surprisingly in these difficult times played one against another with great success. It is time for processors to stop looking at the farm gate price as a flexible bargaining chip when selling milk, but as a primary cost to secure supplies that meet their volume and quality needs. The getting “more for less mantra” that is pinned above every retailer buyer’s desk needs to change, the supply chain needs to be able to profit from the relationship. Processors need to look to service and efficiency not price as their point of differentiation. The widespread acceptance of the cost of production should set a bottom in the price setting process that, while not enshrined in legislation, should be used by Government to shame the supply chain into playing fair to all suppliers. Fair trade starts at home.”

Market Prices

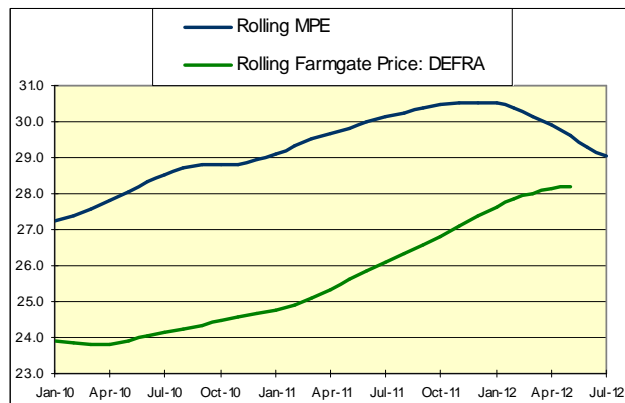


The Market Price Equivalent (MPE) rose again by 0.1 ppl to 27.4 ppl due to the rise in whole milk powder (WMP) countering the slight fall in mild cheddar and cream. Basically the market is flat. The latest Fonterra auction was flat with a rise in skimmed milk powder and a fall in WMP. Overall there was a fall of 0.9%, with falls in long term contracts countered by firming values in short term contracts. The MPE is now down 3.0 ppl on the year and 1.6 ppl lower since January 2012. EU supply growth has faltered, being only

up 1.7% in April with weaker production reported in more recent months. Markets are quiet with significant volumes of butter entering Private Storage, which will weigh on markets later in the year.

Farm Gate Prices

The graph shows falls in rolling market returns starting to level out while milk price has levelled at just over 28 ppl. The August price cuts are largely rescinded with all eyes on the autumn for the next movement. With stable commodity markets the focus will now be on cheese to maintain prices at their current level into the winter.



- Ends -

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.