PRESS INFORMATION from

The Dairy Group

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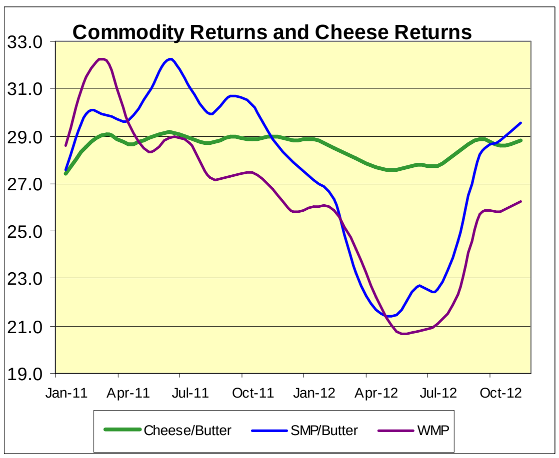
The Market Price Equivalent (MPE) Update November 2012

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

Weak UK production in a finely balanced World market

"The welcome recovery in commodity values from the calamitous decline in spring 2012 has stalled close to 2011 values. Demand is following a similar pattern to leave the market finely balanced" says Nick Holt-Martyn of The Dairy Group. He goes on to say "with the southern hemisphere peak now passed attention will switch to the northern hemisphere in 2013. The overwhelming signs are stability in supply and demand until there are clear signals of something changing.



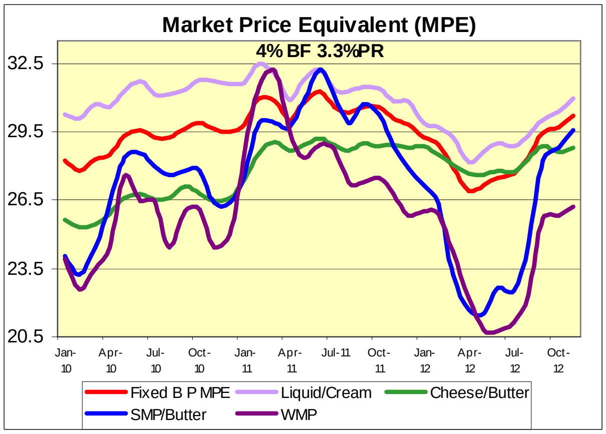
Source: The Dairy Group

As the graph shows the market values have returned to levels of a year ago across the major commodity sectors. There is little evidence of more than the usual Christmas upswing in cream values with only SMP tending above.

Stabilising GDP growth in the USA, India and China coupled with flat-lining economies in the EU suggest demand which is normally GDP driven will remain sluggish. The production peaks have now passed in New Zealand and Australia with projections of +5% and +3% out turns in line with normal trend growth. With the EU April to August milk production +0.2% and with the US slipping back since August, the northern hemisphere supply has now stabilised. As things stand both supply and demand are stable so the focus turns to spring 2013 for the next market movement.

There are 3 possible scenarios; recovery in production on the back of a good spring; stable production due to high production costs matched by price movement across Europe; weak production continues due to weak price movement not matching rises in production costs. The long term weather forecast for the EU is favouring 2 cold months followed by average conditions which could lead to a good start for 2013. However, this is unlikely to affect production until May at the earliest. The most likely scenario is for production to remain weak with price pressure building as the winter progresses.

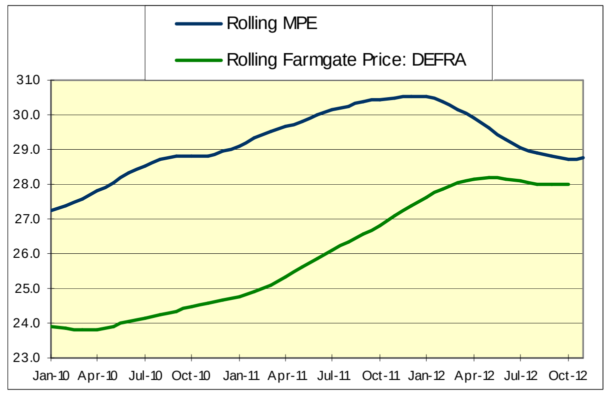
For the UK this pressure is already being felt as buyers and processors respond to very weak production which is likely to see the UK end the quota year down 4.8% (650 M litres) at 12.8 B litres, the lowest for 3 years. The UK is starting to show a disconnect as prices outstrip wholesale market returns as milk buyers recognise the high cost of milk production. This situation was highlighted in Brussels with milk being sprayed at the European Parliament building by Belgian farmers with a milk price 10p below market returns and their cost of production. In 2009 the EU Commission responded with measures to correct market imbalances, although this time it is more about high production costs and slow to respond milk buyers than a simple market crash."



Market Prices

The Market Price Equivalent (MPE) edged up again by 0.5 ppl to 30.62 ppl due to a further rise in butter, SMP and cream. Whey has recovered, but still lags behind the SMP equivalent and there is continuing stagnation in cheese due to cheap Irish imports. The latest Fonterra auction was flat, but some firming in the medium term contracts. The MPE is now up 0.1 ppl on the year and up 3.3 ppl since June 2012. EU and US supply remains weak while New Zealand is up 5% on last year. Commodity returns have stabilised with competition for supply seemingly a UK issue.

Farm Gate Prices



The graph shows the MPE levelling out at 28.75 ppl while milk prices have levelled at 28.0 ppl. With markets and prices moving above 30 ppl the gap looks set to remain at its current low level into the spring whilst the stability is maintained. Weak profitability will affect confidence across the EU which will keep milk production low and encourage higher EU market returns. 2013 will see higher UK prices with the UK winter production forecast **8% below** last year. This will require favourable early spring weather and economics if the gap is to be closed during 2013.

- Ends -

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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.