

PRESS INFORMATION from *The Dairy Group*

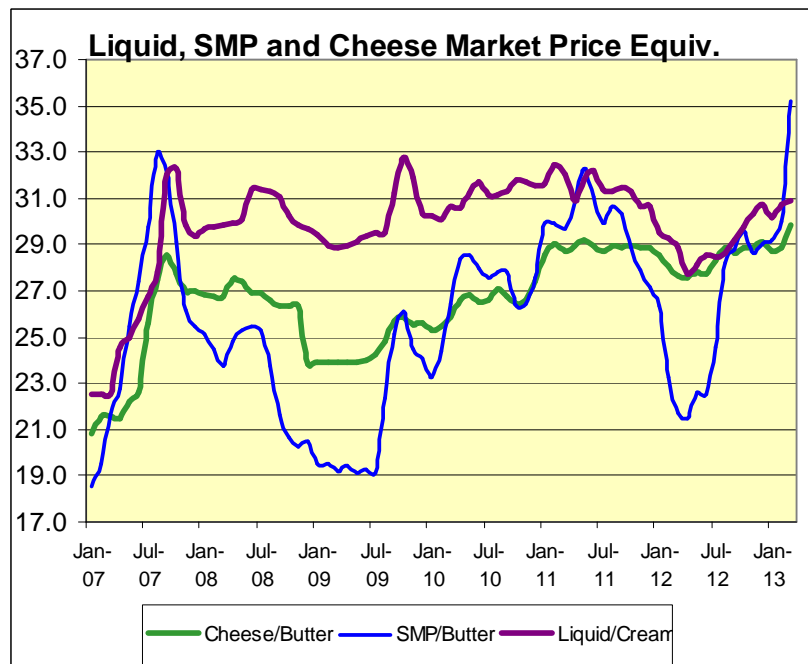
8th May 2013

The Market Price Equivalent (MPE) Update April 2013

By Nick Holt-Martyn, The Dairy Group

New Zealand Rain Dampens Global Markets

“The recent soar away prices at Fonterra’s global dairy auction have eased back due to widespread rain improving the prospects for the next New Zealand milk season. The current season is tailing off rapidly to give an end of year result around +5% on last year, which when combined with weak northern hemisphere production fails to match global demand growth” says Nick Holt-Martyn of The Dairy Group. He goes on to say “continued weak EU supply over the next 3 months are still in play driving up EU prices aided by a lack of global supply”, he continues. “The Fonterra auction needs to be put in perspective as the values are at or below UK wholesale prices. Far more important to the UK is the weak supply this spring which has all but wiped out the UK’s limited commodity production. April supply is likely to be down around 7%, leaving May starting at a relatively low level and still likely to be down around 4% on last year. Improved weather will see a recovery of sorts, but the spring flush is likely to be shallower although it may sustain longer than in recent years.

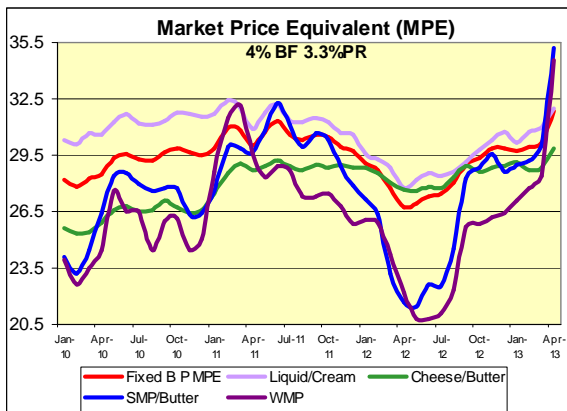


Source: The Dairy Group

As the graph shows, the big effect of the recent market dynamics has been to lift cream/butter prices significantly. With sharp increases in SMP and WMP returns, milk will be diverted away from cheese during the next few months, which should firm cheese prices later in the year. All this heaps pressure on the liquid market, which will have to respond with higher prices to maintain supply. While returns have reached 35 ppl for SMP/Butter and WMP it is not certain if they will be sustained throughout the summer to help lift autumn cheese returns to allow the farm gate price to catch up.

Yet again it is cheese that is holding the market down at a time of heightened demand with discounted offers still prevalent in supermarkets and the retail price around three times the wholesale price. As we have seen with liquid milk the price setting mechanisms are anything but transparent with market forces slow to operate. The volatility of Fonterra's global auction might be a worry, but perhaps it is time that the UK had a cheese auction to speed up the translation of market sentiment in to price movements. In both 2008/9 and 2012 it was cheese that held up against commodity falls so there are risks, but these are managed by limiting the tonnage exposed to auction.

The prognosis is for prices to rise through to the autumn, but with production costs remaining stubbornly high dairy margins are likely to remain weak. Volatility in market returns and production costs is the roller-coaster of dairy economics, its been like it for some time and only shows signs of accelerating post 2015.



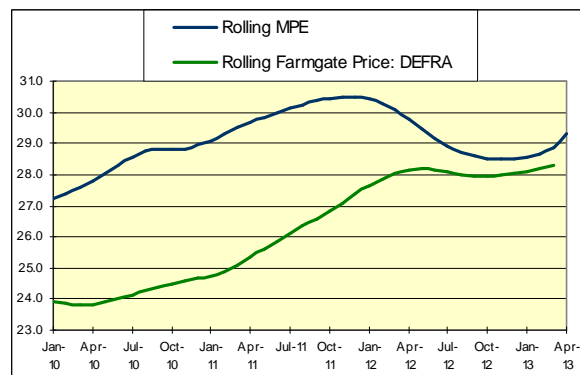
Market Prices

The Market Price Equivalent (MPE) climbed again to 32 ppl due to the sharp rises in commodities. Powders are likely to steady on the back of easing in the Fonterra auction. Sterling has firmed following improved economic data for the UK. The latest Fonterra auction was down 7.3% with WMP down 10.2%, SMP values fell 9.5% and butter was down 6.7%. The MPE is now up 5.25 ppl on the year and up 2.25 ppl since October 2012. New Zealand

production is likely to end the year +5%. The US is stable and the EU is running at -2.8% so far in 2013. The UK is 7% below last year in April and despite better weather latterly it will take several months of favourable conditions to recover.

Farm Gate Prices

The graph shows the rolling MPE rising sharply on the back of improved commodity returns. The rise in commodities is pushing the MPE higher this spring which is increasing the gap and putting pressure on milk prices to respond. Weak profitability and now a cold late spring will keep confidence low until milk production starts to recover. With the UK production running 7% down in April there is little prospect for a recovery very soon. The summer weather remains the key to 2013 and it looks like a return to average conditions for May.



- 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.