

PRESS INFORMATION from *The Dairy Group*

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The Market Price Equivalent (MPE) Update September 2013

By Nick Holt-Martyn, The Dairy Group

Dairy Transfer Window Opens!

“The recent rash of milk price increases provides some producers with the opportunity to give 3 months notice on their current contract” says Nick Holt-Martyn of The Dairy Group. He goes on to say “with so many price adjustments taking place at the same time this amounts to a ‘dairy transfer window’ and the opportunity to get a new buyer in place by the new year. The opportunity is not open to those on formula prices or Co-ops who have different treatment under the voluntary code. While having the opportunity is one thing whether it is of value to many producers depends on where they farm and the alternative buyers available. Most buyers are touting for increased supply but there are countless examples of producers jumping from frying pans into fires, so it’s a case of look before you leap!

As they say with financial products, past performance may not be an indicator of future performance. The current milk price when commodity markets are good may not be an indicator of how they will hold up when markets turn. It may be fortunate that in the last 3 years we have seen it all so reviewing where prices have come from for a prospective processor will be key, although some major players have changed significantly in that time.

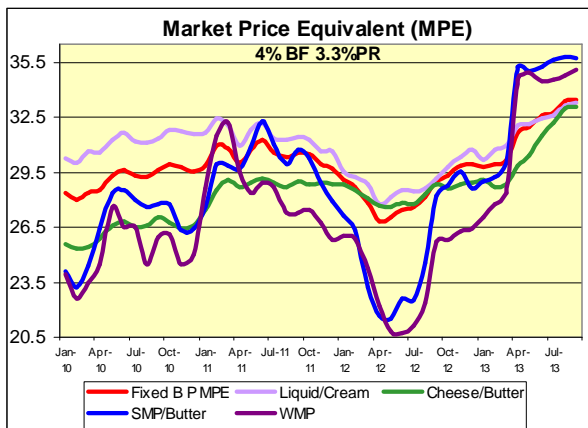
CURRENT PRICE FROM 1st OCTOBER 2013	Net price	October Price Rank	Ranked on average of last 2 years plus Oct Contract	
Dairy Crest Liquid	32.7	3	30.4	2
Dairy Crest Davidstow	33.3	1	30.9	1
Milk Link Liquid	33.1	2	30.1	3
Muller Wiseman	32.1	5	30.0	4
Arla	31.6	6	29.8	5
Milk Link composition	32.5	4	29.8	5
First Milk-Liquid	30.9	7	28.7	7
First Milk	30.9	7	28.4	8
Average	32.1		29.8	
Range	2.4		2.5	

Source: The Dairy Group

The table above shows the contract performance of most of the major dairy companies based on their price from October 2011 to September 2013 and their on going 1st October 2013 price. Prices are compared for a milk supply of 1 million litres eod at 4.0% butterfat and 3.3% protein and not on a formula basis. Companies are ranked according to the average and their rank for their October price is also shown. The most startling fact is that there is very little change in the ranking which still holds true when looking at the 20 contracts in our Milk Model database. There are more changes with the smaller cheese makers, but the general rankings still hold true. The better ranked companies tend to stay

that way, although Arla Milk Link appear to have an improving trend since their merger with Arla in Spring 2013. For those that have moved on to formula pricing all this is academic as they will need to give up to 12 months notice.

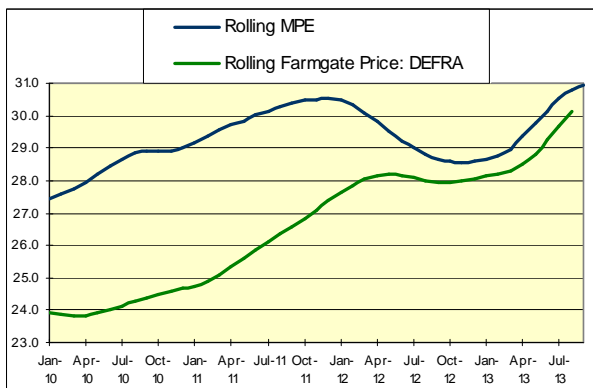
Back to markets, there is a good start in both New Zealand and Australia, but they are starting 1 billion litres behind last year, while in the EU milk is now above the same time in 2012. The US is running at +2.4%, so milk supply is growing in the major exporting blocks. However, that is tempered by the EU and New Zealand starting behind and they are reports of lower production in China and Russia. This tends to suggest markets are likely to stay at there current high levels until later in 2014.



Market Prices

The Market Price Equivalent (MPE) is still rising, up 0.11 to 33.47 ppl, due to further rises in liquid, mature cheddar, mild cheddar and cream, although butter and powders have stabilised at their high level. The range across the sectors continues to narrow as the core products respond to sustained high commodity prices. The latest GDT auction in New Zealand was flat at +0.3% across all periods, with only butter up. The MPE is now up 4.47 ppl on the year and up 3.26 ppl since March 2013.

New Zealand (forecast +6% growth) and Australia are having a good start to their season which would bring their rolling production back up to previous levels.



Farm Gate Prices

The graph shows the rolling MPE continuing to climb on the back of liquid, cheese and butter prices. The farm gate price has reached 32 ppl due to seasonality and is on track to be 33 ppl by November with headline prices over 35 ppl. Prices are up 5.4 ppl on the year, but still only 1.94 ppl in the 6 months to August. The weather has now delivered a good summer with a good quantity and quality of forage for many in the west, but less so for other parts

of the country. There should be positive effects on production and there are expectations of a 10% fall in feed prices for the winter. UK production is well ahead of 2012 and looks set to exceed the 5 year average for the rest of the quota year. The 2013-14 production forecast is up 3% to 13.37 billion litres, up 400 M litres on 2012-13.

- 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. 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.