PRESS INFORMATION from

The Dairy Group

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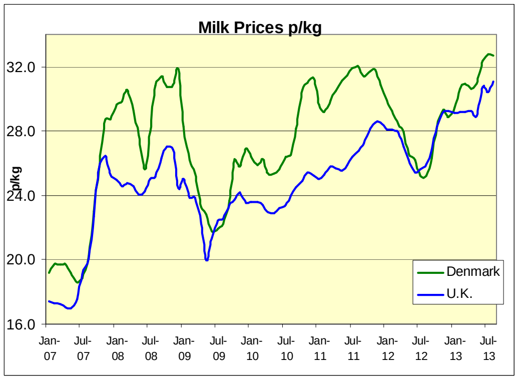
The Market Price Equivalent (MPE) Update October 2013

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

Risk and Reward

"The opportunity to switch from AFMP to the Arla Amba Coop closes on 15th November and for some it will be a difficult decision" says Nick Holt-Martyn of The Dairy Group. He goes on to say "for the non-aligned producers it gives some security for the future, but for those fortunate to have "enjoyed" the benefits of the Tesco supply group the opportunity is much more mixed. With a total investment of 7.5 ppl over the next 5 years drawn from the existing investment, 0.5 ppl levy for 2 years and deductions from the 13th payment over the next 5 years, the annual cost is minimised. Subject to where milk prices go in that period the annual cost may be more or less onerous to individual businesses. The key question remains how will my milk price perform compared to the alternative?

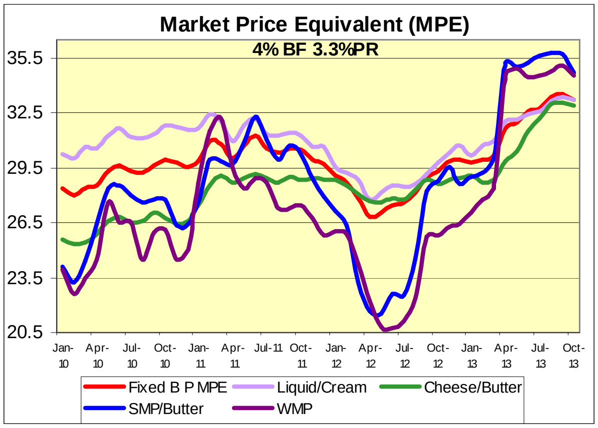
As they say with financial products, past performance may not be an indicator of future performance. The graph below compares UK and Danish milk prices since 2007.



Source: The Dairy Group

The graph above shows that generally Danish prices outperform the UK (+11.5%) but can be weaker when markets are very weak. The aligned retailer contracts tend to out perform the UK average and have outperformed AFMP in the more recent period, so the gap between Danish prices and the Tesco Arla price over the last 2 years would be minimal if at all. There is a current advantage to the Danish price over Tesco Arla which has a 2% advantage over AFMP and which is likely to remain until commodity markets soften in the face of rising global supply. The Tesco Arla advantage over the standard AFMP has diminished over recent years, but is there is still a premium.

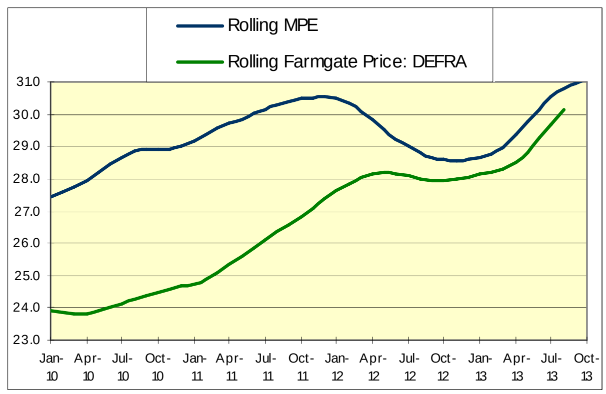
If the quantifiable differences in milk price are minimal the real difference is whether you feel more comfortable owning and supplying a global dairy Coop or aligned with Britain's largest retailer. The Tesco formula price will mean milk prices will move as production costs change, so both will tend to reflect the wider dairy economy, although Arla will reflect an EU (or Danish) position rather than the UK. Suppliers will need to consider which is more likely to have the lower volatility when quotas are abolished and which is more likely to achieve the better milk price over the longer term.



Market Prices

The Market Price Equivalent (MPE) has softened, down 0.25 to 33.25 ppl due to falls in SMP, Butter and Cream. The range across the sectors continues to narrow as the core product prices are sustained while high commodity prices soften. The latest GDT auction was down 1.9%, due to WMP and late winter contracts. The MPE is now up 3.89 ppl on the year and up 1.6 ppl since April 2013. New Zealand production is catching up with the 2012 level, running +9.2% in August, -1.8% on the year and forecast at +5% compared with 2012. The US is running at +2.6%, while the EU is -0.46% and Australia is -4%. Globally production is rising again, so markets are likely to soften further.

Farm Gate Prices



The graph shows the rolling MPE continuing to climb on the back of sustained market returns. The farm gate price has reached 32 ppl due to seasonality and remains 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 up 1.94 ppl in the 6 months to August. The weather remains mild with recent rain and wind forcing most onto winter feeding. There should be continued positive effects on production and there are realisations of a 10% fall in feed prices for the winter. UK production is soaring 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 3.5% to 13.42 B litres, up 450 M litres on 2012-13 and close to the 2011-12 total.

- 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.