PRESS INFORMATION from

The Dairy Group

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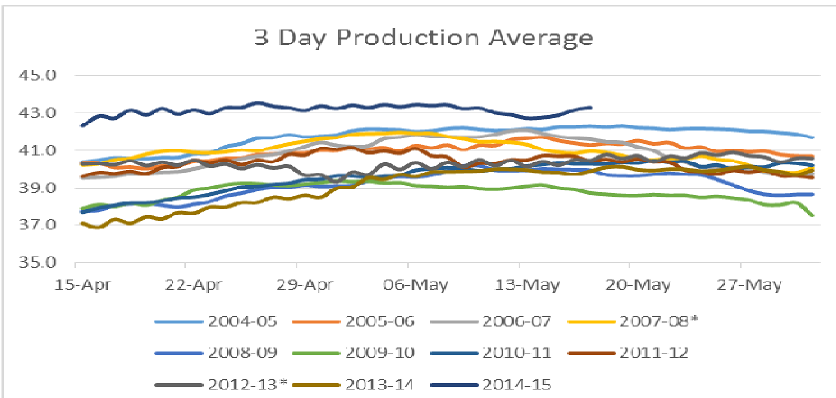
The Market Price Equivalent (MPE) Update May 2014

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

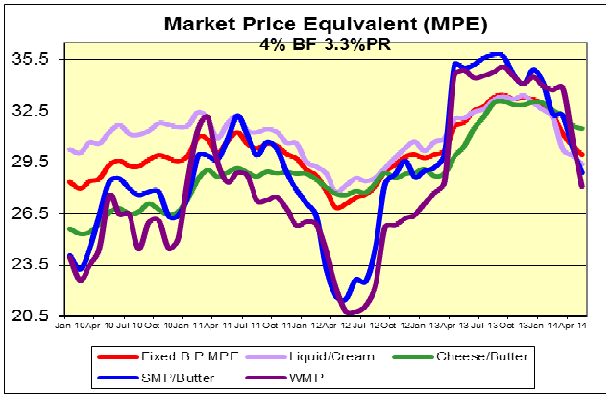
Production peak passes but production likely to remain high in 2014

"Production looks to have peaked around 3rd May, which is quite common during a warm spring, against an average for the last 10 years of 13th May" says Nick Holt-Martyn of The Dairy Group. He goes on to say "the production peak usually lasts for about 3 weeks, so we are now starting the long slide to November. May production is likely to be around 1380 million litres and our forecast for June is 1290 million litres, strong but remaining below quota.



Source: The Dairy Group

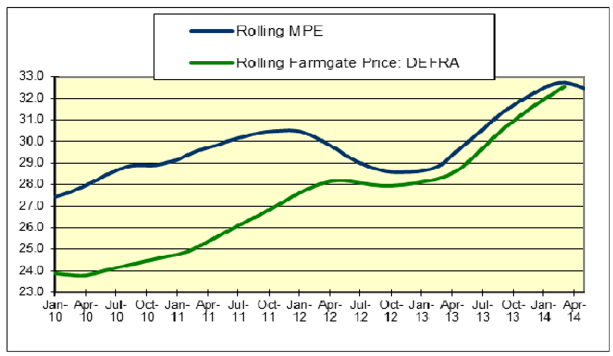
The graph above shows the supply pattern for the last 11 years, which shows that this year production was at peak levels very early in mid April, but then stabilized at around 43 million litres per day. This level has been maintained right through to mid May, but is likely to be starting to decline at the month end. 2014 is the highest year for many years, but as the gap to previous years has narrowed also suggests that without an increase in the national herd future growth is likely to be more limited and will be dependent on good weather. In 2013 the national herd fell below 1.8 million cows for the first time, so the increase in production is due to a combination of the rising genetic base coupled with good forage conditions stretching back to last summer. With showery May easing into a similar showery June then grass supply is likely to remain good and with production likely to be sustained with a slow rate of decline into high summer. The Global Dairy Trading platform has eased a few more percentage points and the weaker prices are now being seen in the UK market returns with SMP down to £2350/t. Most of the falls were in the short term and there are signs of stability in autumn contract prices. Whey prices, which weakened in advance of SMP have now stabilized suggesting most of the price corrections have taken place. Cheese remains immune for now, but often operates behind the volatile commodities due to the nature of the manufacturing process. Overall MPE has fallen below 30 ppl for the first time since February 2013. All areas are still seeing production growth (US +1%, EU +3.9% and NZ +22%) which is leaving markets weak. As the threat of El Nino grows and with the Chinese likely to resume buying activity, markets are expecting stability through the autumn and early winter. With cereal prices weakening on the back of good harvest forecasts, easing feed prices may soften the blow of falling milk prices.



Market Prices

The Market Price Equivalent (MPE) continues to fall, down by 0.52 ppl to 29.96 ppl with falls across the board except mature cheddar. The range across the sectors has widened to 3.4 ppl as powders drop further below cheese. The latest GDT auction was down -1.8% with falls in most commodities and mostly early summer contract periods. There were improvements in November contracts. The MPE is now down 1.9 ppl on the year and down 3.3 ppl since November 2013. New Zealand production is up 22% year on year due to good autumn weather while the EU finished the milk year at +2.6% and +5.8% in the 1st quarter of 2014. Commodities have now dropped back below core sector levels although only cheese shows any resilience to commodity markets. Liquid behaves as a commodity due to the reporting of the discounted 4 pint pack instead of a market weighted value.

Farm Gate Prices



The graph shows the rolling MPE falling as the market returns continue to ease back from the 2013 peak. The rolling farm gate price is expected to peak around 33 ppl in June. The sunshine and showery weather is forecast to continue into June holding milk supplies firm. Despite the price falls the economics remain good compared to recent years and feed costs are expected to be lower for next winter. UK production is running 12% ahead of the 5 year average and the forecast for 2014-15 at 14.5 billion litres, up 10%. May is forecast around 1380 million litres, +11.9% on 2013 and June around 1290 million litres, +11%. Achieving quota remains unlikely as the profile was not exceeded in April and May, but there is always a risk however small.

- Ends -

For further information please contact:

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- 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.