PRESS INFORMATION from
The Dairy Group

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The Market Price Equivalent (MPE) Update March 2014
***By Nick Holt-Martyn,* The Dairy Group**

Ruthless Price War or Simply Competitive Price Matching!

“The recent media excitement regarding the alleged retailer liquid price war doesn’t seem to be very effective at the checkout” says Nick Holt-Martyn of The Dairy Group. He goes on to say “surveying prices this week shows little variation across a range of retailers. Waitrose stands out from the pack, but the rest are much the same although consumers need to have their wits about them to find the pack size with the lowest unit price.

Best Price Whole Milk Price ppl								
	Size Distribution %	**Waitrose**	**Tesco**	**Sainsburys**	**ASDA**	**Morrisons**	**Lidl**	**Average**
1 Pint	8	86	86	86	86.3	86.3	78.9	**85.0**
2 Pint/1 litres	15	78	78	78	78.8	78	69.3	**76.7**
4 Pint/2 litres	67	61	44	44	44	42	41.9	**46.2**
6 Pint	10	58	43	43	43.4	58.4	41.6	**48.0**
	Weighted Average	**65.0**	**51.9**	**51.9**	**52.1**	**52.2**	**48.5**	**53.6**

Source: DairyCo & The Dairy Group (Surveyed 31/03/14)

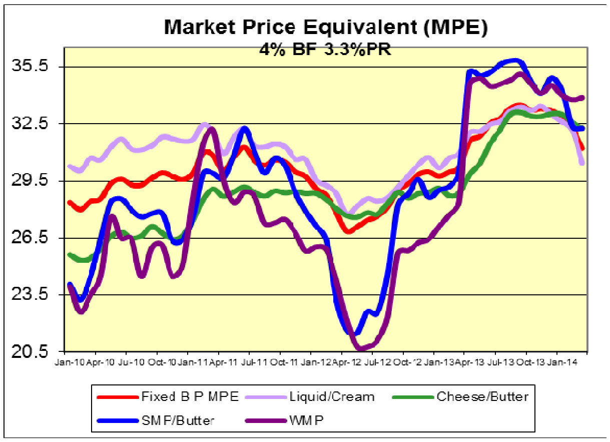
The table above shows the average checkout price for a range of pack sizes for the different retailers with the 4 pint pack the key reference due to the prominence on the market. The distribution by pack size will vary by retailer, but the evidence of price matching is clear. The real question for producers is not what the consumer pays but what is happening at the farm gate? Aldi and Lidl pay a similar price for their supply as the large retailers so it boils down to the retailer’s margin in the end, with the discounters setting a lower target.

Talk of devaluing a premium product seems a bit out of date with retailers commoditizing liquid milk over the last 10 years. The price of liquid is not set by any intrinsic value, but in competition for supply against cheese. The liquid and cheese categories take 80% of the domestic supply. When supply is low (most autumns and due to the weather in 20112/13) then there is competition for supply which increases price. However, when supply is strong, such as now, then competition for supply weakens and with it the price.

The evidence of farm gate pricing shows there is no appetite for cuts with Arla still enjoying the commodity peak of 2013 and Muller Wiseman competing hard for supply against Arla. The pressure will be mounting on Dairy Crest and First Milk to remain competitive at the farm gate. The only prices to fall so far are the formula prices which were largely set at a peak in both production costs and commodity returns. The move by Dairy Crest to set a higher floor price for its liquid formula from April 2014 is indicative of the arbitrary nature of the base level.

2014 is going to be an interesting year with EU production up 5.1% in January 2014 and many countries, UK included, showing continuing strong production trends. With one year of quotas left and reports of a rising EU dairy herd, together with benign weather globally makes the prospects for a supply demand imbalance look likely.

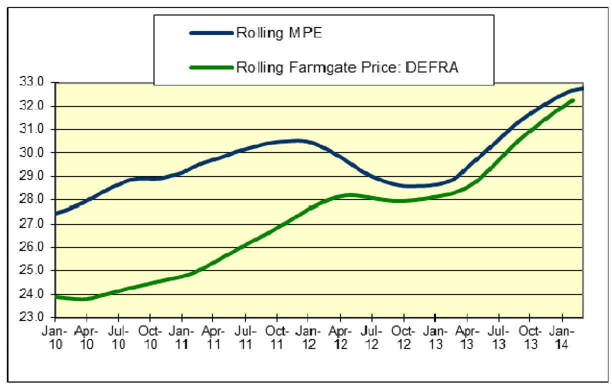
The Fonterra Global Dairy Trading platform has recorded falls of 4% and 5.2% at its two March auctions with weaknesses appearing from May 2014 onwards. Worries regarding retail prices may have been premature, with the real test from World markets coming later in the year. Higher processor and retailer margins or lower prices for everyone is not a prospect to look forward to. Dairy farmers can have little impact on the World dairy market, but what they can control is their own production costs and the sooner they do so the better for their own business security."



Market Prices

The Market Price Equivalent (MPE) has dropped sharply to 31.2 ppl with rises in Cream and Butter compounded by falls in Liquid. The range across the sectors has widened again to 2.5 ppl with the tail off in liquid. The latest GDT auction was down 5.2% due to butter -4.4%, with SMP -1.7% and WMP -5.8%. The contract prices have weakened from May to September 2014. The MPE is up 1 ppl on the year and down 2.27 ppl since September 2013. New Zealand production is running +7.4% in January 2014 despite dry conditions in the north. The US is running +1.2% in February, with the EU +4% in January. Globally rising production is weakening markets as the northern hemisphere spring flush begins and there are strong indicators for a continued rise in EU production in 2014.

Farm Gate Prices



The graph shows the rolling MPE starting to level off as the market returns ease back from the 2013 peak. The rolling farm gate price is still rising as it is above 2013 by about 3ppl and still heading up to peak around 33 ppl. The weather continues to be fairly average and is forecast to continue through April with sunshine and showers. The economics remain good with margins showing a strong recovery. UK production is running ahead of the 5 year average for the rest of the quota year. The 2013-14 production is forecast at 13.7 billion litres, which is up 5.7%, 744 million litres above 2012-13 and 263 million litres above 2011-12. The new quota year is likely to start apace with our forecast for April around 1268 million litres, +13.5% on 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.