

PRESS INFORMATION from *The Dairy Group*

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The Market Price Equivalent (MPE) Update May 2015

By Nick Holt-Martyn, The Dairy Group

UK market falls to an 8 year low

“While we have been obsessing about the machinations of the GDT the UK market returns have sunk to an 8 year low” says Nick Holt-Martyn of The Dairy Group. He goes on to say “The MPE has dropped to 24.3 ppl, the lowest since May 2007. Previous lows were 26.9 ppl in April 2012 and 26.1 ppl in May 2009. May 2007 was prior to the commodity boom that preceded the collapse of the global economy. A comparison of market returns from May 2007 (utilisation from March 2007) with May 2015 is shown in the table:

£/t	May 2007	May 2015	Difference	Utilisation (M Litres)		Difference	
Liquid	41.4 ppl	41.3 ppl	-0.1	6586	7050	+464	+7.0%
Cream	940	920	-20	314	299	-15	-4.8%
Butter	1900	2150	+250	239	272	+33	+13.8%
Mild Cheddar	1925	2350	+425	} 3742	} 3813	+71	+1.9%
Mat. Cheddar	2400	N/A					
SMP	2000	1325	-675	} 1711	} 1871	+160	+9.4%
WMP	2400	1855	-545				
Whey	823	625	-198				
			Yogurt	232	275	+43	+18.5%
			Other/Waste	290	535	+245	+84.5%
			Total	13114	14115	+1001	+7.6%

Source: Defra & The Dairy Group

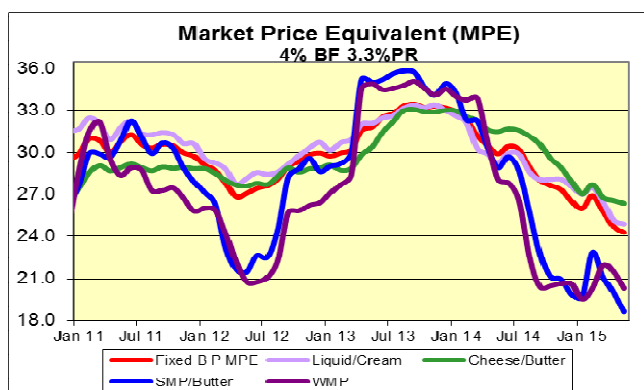
Comparing May 2015 with May 2007, liquid returns are unchanged, with butter and cheddar higher, but commodities are well behind the returns of 8 years ago. The significance of this is that commodities were less influential on domestic prices in 2007 compared to cheddar or liquid but now, partly through GDT, global prices and more importantly transparency in domestic returns, commodities are much more influential today. Now, we see the differentiation across the market with production cost contracts in the retailer aligned pools at the top end of the spectrum, down to the commodity driven prices at the bottom end, with cheese contracts sitting in the middle.

The utilisation figures show there has been a one billion litre (+7.6%) increase in production in the intervening 8 years. Liquid has grown by 7%, with cheddar +1.9%, butter has increased by 13.8%, with a decline in cream of 4.8%; with a 9.4% increase in powders and a sharp rise in yogurt (+18.5%) and Others/Waste (+84.5%). The rise in powder production has clearly diluted the returns from the core cheese and liquid sectors while the rise in yogurt and others has limited effect as these are a relatively small part of the total utilisation. The result is that returns are down to an 8 year low despite better returns being achieved from butter and cheddar.

Much of the growth in supply has occurred recently, with supply increasing by 667 million litres in the last year, with 49% of that increase going to powders, 22% to cheese and 20%

to liquid. So with powders the weakest performer in the market any growth in supply only serves to dilute market returns.

The importance of this is that UK supplies are up (April 1298.8 M litres +1.54%), Holland has increased by around 4% with Ireland and possibly Germany much the same or at least progressing in that direction. Much of that production will be going into powders, as indicated by the increase in EU market share, leaving markets weakened around the world. Until supply stabilises there can be little if any recovery in market returns without an unlikely significant shift in demand. Milk pricing for the rest of 2015 awaits the new season reports in New Zealand for any signs of reduced supply, combined with a response in the EU showing supply easing off through late summer and autumn."



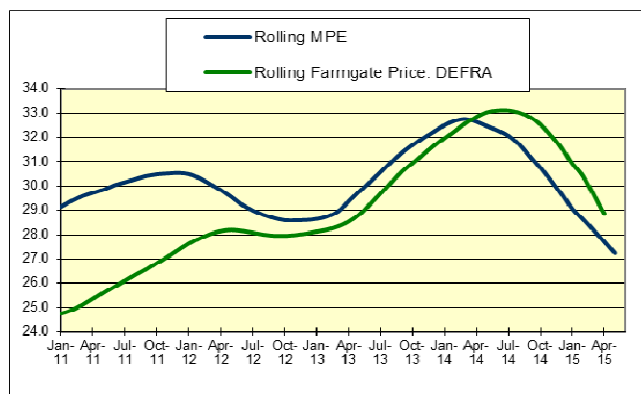
Market Prices

The Market Price Equivalent (MPE) has dropped back sharply by 0.4 ppl to 24.3 ppl due to falls in commodities, with liquid and cheese the exceptions. The range across the sectors narrows to 6.3 ppl due to weaker cream and SMP. SMP has now fallen to £1325/t, 3% above the latest GDT auction which fell another 4.2% in Sterling equivalent across most commodities and contract periods. The GDT price equivalent

(GDTPE) is down to just 16.6 ppl, which is a record low since the start of twice monthly sales in September 2010. Recent GDT auctions have seen a stabilisation in product offered, although still 21% less than the corresponding auction last year. The proportion of WMP offered has fallen to a relative low of 54%. The MPE remains down 5.6 ppl on the year and down 3.1 ppl since November 2014. US production is now running +1.7% in April while the EU is at -0.6% in February due to quota management while New Zealand drought affected supply was -0.9% in March.

Farm Gate Prices

The graph shows the familiar pattern of rolling MPE falling back as market returns drop away, being closely tracked by the rolling farm gate price. The cooler damper conditions in May will have helped sustain peak milk production after the slow start. UK production in April was confirmed at 1298.8 million litres, which was +1.54% ahead of last year with May forecast at 1360 million litres and June forecast at 1280 million litres. The expectation for the new milk year remains flat overall but is being helped by good weather which is likely to help production through the summer before economic realities impact on winter production. The 2015/16 milk price is forecast to average 25 to 26 ppl for the year, which will put significant pressure on dairy profit margins.



- Ends -

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- MPE is calculated from the weighted actual wholesale prices for liquid milk, cheese, butter & powders after the normal processing costs.