PRESS INFORMATION from

The Dairy Group

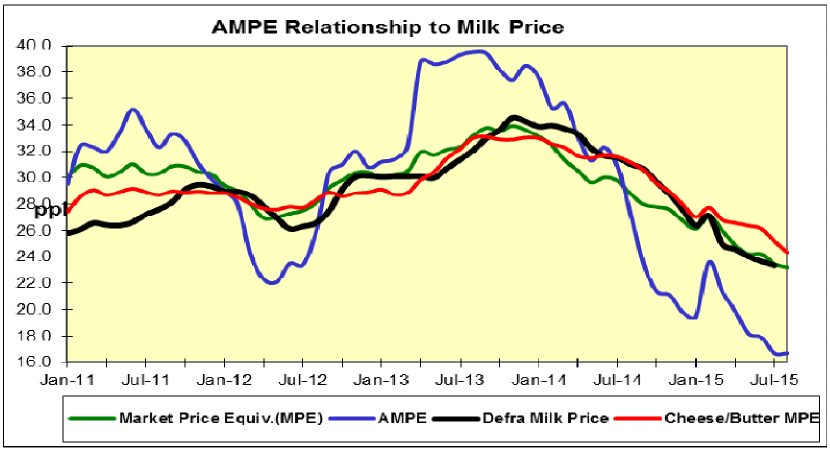
31 August 2015

The Market Price Equivalent (MPE) Update August 2015

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

Arla Amba Fails the Acid Test!

"At last the truth is known, the wholesale price of fresh liquid milk is directly linked to commodity prices by the main dairy processors. The revelation, long suspected from regional anecdotal evidence, was made clear on BBC Farming Today by Ruth Mason NFU Chief Food Chain Adviser. Arla's customers were forced to ask Arla to stop reducing the wholesale price of milk, apparently triggered by the collapse of global commodity markets" says Nick Holt-Martyn of The Dairy Group. He goes on to say "But it's not only Arla, Asda, Lidl and Aldi raised the stakes by asking their suppliers to charge enough to ensure farmers received 28 ppl which means Muller Wiseman are also guilty of undermining the value of the jewel in the UK dairy industry crown. No wonder Dairy Crest rather belatedly want to leave the sector. The margins are negative for the whole supply chain as processors and retailers engage in a vain battle for market share over profitability, leaving the consumer the only winner but with a badly damaged dairy industry.



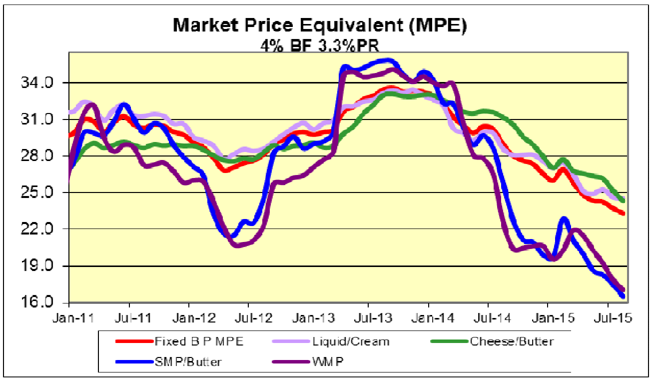
Source: DairyCo & The Dairy Group

As the graph above shows linking liquid to some form of AMPE is pure folly, why link the value of a fresh perishable product to a commodity that can be stacked in a shed for months on end before being shipped anywhere in the world! A commodity that exhibits extreme volatility due to its position as a marginal product. If the wholesale price has to be linked to anything then link it to cheese, preferably mature, as liquid and cheese dominate the UK utilisation of raw milk (80%) not commodities that are a product of last resort.

It is particularly galling for Arla members because Arla Amba were expected to correct the aggressively undercutting of its Arla UK predecessor who were blamed, rightly or not for precipitating the crash and summer of discontent in 2012. In that year it was fortunate that the supply side corrected due to adverse summer weather in the EU and markets returns recovered to provide the lift off for prices over the last 3 years. A pan European global player was expected to be able to tackle the Retailers head on to get the best deal for farmer members which in turn would keep Muller Wiseman honest. How thoroughly disappointing, if we can't get it right in our domestic back yard how hollow are the words extolling global opportunities for the taking!

Back in 2012 the UK market was already rising before there was a correction in global supply due to the wet summer weather and a fall in in EU production, helped along by farmer's direct action. This year the direct action has gained good media scrutiny again but the supply side has not been so obliging this time although UK July supply has dropped 1% below 2014.

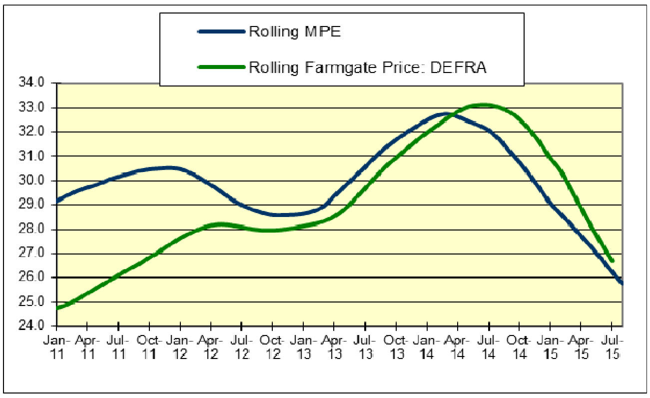
Globally the position is not so encouraging with EU supply +2% so far, the US is around +1.4% and the weather down-under is being dominated by a strong El Nino which is likely to impact Australia more than New Zealand. With farmers globally under pressure, even Fonterra CEO couldn't disagree that up to 90% of NZ dairy farmers would lose money this coming milk year. Which means that if dairy farmers are losing money worldwide a correction in supply is likely to happen over the next 6 months which will have a positive effect on market returns. The normal 1:10 gearing between supply and market prices has been seen in the GDT of late and is likely to happen in the wider market. When that will impact at the farm gate is up for debate but a recovery of sorts is on the cards for 2016 once all these factors play out. The challenge for dairy farmers and their bankers is to survive into 2016 to benefit from the recovery!



Market Prices

The Market Price Equivalent (MPE) continues to fall, back again by 0.4 ppl to 23.3 ppl due to falls across the board other than liquid. The range across the sectors widens to 8 ppl due to weaker SMP. SMP has now fallen to £1175/t, £74/t below Intervention and £204/t above the latest GDT auction, which rose another 13% in Sterling equivalent. The GDT price equivalent (GDTPE) is down to just 13.2 ppl, up slightly on the record low of 11.6 ppl at the previous auction. The latest GDT auctions have seen a 21% cut in product offered although still 19% less than the corresponding auction last year. The proportion of WMP offered remains at a relative low of 49%. The MPE is down 5.6 ppl on the year and down 3.6 ppl since February 2015. US production is now running +1.2% in July while the EU is at 2.0% in April/May and NZ supply in June was +8%.

Farm Gate Prices



The graph shows the all too familiar pattern of rolling milk prices following market returns as they slip away. August has been wet which appears to have dampened production and with no change in the weather this is likely to continue. Sterling has weakened to €1.36 raising the Intervention price. UK production in July was down 1.1% at 1211 million litres, August is forecast at 1170 million litres and September 1120 million litres. The expectation for the new milk year has decreased to 0% as low prices take affect this autumn winter. The latest price cuts mean the 2015/16 milk price is now forecast to be below 24 ppl by next spring, unless there is an upturn in the near future.

- 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.