PRESS INFORMATION from

The Dairy Group

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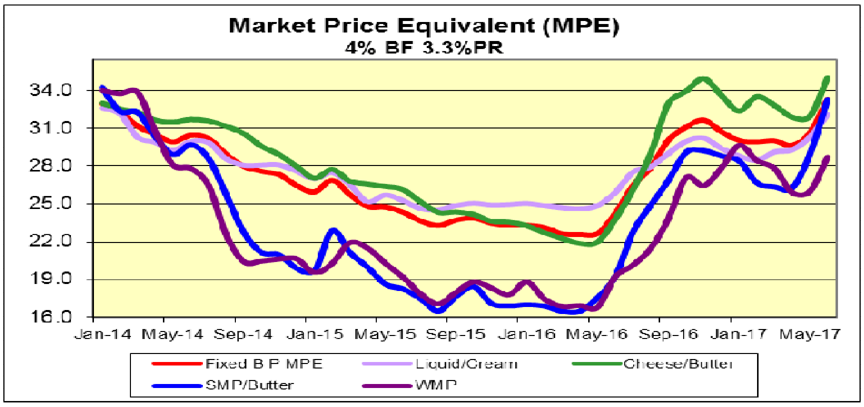
The Market Price Equivalent (MPE) Update June 2017

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

Time to Catch The Next Dairy Wave!

"With the OECD forecasting a rise in global GDP to 3.6% in 2018, up from 3.5% in 2017, the fourth consecutive year with global growth above 3%, dairy demand is set to outstrip the modest supply growth of just 1% currently under way" says Nick Holt-Martyn of The Dairy Group. He goes on to say "the SMP in intervention stores appears to be discounted possibly due to its age, but also an expectation that it will end up in animal feed/welfare. So commodities have reached heights not seen since 2014 or in Cream and Butter's case ever before. Generally demand growth follows global GDP, so with such a positive global outlook for everywhere but the UK and Japan (falling to 1% in 2018) dairy demand looks set to drive up prices in all markets.

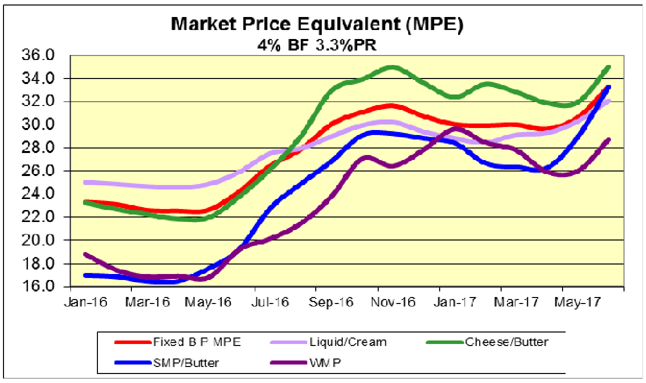


Source: The Dairy Group & AHDB

The graphs above show how market returns have suddenly taken off in June, not just in butterfats, but also in cheese as well. Liquid returns are failing to follow suit, relying on record cream values to shadow the trend. The MPE is up 8.7% in June to 33.3 ppl with rolling returns above 30ppl for the first time since November 2014. UK supply is on a par with 2016 with June forecast around 1210 million litres and July seasonally dropping back to 1190 million litres. With falling supply for the next 5 months demand pressure will drive prices up, above where they reached last autumn and impacting at the farm gate as the winter progresses. This is the next dairy cycle in progress and the prognosis is very favourable for 2018 pricing, supply permitting.

Summer/autumn should see the reversal of recent cuts and the Defra average should be over 30 ppl by Christmas, heading on towards 33 ppl next spring.

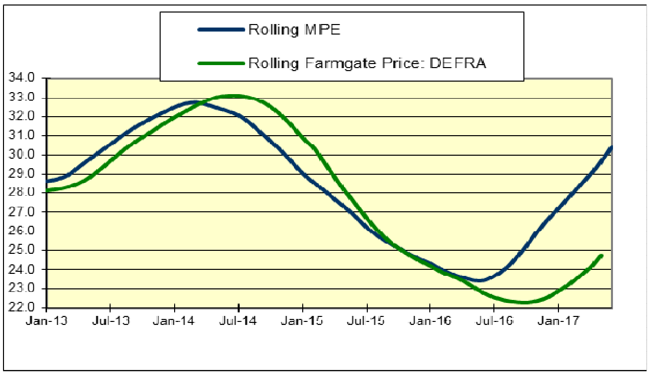
Rising prices will inevitably bring an increase in supply in 2018 which will dampen down prices progressively into 2019. Without the quota abolition factor this time there is hope that markets will adjust gradually and that supply can be equally sensitive and avoid the precipitous crash of 2015/16. A rapid supply growth from 2017 through 2018 will undermine all of the above with inevitable consequences for farm gate prices. There is no need for Politicians to encourage a Brexit supply surge, just help the processors find the global value added markets and the dairy cycle will deliver the rest.



Market Prices

The Market Price Equivalent (MPE) has surged by 2.66 ppl to 33.3 ppl due to the relentless rise in Cream and Butter and further rises in Cheese, WMP and SMP. Liquid remains flat with no movement in retail prices for months. The range across the sectors is up to 6.3 ppl from Cheese/Butter returns to WMP. SMP is up to £205/t above Intervention price, but still behind the last GDT auction, which rose 1.1% in Sterling equivalent. The GDT price equivalent (GDTPE) is 28.0 ppl and rolling at 25.9 ppl. The GDTMPE rose 0.5% in the month and is down 7.9% in the last 6 months compared to the MPE which climbed 8.7% in the month and 8.3% in the last 6 months. Global supply is starting to grow again with the US at +2%, NZ +6% in April and the EU +0.1% in April, a combined +1.2% in April and a forecast +1.0% in May. The prognosis for the summer is for supply to grow at around 1%, but with rising global GDP at 3.5% will be sufficient to stimulate demand. While Butter remains at record price levels and SMP has begun to move away from Intervention price this should provide the impetus for the farm gate price to recover the spring losses.

Farm Gate Prices



The May 2017 farm gate price is up 6.4 ppl on May 2016 and up 1.24ppl (+4.9%) since November 2016. The May price slipped back 0.6% to 26.8 ppl as seasonality and downward price adjustments took effect. The rolling milk price will continue to improve through the summer tracking the MPE curve. June weather has been very variable with a mixture of very hot and very wet to leave grass growth back on a normal plane overall, but lurching from drought to flood in a short space of time. Spring production has been revised up to equal 2016 and is expected to remain so with better grazing conditions following the rain. Sterling has risen against the Dollar to around $1.30, but fallen against the Euro to €1.13 as Brexit negotiations begin with a background of a hung Westminster parliament. UK production in April was at 1262 million litres and 1322 million litres in May and is forecast to be +0.3% at 1210 million litres in June and at 1190 million litres in July (+2% on 2016). Milk prices have slipped back just as wholesale markets have turned the corner with a sharp rise (8.7%) in June. With the UK spring flush now past, supply is in better balance and attention will switch to the southern hemisphere for market impetus. Production costs remain under pressure as farm gate prices settle out around 27ppl and should begin to climb as we enter the autumn pricing period.

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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 United Kingdom market utilisation of milk. AMPE (Actual Milk Price Equivalent) also only accounts for 14% of United Kingdom milk production. The MPE provides a far superior indicator of the wholesale value of milk and therefore the likely market returns available to the dairy farmer.