

PRESS INFORMATION from *The Dairy Group*

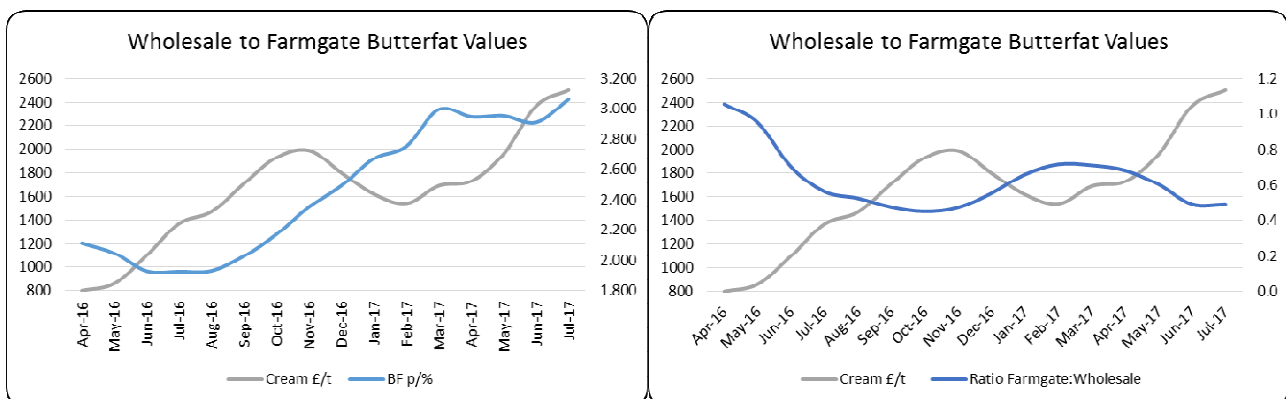
31st July 2017

The Market Price Equivalent (MPE) Update July 2017

By Nick Holt-Martyn, The Dairy Group

Where is the Incentive for Butterfat (but not for litres)?

“The wholesale dairy markets are in an unusual place” says Nick Holt-Martyn of The Dairy Group. He goes on to say “record values for cream and butter are the norm while SMP is just 4.5% above intervention price. Milk supplies are running ahead of 2016, +1% both domestically and globally since April 2017, but UK butterfat supply has only gone ahead in June 2017, +2.6% due to both volume and butterfat content. The message from the market is clear, there is plenty of milk (SMP price) but a lack of butterfat (cream price). Where is this message at the farm gate where the focus is on pence per litre, but not necessarily how that is derived? If producers aren’t rewarded for butterfat don’t be surprised if farmers produce more litres which will exacerbate the milk protein supply problem. A good example is Arla, who have probably the broadest product mix of the major buyers in the UK.

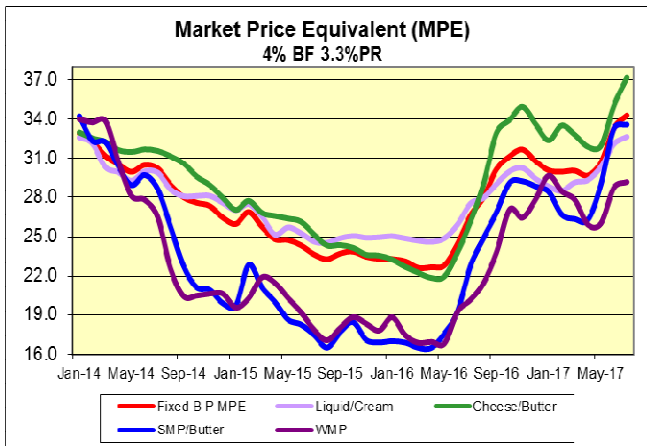


Source: The Dairy Group & Arla

The graphs above show how the wholesale value of Cream has risen threefold since April 2016, but the pence per % at the farmgate has risen by just 50%. The ratio of farmgate price to the wholesale price has dropped from 1.0 to 0.5. The incentive to manage the nutrition of the dairy cow to increase butterfat has not been passed on or promoted as a way to increase milk price. Arla are not alone by any means, but is an easy example to highlight and have been very visible in their promotion of Anchor Butter and their reporting of a potential butter shortage. By contrast, the equivalent protein ratio has stayed in a narrow band; 0.7:1.0, in line with the fragile nature of SMP pricing.

The message for processors is that market transparency means that while markets are at record levels incentivise butterfat production to reward those who can and do manage their herds to increase fat yield without incurring a milk price reducing surge in volume. Increasing milk per se will not help a SMP price just 4.5% above Intervention Level.

With the MPE around 34 ppl this summer, autumn should see the reversal of all cuts and the Defra average should be over 30 ppl by Christmas, heading on towards 33 ppl next spring. Better forage and nutrition management together with an incentive for butterfat might just help



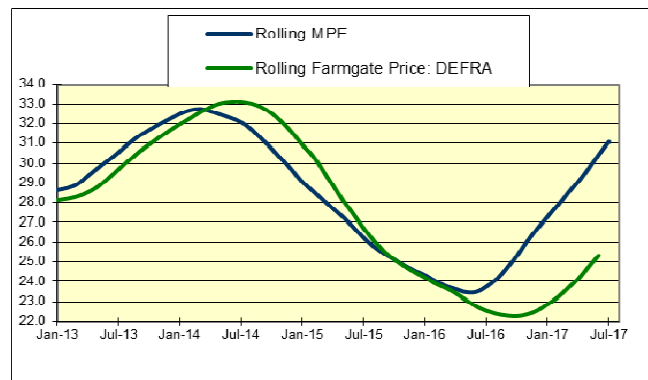
Market Prices

The Market Price Equivalent (MPE) has lifted again by 1.0 ppl to 34.3 ppl due to the relentless rise in cream and butter and further rises in cheese and WMP. SMP dropped 7.6% to £1570, just 4.5% above Intervention. Liquid remains flat with no movement in retail prices for 6 months, relying on cream values for the rise. The range across the sectors is up to 7.99 ppl from record cheese/butter returns to WMP. SMP has dropped to just £67/t above Intervention price and 1% above the last

GDT auction, which rose 1.4% in Sterling equivalent. The GDT price equivalent (GDTPE) is 26.9 ppl and rolling at 26.6 ppl. The GDTMPE fell 4.1% in the month and is down 7.6% in the last 6 months compared to the MPE which has climbed 3% in the month and 14.1% in the last 6 months. Global supply is starting to grow again with the US at +2%, New Zealand -0.7% in May and the EU +0.1% in April, a combined +1.3% in April and a forecast +0.9% in May. The prognosis for the summer is for supply to grow at around 1%, but that rising global GDP of 3.5% will be sufficient to stimulate demand. While butter remains at record price levels, but SMP has returned towards Intervention price there should still be enough in the market to increase milk price.

Farm Gate Prices

The June 2017 farm gate price is up 6.8 ppl on June 2016 to 26.75ppl and 0.5ppl, 2%, since December 2016. The June price was unchanged on May as seasonality and downward price adjustments take effect. The rolling milk price curve will continue to improve through the summer (tracking the MPE) when it is expected to reach 26 ppl. July weather has continued the variable theme with a warm showery mix to leave grass growth ahead of trend. Spring production has been revised up to ahead of 2016 and is expected to remain so with better grazing conditions following the rain. Sterling has risen against the Dollar to around \$1.31, but held against the Euro to €1.13 as Brexit negotiations begin with a background of a hung Westminster parliament. UK production in April was at 1263 million litres, 1328 million litres in May and 1233 million litres in June. The forecast for July is 1186 million litres and for August 1146 million litres, with both months forecast to be +1.8% on 2016. Milk prices have stabilised with the gap to wholesale returns around 5 ppl against a long term average of 2.4 ppl which suggests significant price movements can be expected. Production is in balance and market returns are good, so prices need to be moving up above production costs at this point in the cycle.



- Ends -

- **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.