PRESS INFORMATION from

The Dairy Group

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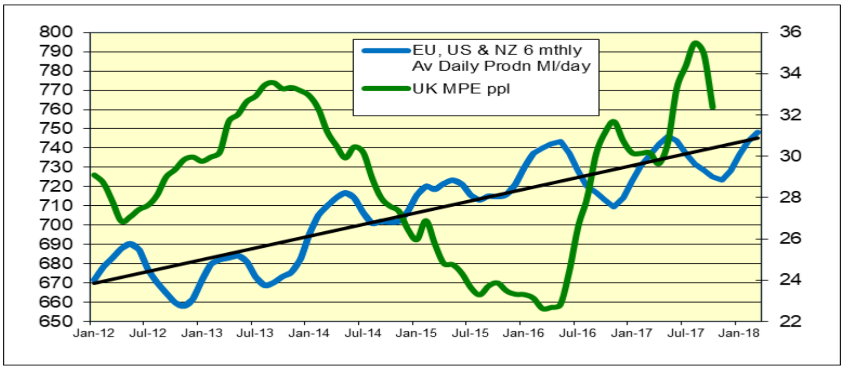
The Market Price Equivalent (MPE) Update October 2017

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

Surging EU production knocks butterfat market down towards a Global level

"The collapse in EU Butter and Cream Prices has been as dramatic as its rise in June to August, but what is more surprising it has come before the Christmas market peak" says Nick Holt-Martyn of The Dairy Group. He goes on to say "a decline in January was always likely given higher farm gate prices across the EU for more than 6 months and the rise in EU milk production. The gap between UK butter prices and the GDT were at an unsustainable 28% for September and October compared to the long term average of 16%. This would put UK butter at £5040, almost exactly where AHDB have reported October 2017 butter price.

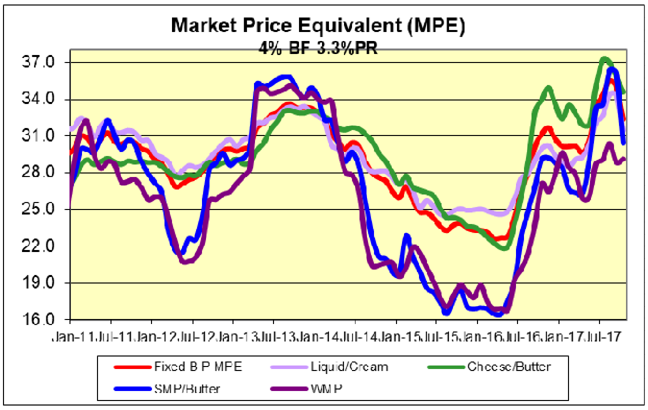


Source: The Dairy Group

The graph above compares the milk supply of the 3 main exporting groups; US, EU and New Zealand against the UK Market returns (MPE) since January 2012. This covers the period of the abolition of quotas and the subsequent market crash and the more recent recovery. Since the autumn troughs normalised in 2016, dipping well below the long term trend and with the summer peaks more modest the market is in better balance. This suggests the current market dip is more in response to butter values getting out of touch rather than heralding any wholesale price crash. Both the rise and correction have been rapid indicating over excitement in EU markets rather than a Global phenomenon.

Nothing to get too concerned about then? Not yet, but with EU milk production showing a +2.0 to 2.5% monthly year on year growth and the UK posting a +6% October corrected production after 5.2% in September and 4.8% in August, there are worrying signs that production is accelerating. This is not good; the lessons of history teach us that growth above 1% leads to lower milk prices. The fall in milk prices is often around 10 fold greater than the rise in supply!

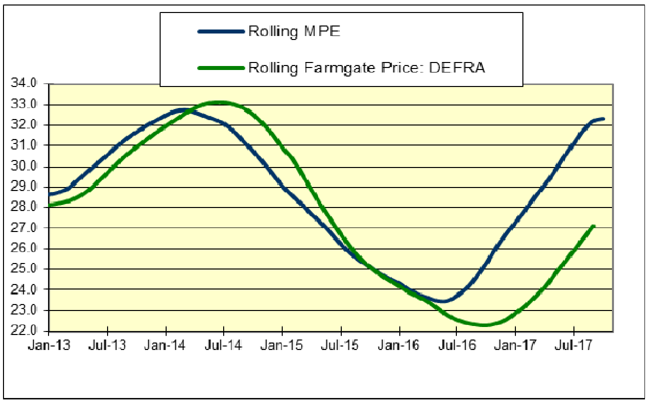
For the UK with 80% of its milk in the core markets of liquid and cheese there is a certain amount of security and delay in market price transmission. Not seen as good when markets rise, but welcome when they fall or suffer tremors in a particular commodity sector. SMP dropping well below intervention price and the correction in butter values will have an effect on UK pricing, but as liquid returns have hardly changed all year and the cheese market looking relatively stable, most of the adjustments are through surplus butterfat and the value of cream and butter. The biggest risk to UK farm gate prices is UK supply. It's the usual dilemma; what is right for the individual business is not necessarily right for the industry as a whole.



Market Prices

The Market Price Equivalent (MPE) has dropped, by 2.6 ppl (7.5%) to 32.4 ppl due to all sectors easing back, due to their butterfat exposure and SMP. Butter dropped 17.9% and cream 23% but are still significantly above levels 6 and 12 months ago. SMP dropped 11.5% to £1350, 11% below Intervention. The range across the sectors narrows to 5.53 ppl from cheese returns to WMP. The GDT price equivalent (GDTPE) has eased to 25.8 ppl and rolling at 27.4 ppl. The GDTMPE fell 0.7% in the month and is flat at -0.1% in the last 6 months compared to the MPE which fell 7.5% in the month, but is up 9% in the last 6 months. UK SMP has dropped to £11/t below the last GDT auction. Global supply is growing strongly with the US at +2%, New Zealand -1.6% in September and the EU +2.7% in August, a combined +2.1% in July and 2.2% in August. The forecast remains +2% until the end of the year. Rising Global GDP should help to maintain overall market tone and the rise in butterfat production means a normalisation of cream and butter values.

Farm Gate Prices



The September 2017 farm gate price tops 30 ppl for the first time since September 2014, up 7.4 ppl on September 2016 to 30.13 ppl. The rolling milk price curve will continue to improve through the autumn tracking the MPE curve to the peak. October weather has been variable, but with most cows housed on full winter rations milk production has taken off. Sterling has recovered again to around $1.32 to the Dollar and to €1.13 to the Euro as the first Bank of England base rate increase for more than 10 years is expected in November. The production for September was 1135 million litres (+5.2%) and 1180 million litres in October (+6.4%) on 2016. The forecast for November is 1160 million litres and 1210 million litres for December. Milk prices have moved up rapidly to close the gap to wholesale returns, but with MPE falling are likely to peak in the next 2 months close to 32 ppl. Production is rising rapidly and market returns have fallen, so farm gate prices are likely to weaken from January 2018. Thereafter, with EU production rising, the prognosis for 2018 farm gate pricing is not good, but subject to New Zealand production in the short term, which has been weak so far this milk season.

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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 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.