PRESS INFORMATION from

The Dairy Group

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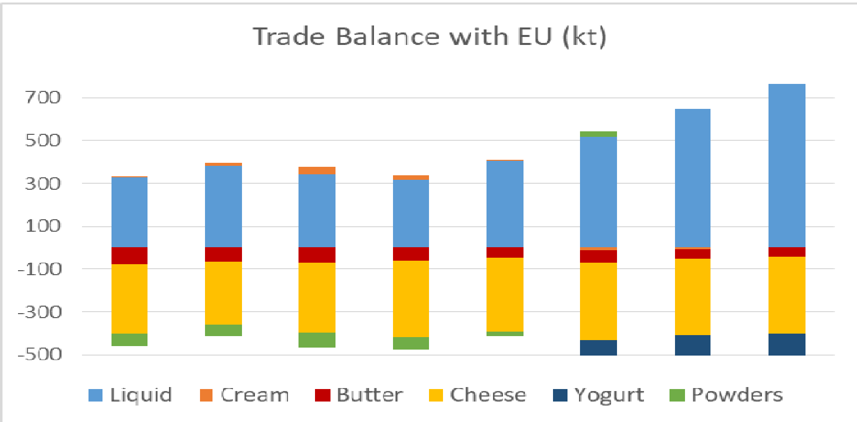
The Market Price Equivalent (MPE) Update July 2018

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

Brexit an opportunity for dairy expansion?

"The UK will finally leave the EU in December 2020 with March 2019 the start of the transition period - in theory at least. We are halfway from referendum result to fully leaving and we still don't know what Brexit means" says Nick Holt-Martyn of The Dairy Group. He goes on to say "from a Norway style EU subscription to a self-determining WTO member or any point in between. The EU never agrees things early so it was always going to go to the wire and in all likelihood a bespoke agreement that will evolve in the fullness of time will be agreed at the last minute.

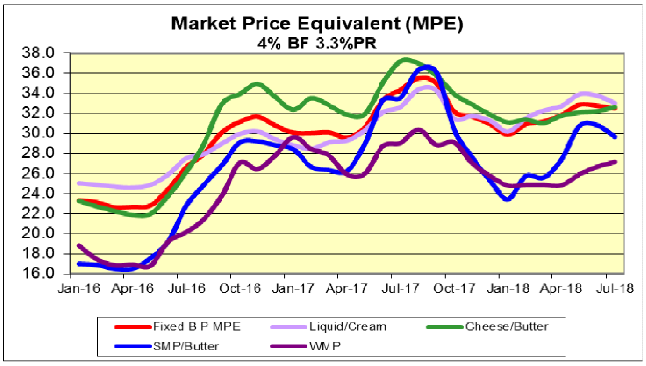
What does all this mean to the UK dairy industry? There is a big risk of disruption to trade with the EU and a potential massive problem for Arla with its group price. In dairy products the trade balance means the UK is a net importer with around 84% self-sufficiency overall, but a wide variance between products from cheese at 60% to 105%+ in cream and powders.



Source: The Dairy Group and Defra

The chart above shows that cheese and increasingly liquid milk for further processing would be exposed most to trade disruption. Liquid milk exports have more than doubled in the last 7 years and are rolling at over 900 million litres and cheese imports equate to over 3 billion litres. In total the UK imports a net additional 2.7 billion litres of milk as dairy product. Disruption of the supply chain from the EU will inevitably mean higher UK milk prices encouraging UK dairy farmers to close the gap by expanding. Retailers and milk processors will resist the higher prices, but no one bucks the market and prices would rise.

Not quite the Brexit promise of cheaper food and it may only last until customs arrangements are settled and become streamlined, but disruption in any form will increase prices. Meanwhile the drought has been suspended by widespread rain, but the forecast remains warm and dry so any recovery may be short-lived. Supplies barely show a flicker as yet, but like Brexit the worst is yet to come.

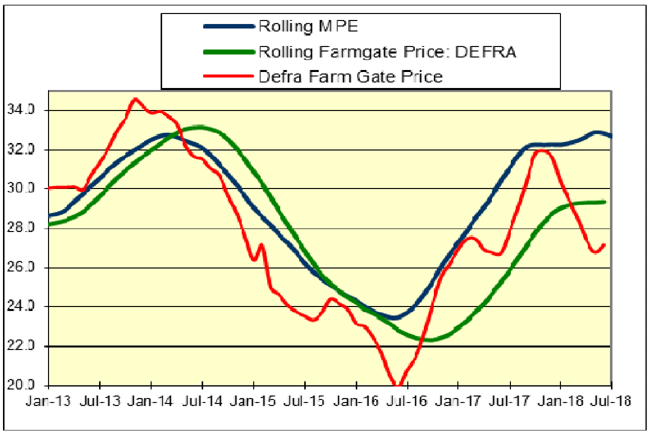


Market Prices

Market tone remains stable with the Market Price Equivalent (MPE) down slightly at 32.5 ppl (-0.8%) due to weaker butterfat prices and SMP. SMP slipped 1.5% to £1340, 11% below Intervention which rose on weaker Sterling. The range across the sectors eases to 5.8 ppl from Liquid returns to WMP. The MPE is down 5.4% on the year and up 8.7% in the last 6 months. The GDT price equivalent (GDTPE) has dropped to 24.8 ppl, -5.7% in the month, but up 3.2% in the last 6 months. UK SMP is now £154/t below the last GDT auction and is £170/t below Intervention. Global supply growth remained around +1.2% in April with the EU +1.4%, the US +1.2% and New Zealand +11% in June. The hot summer has superseded the late spring in the EU and is expected to reduce production through the summer with Ireland particularly affected.

Farm Gate Prices

The June 2018 farm gate price has risen by 0.4 ppl to 27.2 ppl and is the first rise since November 2017. The MPE curve averages 32 ppl and has hardly moved in that time and is up 6% in the last 6 months. The impact on farm gate prices should increasingly be seen from August as higher prices feed through. If the drought weakens supply as expected, the UK farm gate price should be well over 30ppl by the start of winter.



Sterling has weakened due to Brexit uncertainty with the Dollar at $1.312 and €1.122 to the Euro. The production for May was confirmed at 1377 million litres (+14 million litres on 2017), while June was 1285 million litres (+20 million litres).

The expected milk price increases are starting to feed through to the farm gate with the markets indicating an averaging of 32.5ppl, despite weaker butterfat values. With weather likely to affect milk supply and rising costs squeezing margins, expectations remain for milk price to increase further."

- Ends -

For further information please contact:

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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.