PRESS INFORMATION from

The Dairy Group

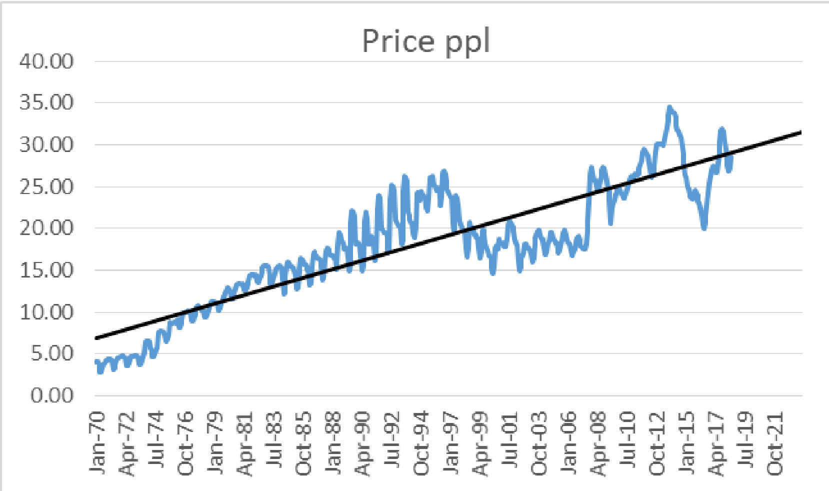
2nd October 2018

The Market Price Equivalent (MPE) Update September 2018

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

Loss of BPS to be made up from the market?

"The publication of the Agriculture Act sets out the phasing out of BPS over the next 9 years. But as in Defra's previous missives it fails to say that market prices will need to rise to make good the shortfall" says Nick Holt-Martyn of The Dairy Group. He goes on to say "It looks to farmers to tap into overlooked efficiencies and expansion(!) into unknown markets as the solution. The simple reality of subsidies of course is that they enable us to keep farming at levels of market return that would otherwise simply be uneconomic. The retailer effect is to extract that income via lower prices to reward their customers with cheaper milk and dairy products.

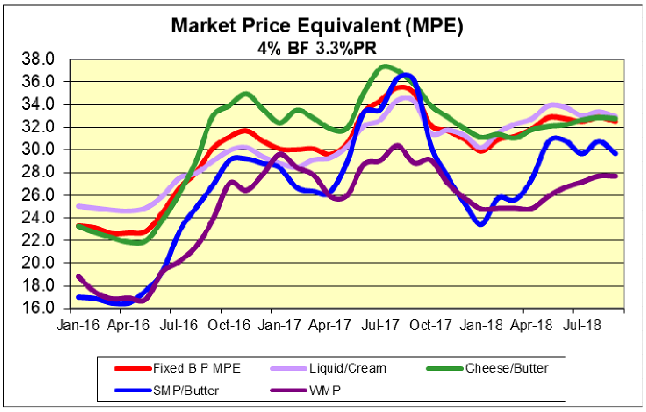


Source: The Dairy Group and Defra

The graph above shows how milk prices have fared over the last 48 years. It includes the step changes from UK market deregulation, Agenda 2000 CAP reform and milk quota abolition. The effect of these market interventions has been to pull the UK farm gate price back from a possible 35-40ppl range to the 27-32ppl range we find ourselves in now. The next instalment will be Brexit which if the last 20 years are any indication it will be a volatile experience at the very least.

The dairy element of the Basic Payment (BPS) that farmers receive started out as a Dairy Premium, but was subsumed into the Single Payment and was worth about 2.4ppl and based on quota held. Since then the number of dairy farmers has declined by 36% from 20,313 to around 12,500 today. Production is up about 1 billion litres, about +700 million litres above the 2005 quota level and the average production has risen from 691,000 litres to 1,180,000 per farm. The effect is to dilute down the value of the dairy element to 1.4ppl (5% of milk price). As this is phased out it will have to be met from the market place for milk production to achieve current levels of viability.

Absent drought effects in EU milk supply and the good start in New Zealand's milk year are providing ominous signs for 2019, despite solid markets and prices through the rest of 2018. Brexit uncertainties and sharply rising cost of production paint a picture of concern!

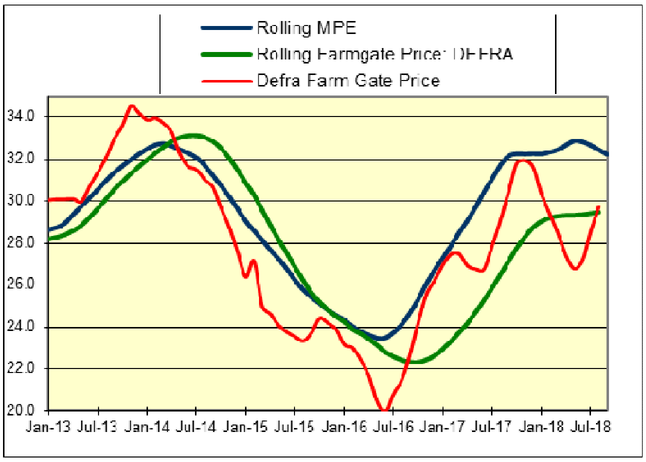


Market Prices

Market tone has eased the Market Price Equivalent (MPE) to 32.5 ppl (-1.2%). MPE is up 1.3ppl (+4.2%) in the last 6 months, but down 2.5ppl (-7.2%) year on year. SMP gained 2.2% to £1410, 6.8% below Intervention which fell due to Sterling. Butter was down 6.5% and Cream 4.5% as drought fear dissipated. The range across the sectors eases to 5.3 ppl from Liquid returns to WMP. The actual MPE was able to stand still due to a recovery in milk quality with rises in both butterfat and protein. The GDT price equivalent (GDTPE) has dropped to 23.5 ppl, -2.1% in the month, -10.5% in the last 6 months. UK SMP is now £96/t below the last GDT auction and is £102/t below Intervention. Global supply growth rose to +2.9% in July from +1.4% in June with the EU +4.4% in July and New Zealand +4.7% in August. The hot summer has had little impact in the EU so far, although winter forage shortages may provide a sting in the tail.

Farm Gate Prices

The August 2018 farm gate price has risen by 1.1 ppl to 29.7 ppl, up 0.33ppl (1.1%) in the last 6 months and up 0.7ppl (2.3%) in the last year. The graph suggests a recovery in the relationship between markets and milk price now compared to 2013-15. UK supply is holding up better than expected, -0.7% in August and the UK farm gate price is on track to be 30ppl by October.



Sterling has recovered from Brexit uncertainty with the Dollar at $1.295 and €1.125 to the Euro which slightly weakens milk prices. The production for August was confirmed at 1196 million litres (-9 million litres on 2017), while September is expected to be 1155 million litres (-1 million litres). Supply is expected to continue to be close to 2017 through the autumn.

The milk price increases are feeding through to the farm gate with the markets indicating prices of 30ppl should be the norm and likely to be achieved. Autumn weather has been benign to date with good late harvests and winter drilling conditions. Whilst the drought effects are receding, production costs have risen as forage and bedding remain in short supply and despite easing in price remain expensive. Rises in feed costs are confirmed to be up £40/t on the year giving expectations of a 15-20% rise in cost of production over the next 9 months. 2017/18 Production costs were up 0.6ppl (+2.0%) to 30.6ppl while 2018/19 is forecast at +9.5% to 33.5ppl."

- Ends -

<u>For further information please contact:</u>

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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.