PRESS INFORMATION from

The Dairy Group

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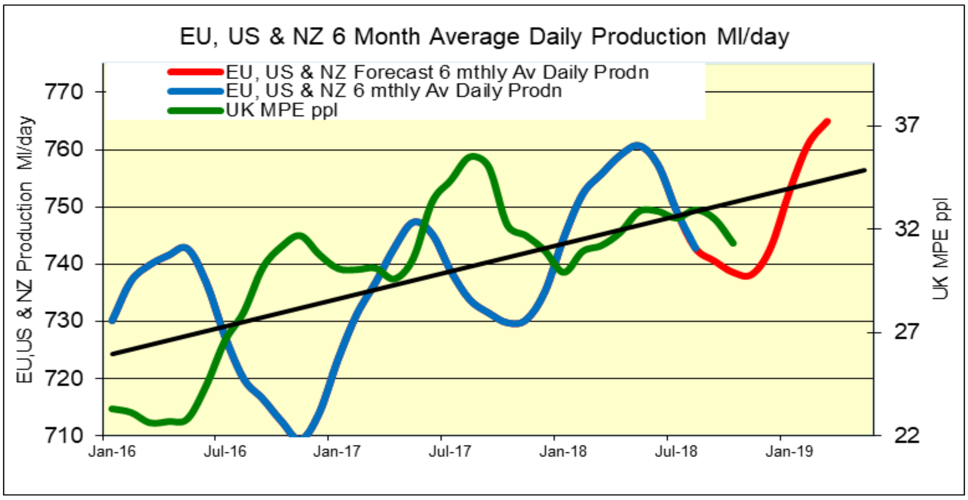
The Market Price Equivalent (MPE) Update October 2018

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

Supply Not To Blame For The Market Downturn!

"The decline in market returns following the brief EU butter 'price spike' appears to have taken hold as the autumn progresses" says Nick Holt-Martyn of The Dairy Group. He goes on to say "meanwhile, New Zealand aside, the supply growth through the late summer is showing a modest easing off. The OECD forecast stable global GDP growth through 2018 and 2019 and even the major EU economies are showing stable albeit below 2% growth in GDP. So the major indicators for dairy markets are stable and yet markets are declining.

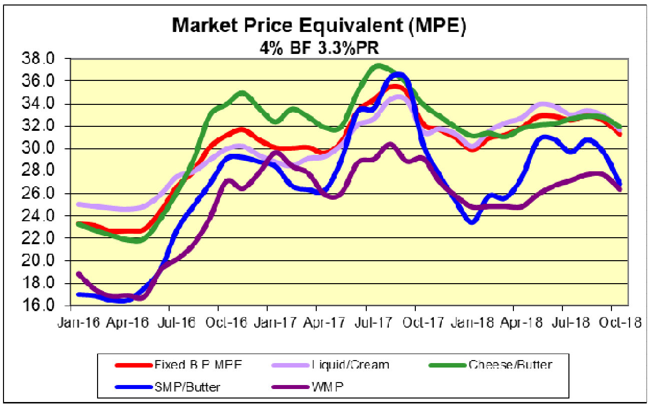


Source: The Dairy Group and Defra

The graph above shows how the 6 month average supply pattern, driven by the EU, swings through a seasonal pattern with a peak in May and a trough in November. If the supply deviates too far from its long term growth trend it drives the global dairy market through commodity prices, to encourage or discourage supply growth. Weaker supply in 2016 led to stronger market returns in 2016/17 which encouraged a recovery in supply. Strong supply through 2017 led to the drop off in market returns through early 2018. The position currently is that market returns are dropping and yet the supply position is not out of line. Supply growth is expected to be around +1% through the winter, 0.7% below the 24 month average.

For once it seems it's not about supply but more likely political issues such as Trump's trade wars, particularly with China and Mexico, destabilising trading patterns or possibly an end to long established GDP/population growth driven dairy demand relationship. Maybe supply cannot expect to grow at 1-2% without diminishing market returns. A more realistic level may be 0-1%, which will be a shock to the major dairy areas that have enjoyed an average of 1.9% growth over the last 9 years.

For the UK, with the domination of Cheese as the main price setter, the farmgate price shouldn't stray too far below 30ppl as market returns have only dipped below 30ppl once in the last 2 years and not at all in the last 18 months. The variation in market returns in the last 12 months is +1.0/-1.8ppl around an average of 32ppl compared to the farmgate of +2.5/-2.7 around an average of 29.5ppl and there is little risk to that relationship in the near future. 2019 will be interesting even before Brexit is factored in!

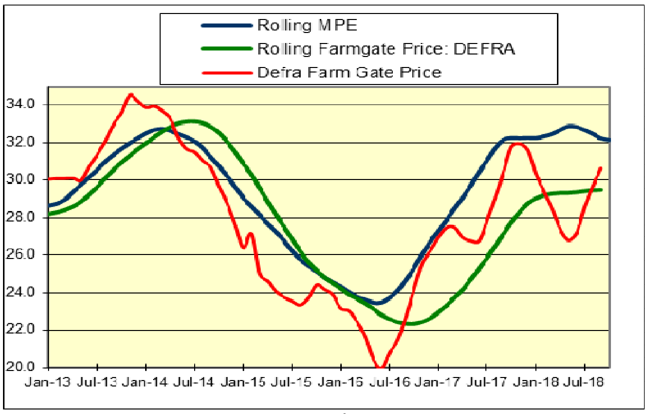


Market Prices

The market has eased further with the Market Price Equivalent (MPE) at 31.3 ppl (-3.6%, -1.2ppl). MPE is down 0.5ppl (-1.6%) in last 6 months and down 0.9ppl (-2.7%) compared to last year. SMP fell 2.1% to £1380, 9% below Intervention which fell £3 due to Sterling. Butter was down 13.7% and Cream 13.6% as normal levels resume. The range across the sectors rises to 5.6 ppl from Cheese/Butter returns to WMP. The actual MPE fell 0.9ppl to 32.0ppl with lower returns and lower milk quality than 2017. The GDT price equivalent has dropped to 23.0 ppl, -2.2% in the month, -6.9% in the last 6 months. UK SMP is now £119/t below the last GDT auction and is £129/t below Intervention. Global supply growth eased to +0.9% in August from +1.1% in July with the EU +0.3% and New Zealand +4.7% in August. The hot summer has had a marginal impact on EU supply so far, although winter forage shortages may provide a sting in the tail.

Farm Gate Prices

The September 2018 farm gate price has risen by 0.9 ppl to 30.6 ppl, up 2.2ppl (7.6%) in the last 6 months, up 0.2ppl (0.6%) in the last year. The graph suggests the recovery in the relationship between markets and milk price has continued. UK supply has held up better than expected, +0.8% in September and the UK farm gate price has reached 30ppl in September.



Sterling has slipped again due to Brexit uncertainty with the Dollar at $1.28 and the Euro at €1.12. The production for September was confirmed at 1165 million litres, +9 million litres on 2017, while October is expected to be 1205 million litres (+16 million litres). Supply is expected to continue to be close to 2017 into the winter.

The milk price increases have reached the farm gate, but are likely to weaken in the New Year following weaker market returns since August. Price reductions should be modest as markets have eased off rather than fallen. Autumn weather remains benign helping with late harvests and winter drilling conditions. The drought effects are likely to remain throughout the winter with consequences for production costs with forage and bedding remaining in short supply and expensive. Rises in feed, fertiliser and oil costs all point to a sharp rise in the 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 still forecast at +9.5% to 33.5ppl."

- Ends -

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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.