PRESS INFORMATION from

The Dairy Group

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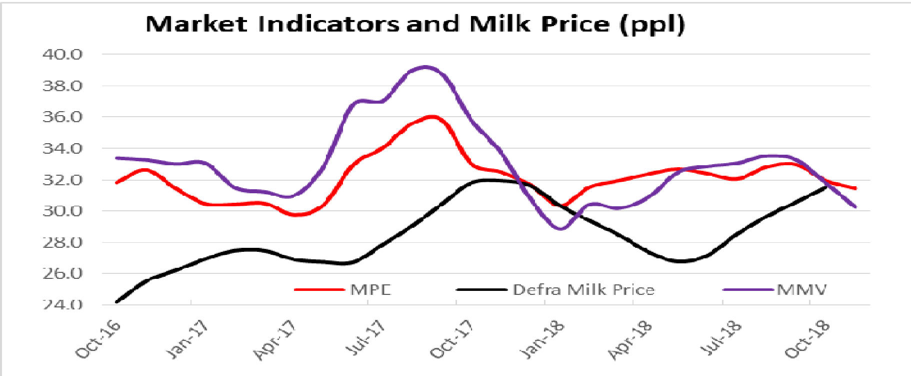
The Market Price Equivalent (MPE) Update November 2018

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

Post Quota Dairy Cycle Adopts Annual Rhythm!

"For almost 10 years since 2007 the triennial dairy cycle has been much in evidence providing peaks and troughs in supply, market returns and eventually milk prices. The peaks and troughs were accentuated by weather events and quota abolition to deliver extreme troughs and processors might say extreme highs as well" says Nick Holt-Martyn of The Dairy Group. He goes on to say "since the market recovery in 2016 the EU dairy market has slipped into an annual cycle with a summer butterfat spike lifting prices followed by an autumnal correction and a dip in January. The price depression extends through to summer helping to keep a lid on the spring flush and encouraging another butterfat spike.

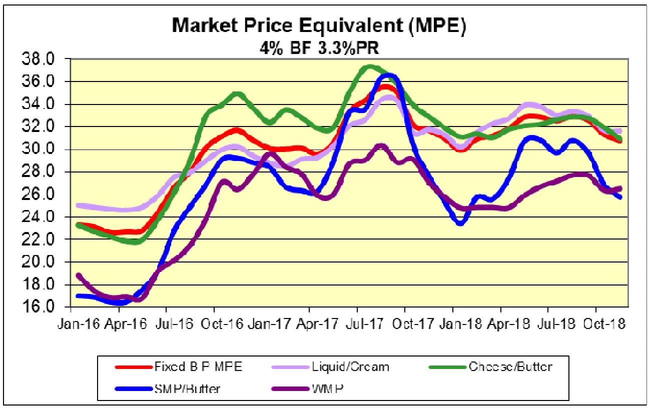


Source: The Dairy Group and Defra

The graph above shows how market indicators and milk price have fared over the 25 months since the price recovery. It shows how commodity market returns rise through the summer before tailing off through the autumn, dragging the rest of the market with them. Market returns feeding through to milk prices 3 to 5 months later. The summer spikes are driven by a run on cream/butter prices, despite butterfat supply increasing following the production peak in May. 2017 was more marked than 2018, with butter reaching record levels and even though weather in 2018 was more extreme, markets were more stable. This was due to the improved EU butter supply, up 2.7% year on year to September 2018. The winter trough is a seasonal post-Christmas malaise that has been evident for many years, but in the absence of large fluctuations in returns becomes more visible.

For the last 12 months the MPE has averaged 32.0ppl and within a range of +1.0 to -1.7ppl. It is certainly on the dip now having fallen from its September peak by 1.5ppl to 31.5ppl, buoyed by high milk quality through the transition to winter feeding. The fixed butterfat and protein MPE peaked in August and has fallen by 2.1ppl to 30.8ppl giving a truer market picture. This is despite EU production growth stalling following the dry summer.

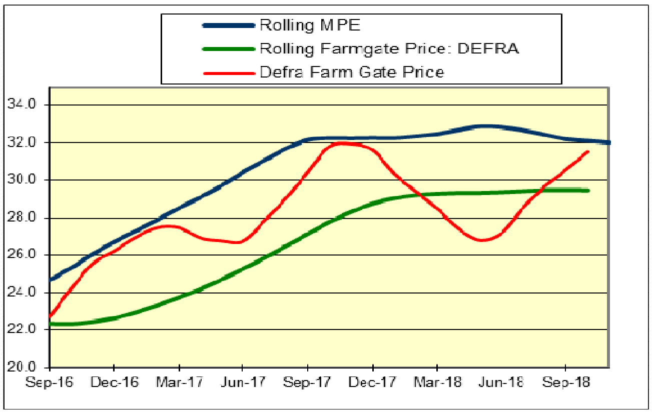
The recent small pre-Christmas rally in market prices will almost certainly be followed by a New Year dip, but will that be sustained or will markets slowly improve into the spring? The GDT has fallen by 19% since May and will not have been helped by the 5% growth in rolling auction tonnage and strong New Zealand production so far this season. Will no growth in EU production be enough to lift EU markets at least? 2019 will be an interesting year even without including the Brexit factor!



Market Prices

The market continues to slide with the Market Price Equivalent (MPE) down to 30.8 ppl (-1.8%, -0.6ppl). MPE is down 2.1ppl (-6.4%) in the last 6 months and down 0.9ppl (-2.9%) year on year. SMP rose 2.8% to £1420, 6% below Intervention, which rose £2 due to Sterling. Butter was down 9.3% and cream 0.5% due to Christmas demand. The range across the sectors rises to 5.8 ppl from Liquid/Cream returns to SMP/Butter. The actual MPE fell 0.5ppl to 31.4ppl with lower returns than 2017. The GDT price equivalent has dropped to 22.5 ppl, -2.2% in the month, -14.9% in the last 6 months. UK SMP is now £117/t below the last GDT auction and is £91/t below Intervention. Global supply growth stabilised at +1% in September from +0.9% in August with the EU 0% and New Zealand +6% in September and +5.8% in October. The hot summer has pulled EU supply back by 1.4% which may continue into the winter with forage shortages, higher feed prices and falling markets.

Farm Gate Prices



The October 2018 farm gate price has risen by 0.9 ppl to 31.5 ppl, up 4.1ppl (15.1%) in the last 6 months, -0.3ppl (-0.9%) in the last year. The graph suggests UK prices are operating within a band from 27 to 32ppl with a strong seasonal affect. UK supply has eased back to parity with 2017, -0.3% in September, +0.4% in October and forecast at 0% in November. The UK farm gate price is close to its peak at 31.5ppl in October with price cuts already announced for December.

Brexit uncertainty has weakened currencies in the wake of the initial post deal recovery. The production for September was confirmed at 1153 million litres, -3 million litres on 2017, while October is expected to be 1205 million litres (+14 million litres) and November forecast at 1175 million litres (+4 million litres). Supply is expected to remain close to 2017.

There is a marked increase in production costs, with sharp rises in feed, fertiliser and oil prices affecting the cost of production over the next 9 months. 2017/18 production costs were up 1.1ppl (+3.7%) on the previous year to 30.9ppl, with our forecast for 2018/19 +8.4% to 33.5ppl. Dairy farmers are facing a cost/price squeeze and bearing the brunt of the summer drought, whilst dairy processors maintain their margins and consumers are blissfully unaware of the impact of the drought and the financial consequences for milk producers."

- 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.