PRESS INFORMATION from

The Dairy Group

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The Market Price Equivalent (MPE) Update April 2015

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

New Zealand Stock Brokers Suggest a Doom Laden Future!

"The milk price stability in the EU, confirmed with Arla holding their price for May, and the weakly positive outlook portrayed by the EU Commission and Rabobank is in stark contrast to reports emanating from stockbrokers in New Zealand, who foresee a remarkable collapse in the GDT later this year," says Nick Holt-Martyn of The Dairy Group. He goes on to say "While all things are possible in a post-quota world the global dairy industry heading like lemmings to such a catastrophe seems a bit unlikely. What is clear is the realisation in New Zealand that year on year growth in the future is now much less certain, unless they remain more competitive than low cost producers in the EU. The interaction between supply and price is well understood and the only salvation for New Zealand is through their grass based milk production system.

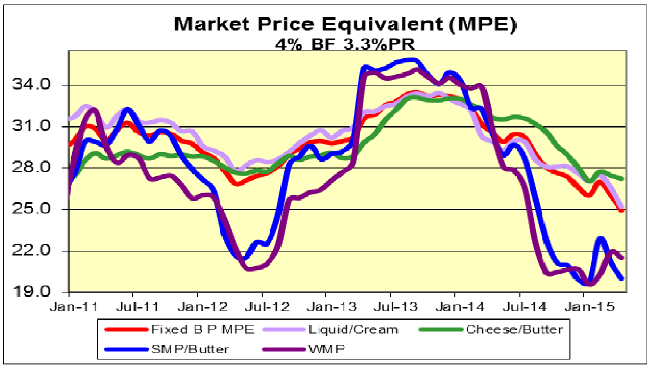
In the last 30 years the EU has provided a degree of market management through the quota system and intervention buying designed to maintain a protected internal market. Over the last 15 years this has been dismantled, such that over the last 8 years the EU has operated with farm gate prices linked to and now mostly driven by the global market. In this post quota, global market 1% of EU production equates to 6% of New Zealand production. Future growth from either will depend on demand growth or a climatic set back from their competitors.

As for business planning in New Zealand, they are targeting a cost of production below the 10 year average return as their target in the belief that not many in the EU can compete at that level. The short term forecasts are at $NZ 4.50-4.75/kg solids against a longer term figure of $NZ 5.00-5.50/kg. Applying a similar approach to the UK milk price provides the following.

Source: The Dairy Group

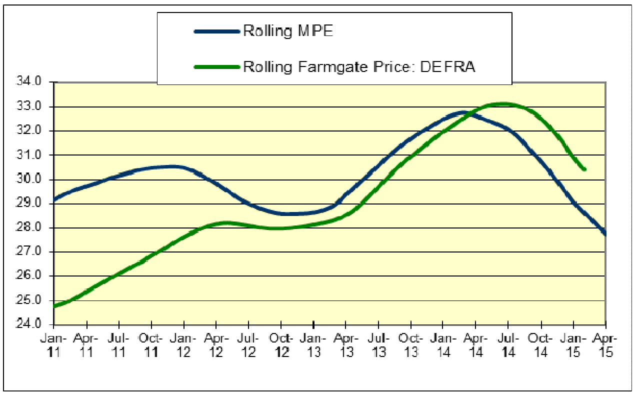
Surprisingly the 1 year average and the 3 year average are the same at 30.3 ppl, 5 year average 28.7 ppl, 7 year average 27.6 ppl and the 10 year average 25.2 ppl. The 10 year figure starts before the post intervention era volatility in 2007 so is a less worthy indicator. Following the New Zealand example, forward planning would need the cost of production to be pitched at the 5 or 7 year level to ensure the business remains viable in the bad years (2010, 2012, 2015) with significant profits made in the good years (2008, 2011, 2014).

Lowering cost of production down to around 28 ppl will undoubtedly be a challenge and is likely to involve block calving, significant use of grazed grass for cows giving under 35 litres and feeding smarter through the winter months. While the UK may enjoy its large domestic market providing above commodity milk prices, it will be under attack from lower cost producers within and from outside the EU, for which the only option is to meet the challenge head on and compete to survive.



Market Prices

The Market Price Equivalent (MPE) has dropped back sharply by 1.1 ppl to 24.9 ppl due to falls across the board except cheese, but particularly liquid and cream. The range across the sectors widens to 7.2 ppl due to weaker SMP. SMP has now fallen to £1425/t ~ 7% below the latest GDT auction, which fell another 3.3% in Sterling equivalent across most commodities and contract periods. The GDT price equivalent (GDTPE) is down to just 18.3 ppl, reversing most of the gains made in 2015. The MPE is down 5.6 ppl on the year and down 2.7 ppl since October 2014. US production is now running +1.2% in March while the EU is at -0.1% in January due to quota management, with the New Zealand drought lowering supply by 5.7% in February. Recent GDT auctions have been marked by an increase in product offered, although still 29% less than the corresponding auction last year.



Farm Gate Prices

The graph shows the familiar pattern of rolling MPE falling back as market returns drop away, being closely tracked by the rolling farm gate price. The April weather has changed completely in the UK and EU with high temperatures boosting milk production after a slow start. Oil prices and now Sterling have risen slightly in recent weeks suggesting a stable outlook. UK production is running 1% ahead of last year with April forecast at 1290 million litres and May 1350 million litres. The expectation for milk output for 2015/16 remains flat overall, but is being helped by good spring weather. The better weather of late will be hastening the milk peak which is likely to be early May this year. For the summer, weather remains the key determining factor on supply and so far the signs are positive.

- 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.