PRESS INFORMATION from
The Dairy Group

31st July 2015

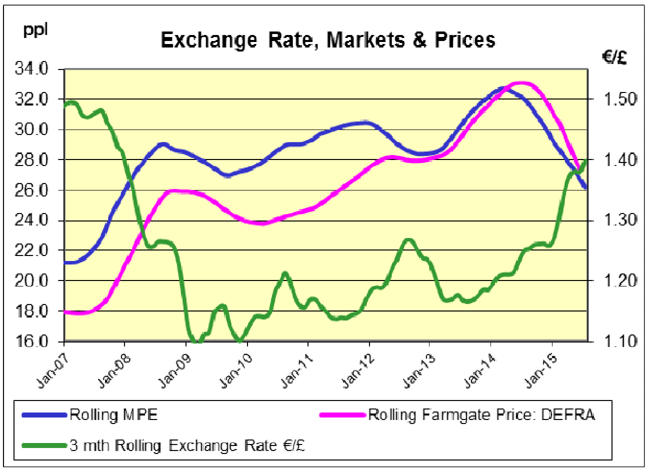
The Market Price Equivalent (MPE) Update July 2015

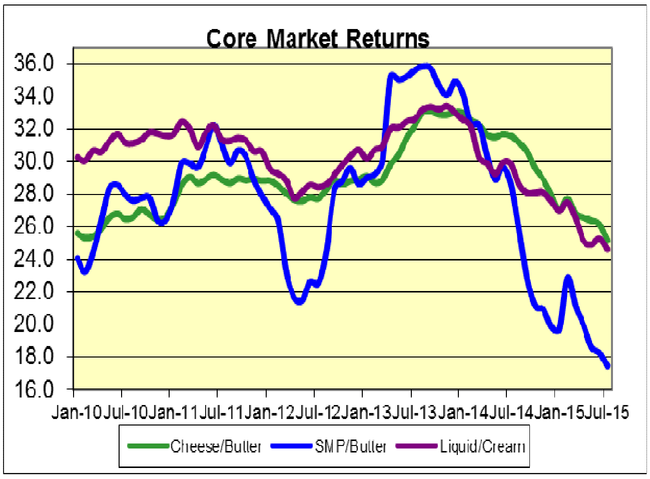
***By Nick Holt-Martyn,* The Dairy Group**

Aligned liquid premium link to production costs an imperative

“The latest Defra milk price for June shows prices have fallen to their lowest since April 2010 at Just 23.7 ppl. Given the number of retailer aligned contracts and farmers on level pricing this suggests a lot of milk has been sold for less than 20 ppl this spring” says Nick Holt-Martyn of The Dairy Group. He goes on to say “The stark reality is that for most farmers their milk price is not sustainable and despite what EU Commissioner Phil Hogan says the NFU is right to call this a crisis!

For the UK there is the added burden of a strong currency (€1.4/£ and rising) which means in Euros our average price compares well with EU prices. The UK has risen from 10th in the EU at the turn of the year to 7th now, with the rolling average declining by just 7.7%. However in Sterling terms the decline is 13.2% in line with our dairy competitors in Ireland, Denmark, Netherlands and Germany. The recent Eurozone problems coupled with UK political stability has led to an increase in market confidence in Sterling which is set to continue. As the ‘Exchange Rate’ graph below shows, historically Sterling has been strong, which has made Irish imports more competitive and undermining UK cheese prices. In those distant days however, the liquid premium boosted the market which put pressure on the cheese sector.



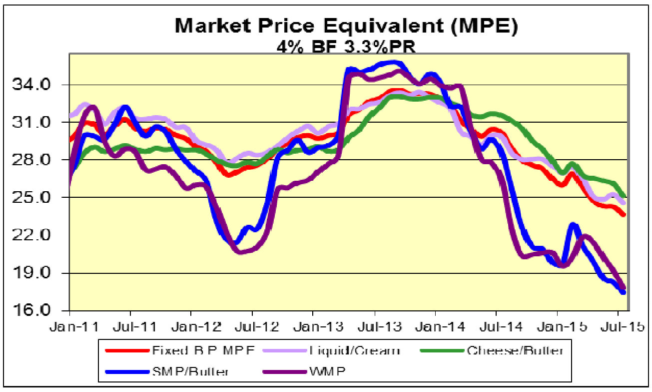


Source: DairyCo & The Dairy Group

The ‘Core Market Returns’ graph shows how the liquid premium disappeared in 2012 and the market is reliant on the stability and strength of the UK cheese sector which liquid now follows through competition for supply. The 2 sectors together account for 77%, down from a high of 81% in 2013 and anything that threatens the cheese market threatens the UK price. The difference between the retailer aligned contracts and the non-aligned liquid price has replaced the liquid premium, but it is at the discretion of the retailer. The review of the Tesco group is cause for concern and the link to production costs will be imperative to maintaining the premium.

Latest UK utilisation figures from Defra suggest that contrary to the wholesale production data the supply of milk to dairies net of imports and exports is actually lower than in 2014. There was a significant decrease in imports (16 million litres against 59 million litres) and increase in exports (295 million litres against 212 million litres). The net result is that supply is down by 74 million litres compared to the headline figure of 50 million litres increased production. This is similar to the EU position in the same period that shows an increase of just 0.2%., so for the EU and UK, the supply in the last 5 months has not been excessive, which means the market weakness is down to the interaction with global markets. For the UK the pattern has continued with April and May net supply down 25 million litres despite supply being 30 million litres higher.

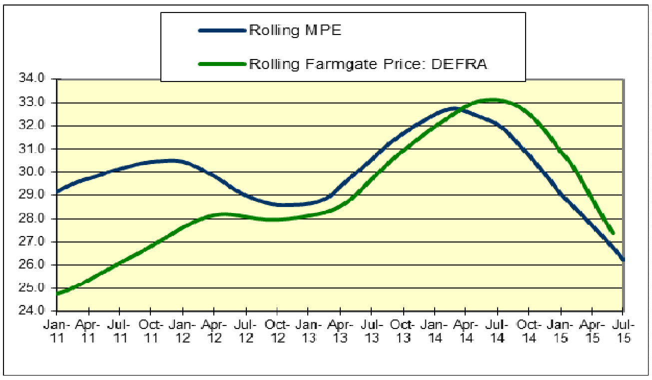
Globally the position is not so encouraging with EU supply +2.2% in April and May with all the Superlevy countries now running ahead of 2014 along with the UK which is +2.2% in July. The EU Commission expects EU production to slow down as summer slips in to autumn and winter due to margin pressure but with low feed prices they may be disappointed. The US has showed signs of slowing with June production only +0.7% and the weather in Australasia is being dominated by the strongest El Nino for almost 20 years throwing up the chance of a dry, cool spring. With SMP being offered into Intervention against EU expectations markets are now about as low as they can go in the EU, so for the rest of 2015 the prospects look poor. Thereafter a big El Nino, together with low returns, should lead to a more stable supply picture globally into 2016. Whether that will be enough to firm markets remains to be seen, but at least one reason to be hopeful!



Market Prices

The Market Price Equivalent (MPE) continues to fall, back again by 0.6 ppl to 23.7 ppl due to falls across the board with Cream and Whey the worst offenders. The range across the sectors narrows to 7.3 ppl due to weaker cream and cheese. SMP has now fallen to £1225/t, just £45/t above Intervention and £130/t above the latest GDT auction, which fell another 10% in Sterling equivalent. The GDT price equivalent (GDTPE) is down to just 13.4 ppl, yet another new record low since the start of twice monthly sales in September 2010. Recent GDT auctions have seen a 30% increase in product offered although still 12% less than the corresponding auction last year. The proportion of WMP offered remains at a relative low of 56%. The MPE is down 6.5 ppl on the year and down 2.3 ppl since January 2015. US production is now running +0.7% in June while the EU is at +2.2% in April/May and New Zealand supply in May was +10.7%.

Farm Gate Prices



The graph shows the familiar pattern of rolling milk prices following market returns down. July has seen a mix of sun and rain which has helped to bolster milk production at +2.2%. Sterling remains consistently over €1.40, whilst oil prices have been sliding as July progressed. UK production in June was up 3.9% at 1290 million litres, July is forecast at 1250 million litres and August is forecast at 1200 million litres. The expectation for the new milk year is increasing towards 2% overall but is likely to ease back once autumn arrives. The latest price cuts mean the 2015/16 milk price is now forecast to average 24 ppl by next spring, maintaining significant pressure on dairy profit margins despite weaker feed prices.

- Ends -

For further information please contact:

- **Nick Holt-Martyn,** The Dairy Group (01823 444488/e-mail: nick.holt-martyn@thedairygroup.co.uk)
- **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 UK market utilisation of milk. The MPE is calculated from wholesale market values, whereas IMPE (Intervention Milk Price Equivalent) accounts for just 11% of UK milk production and is effectively determined by the Council of Ministers and the prevailing exchange rate. The MPE provides a far superior indicator of the wholesale value of milk and therefore the likely market returns available to the dairy farmer.