

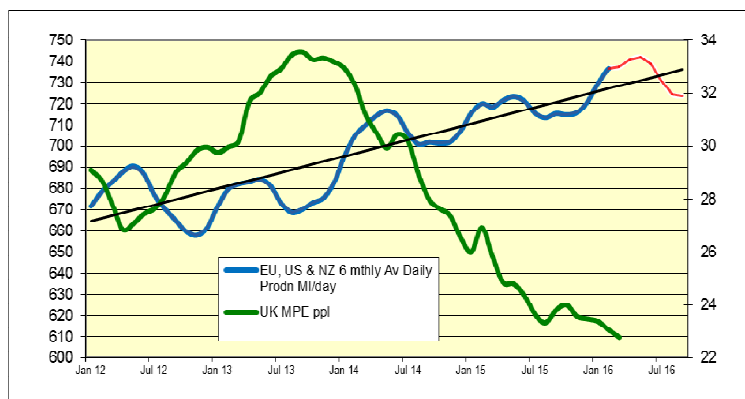
PRESS INFORMATION from *The Dairy Group*

30th April 2016

The Market Price Equivalent (MPE) Update April 2016 By Nick Holt-Martyn, The Dairy Group

EU milk supply key to recovery

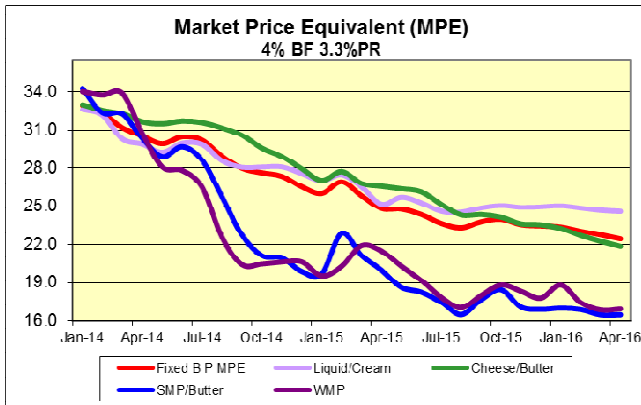
“The 3 month delay in getting official EU supply data, coupled with the quota hangover from April to June 2015 is likely to mean it will be a further 6 to 9 months before there is any clear evidence that EU supplies are starting to fall year on year. By which time around 2% of annual supply will be sitting in intervention stores or subsidised private stores” says Nick Holt-Martyn of The Dairy Group. He goes on to say “the last 6 months has seen an acceleration in the year on year increases as the quota affects from 2015 become replaced by the 2016 monthly data, with March likely to be 6% higher than last year. With Irish supply up 36% and Dutch supply up 19% in January and February, supply is unlikely to be curtailed very soon unless the rest of the EU cuts back. Even with prices falling quickly across the EU, supplies are expected to grow by a further 2 to 3% in April to June, with any slow down only coming towards the end of summer or into the autumn.



Source: The Dairy Group

The graph shows the 6 month daily average supply for the EU, New Zealand and the US. The UK MPE shows the sensitivity of the UK markets to relatively small changes in supply. The black line represents the growth trend over the last 5 years. Markets only take off when the supply is below the trend line for a sustained period, beyond the normal seasonality pattern. The red line is the forecast supply which is expected to reduce below the normal seasonal pattern from late summer. A similar departure from the trend in 2012 did lead to a market response which was sustained and enhanced by a weak supply response. Markets will not respond unless supply weakens more than either 2014 or 2015.

The degree of market response will depend on the levels of supply and the speed that public stored dairy products are released back onto the market. One would expect the EU to delay commodity sales until the recovery is clearly visible and sustainable, which is not likely to occur until autumn 2017 at the earliest



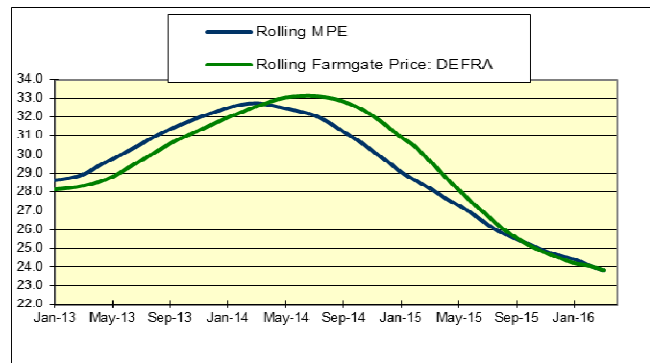
Market Prices

The Market Price Equivalent (MPE) has fallen 0.33 ppl to 22.45 ppl due to weakening cheese and cream. The range across the sectors remains at 8.1 ppl from Liquid/Cream returns to SMP/Butter. SMP remains at £1200/t, £148/t below a rising Intervention price and on par with the latest GDT auction, which rose 1.9% in Sterling equivalent. The GDT price equivalent (GDTPE) is up to 16.3 ppl. The last GDT

auction have seen stable tonnages and Fonterra have announced an online trading platform. The MPE is down 2.4 ppl on the year and down 1.55 ppl since October 2015. US production is running at +1.8% and New Zealand was -0.8% in March while the EU was +5.7% in February and is forecast at +6% in March.

Farm Gate Prices

The March 2016 price falls to 22.4 ppl and a weighted average of 23.84 ppl, down 5.8 ppl on the year. Still the curves are flattening out, but are still falling and have dropped below 24 ppl as expected. Spring remains cold and is delaying the milk peak by up to a month. Sterling has been volatile and ended the month at €1.26 improving the SMP Intervention price above the weak market returns and has strengthened against the dollar to \$1.44. UK production in February has been confirmed at 1151 million litres and March at 1261 million litres, -1 million litres on last year. The year finishes at 14.8 billion litres. The forecast for April is 1270 million litres, 20 million litres below 2015. The milk price is forecast to continue to weaken as B litre prices undermine the overall average.



- 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. The MPE is calculated from wholesale market values, whereas IMPE (Intervention Milk Price Equivalent) accounts for just 11% of United Kingdom 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.