

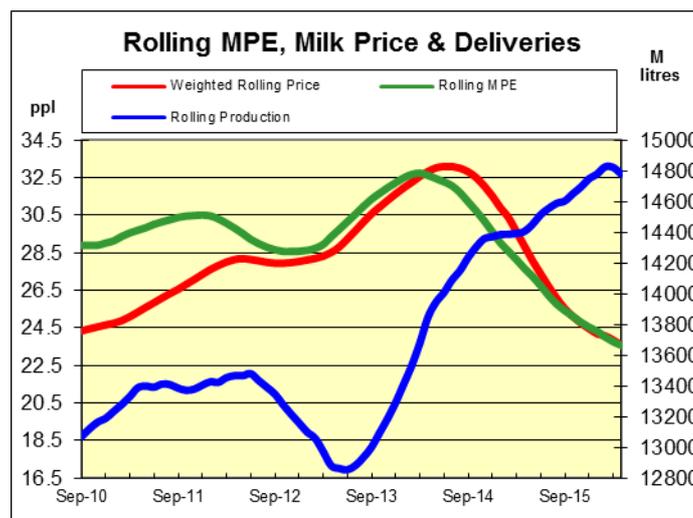
PRESS INFORMATION from *The Dairy Group*

31 May 2016

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

UK production fall aids small price recovery

“The cold late spring ending with a fairly wet May has knocked the peak off the spring flush this year with May supply down around 3% year on year to 1340 million litres and the latest weekly supply running at -2.5%. With April and May supply down 80 million litres in total UK markets have firmed 1.4% to lift the MPE for the first time since September 2015” says Nick Holt-Martyn of The Dairy Group. He goes on to say “however, before we get too carried away the EU has ended the milk year with almost all countries increasing production in the January to March 2016 period and the EU posting a +4.3% gain on the year. SMP is flooding into Intervention with almost 10% of the new limit offered in just one week in May and with Sterling firming the Intervention price is falling closer to the current SMP trade price.

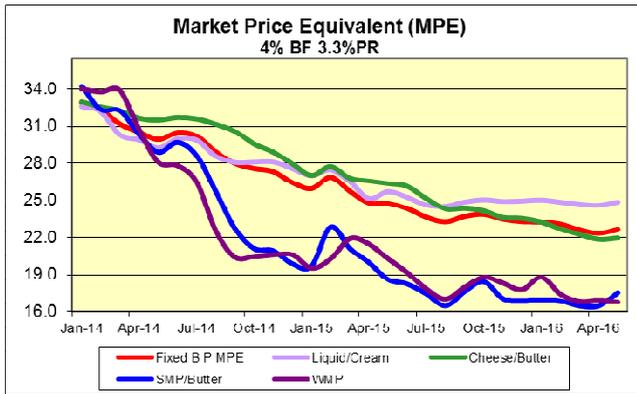


Source: The Dairy Group

As the graph shows historically the UK has been fairly responsive to price, with the peak in Autumn 2014 helped by some poor weather in 2012 reducing milk production. The subsequent response to improved market returns in 2013 and 2014 has led to the long rise in production, finally peaking in March 2016, two years after markets peaked. This was due in part to encouragement from most milk buyers, Defra and the NFU amongst others who chose to ignore the obvious likely outcome of quota abolition.

The Commission expect supply to drop below 2015 from July 2016 and to average 1 to 1.5% below from October to December. Given this scenario then clear data should become available around September of a fall-off in supply. This should lead to markets firming through the winter provided intervention stocks are held off the market.

This will take 3-6 months to feed back to farmers but by Spring 2017 upward movement should be visible. Keep watching this space from October onwards for the “green shoots of recovery”!



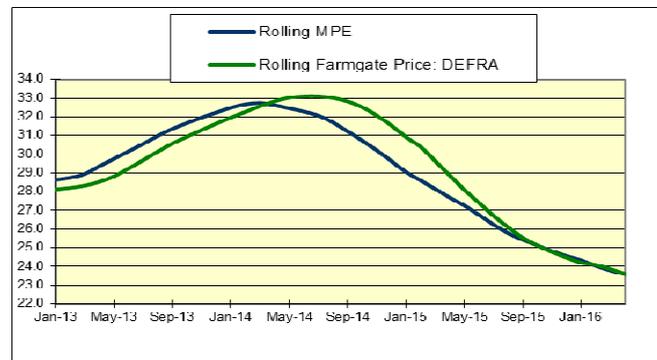
Market Prices

The Market Price Equivalent (MPE) has risen slightly by 0.32 ppl to 22.68 ppl due to improvements across the board. The range across the sectors remains at 8.1 ppl from Liquid/Cream returns to WMP. SMP has lifted to £1250/t, £87/t below a falling Intervention price and 4% above the latest GDT auction, which rose 2% in Sterling equivalent. The GDT price equivalent (GDTPE) is up to 16.4 ppl. The last GDT

auction have seen falling WMP tonnages with SMP now the dominant product. The MPE is down 2.1 ppl on the year and down 0.8 ppl since November 2015. United States production is running at +1.1% and New Zealand was -2.5% in April while the European Union was +6.3% in March.

Farm Gate Prices

The April 2016 average milk price fell to 21.6 ppl, 3ppl below the previous year and a 12 month rolling weighted average of 23.61 ppl, down 5.25ppl on the year. Still the curves are drifting down and expected to drop below 23 ppl in the late autumn. Spring has finished with warm and damp weather which has hampered forage harvesting and held the spring flush back.



Sterling has been volatile and ended the month at €1.31 lowering the SMP Intervention price closer to the weak market returns and strengthened against the dollar to \$1.46. United Kingdom production in April was 1249 million litres, 41 million below 2015 and May is forecast at 1340 million litres, 39 million litres below 2015. The milk price is forecast to continue to weaken as B litre prices undermine the overall average. The rolling average is forecast to decline by 0.5 ppl over the next 6 months and drop below 23 ppl in November 2016.

- Ends -

For further information please contact:

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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.