

# PRESS INFORMATION from *The Dairy Group*

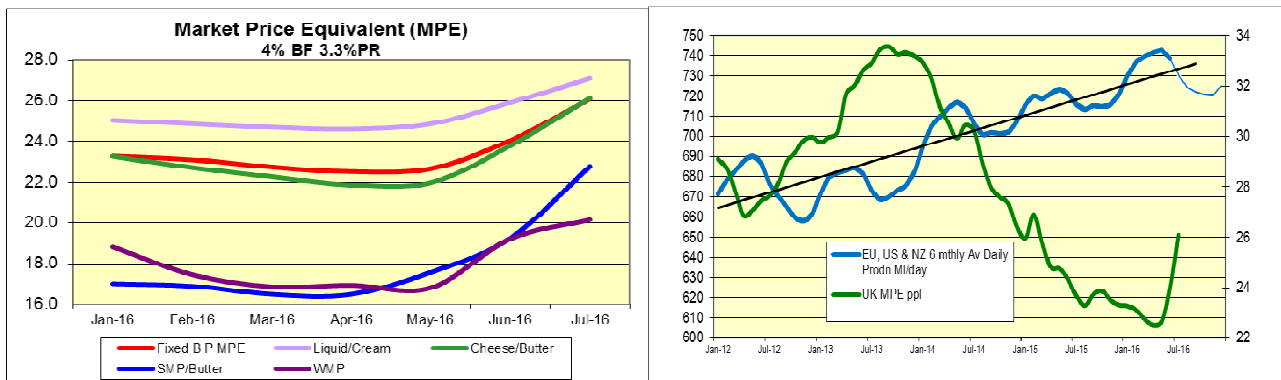
28<sup>th</sup> July 2016

## The Market Price Equivalent (MPE) Update July 2016

*By Nick Holt-Martyn, The Dairy Group*

### UK dairy market soars & farm gate price must follow

“Hang on to your hats, the dairy market has lifted off again!” says Nick Holt-Martyn of The Dairy Group. He goes on to say “while the EU hurriedly gets its new supply management tools in place for the autumn, markets have already taken-off in response to weaker supply growth in the EU and US combined with a 1.7% decline in New Zealand and 1.2% in Australia. UK markets have benefited from Sterling’s 5-7% decline against both € and \$ since the Brexit vote, which have compounded already rising commodity values on the back of collapsing UK supply figures which suggest July 2016 could be 130 million litres down on July 2015.

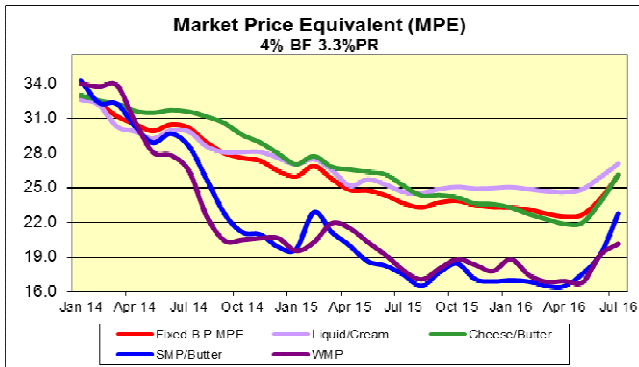


**Source: The Dairy Group & AHDB**

The graphs above show the UK market returns lifting across all sectors since May with all sectors over 20 ppl for the first time since April 2015. So it is high time that milk prices started to respond. B litre prices should match or go above the A prices next month with Dairy Crest B litre price set to go to 21.4 ppl, 7.9 ppl higher than April, only 0.25 ppl below their Standard litre price of 21.653 ppl.

The EU supply growth looks set to go into reverse later this year with May only +0.8%, so the main global players are likely to see supply drop below the trend line this summer. For normal market function the supply needs to fall below the trend line in the autumn to counter the above trend supply in the spring. The greater the fall in the autumn the better the price prospects for 2017 will become.

The MPE in July 2016 is up to 26.1 ppl, which is the highest level since February 2015 and up 16% since April 2016, so farm gate prices will have to start rising very soon. There should be at least a 10% rise in the next month or so and probably another 10% this autumn. So even though the June 2016 price as reported by Defra at 19.85 ppl is the lowest since July 2007 we should be at an average of 25 ppl or more by the end of the year. The corner has been turned but as always supply is the biggest threat to future prices.



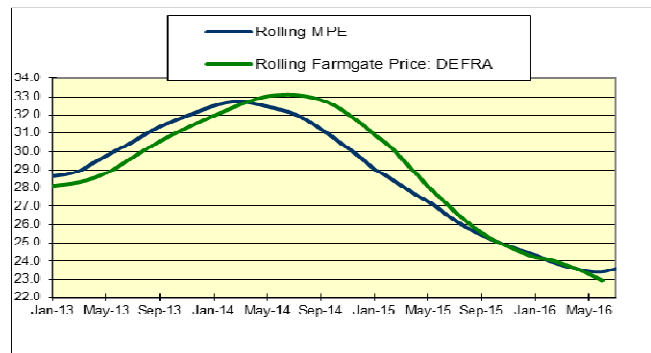
### Market Prices

The Market Price Equivalent (MPE) has risen significantly again (8.5%) by 2.04 ppl to 26.09 ppl due to further improvements across the board following the lower exchange rate. The range across the sectors rises to 6.9 ppl from Liquid/Cream returns to WMP. SMP has lifted to £1500/t, still £79/t above the rising Intervention price and 2% above the last GDT auction, which

fell 0.7% in Sterling equivalent. The GDT price equivalent (GDTPE) is up to 18.5 ppl and rolling at 16.5 ppl. The last GDT auction have July tonnages up 40% on June, just 2% below July 2015. The MPE is up just 2.4 ppl on the year and up 2.8ppl since January 2016. US production is running at +1.6% and New Zealand was 0% in June while the EU was +0.8% in May.

### Farm Gate Prices

June 2016 price falls to 19.85 ppl and a weighted annual average of 22.94 ppl, down 3.9 ppl and 4.5ppl on the year respectively. Still the curves are drifting down and has dropped below 23 ppl, but the MPE curve is moving upwards at last so the end is in sight. Summer has continued with the warm and wet conditions, but with reduced supplementary



feeding milk output is plummeting. Sterling has stabilised around €1.20 raising the SMP Intervention price to £1400, but markets have surged ahead to £1500/t. UK production in June was 1209 million litres, 72 below 2015 and July is forecast at 1140 million litres, 129 million litres below 2015. August is now forecast to be around 1100 million litres. The milk price is now forecast to rise as core prices follow B litre prices up due to markets and exchange rates with further rises likely in the autumn.

- Ends -

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- **Visit [www.thedairygroup.co.uk](http://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 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.