

PRESS INFORMATION from *The Dairy Group*

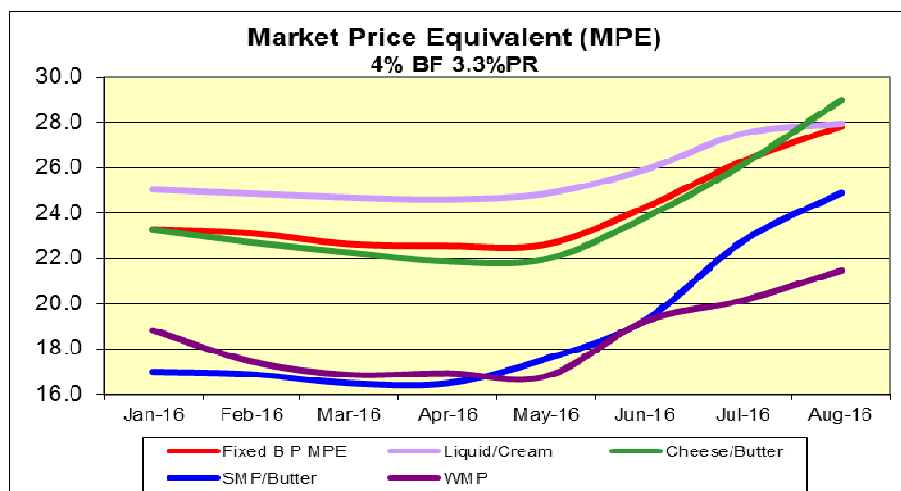
31st August 2016

The Market Price Equivalent (MPE) Update August 2016

By Nick Holt-Martyn, The Dairy Group

UK Processors Need to Restore Farm Profitability

“As the UK market rockets dairy processors need to pass back all the market gains to milk producers” says Nick Holt-Martyn of The Dairy Group. He goes on to say “while markets have been down over the last 2 years processors have at least maintained positive margins at the expense of their suppliers/members, forcing many producers into a loss making position. This has happened in all major milk producing countries throughout the world, but UK processors have a primary responsibility to UK producers. While it is true to say that there is a sectorial variation in market improvements with butter, cream and mild cheddar leading the way, 78% of utilised UK raw milk should be seeing immediate increased market returns.

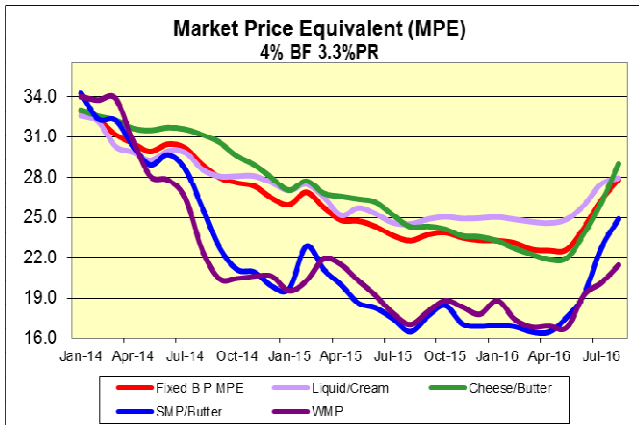


Source: The Dairy Group & AHDB

The graph above shows a significant increase in all UK market returns. Liquid/Cream is at 28.0 ppl while Cheese/Butter has reached 29.0 ppl, the highest values since winter 2014/15. While the aligned contracts are already at these levels there are no excuses why the non-aligned should not be benefiting from the increase in Cream, up 71% in the last 6 months or Butter up 67%. Cream income alone has added nearly 3 ppl to the Liquid/Cream market returns.

The EU supply growth has gone into reverse with June at -1.5%, while New Zealand awaits new season supply data and the US drops to +0.9% in July. So the combined daily supply in June drops to -0.3%, a trend that looks set to continue into the autumn, encouraging markets to firm on the back of weaker supply, subject to New Zealand new season supply.

With the MPE up 6% in August and 20% in the last 6 months to 27.8 ppl the Farm gate Equivalent is up 5 ppl since May to 26.5 ppl; it is no longer **if** but **when** will producers receive significant price rises? There have been a number of recently announced price increases and more should follow very soon.



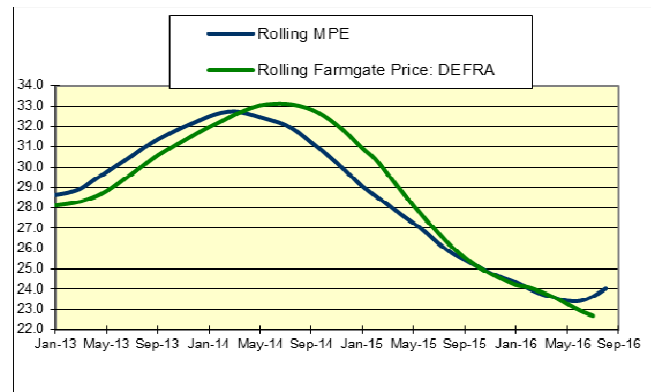
Market Prices

The Market Price Equivalent (MPE) has risen significantly again (5.8%) by 1.53 ppl to 27.84 ppl due to improvements across the board particularly Butter, Mild Cheddar, Whey and Cream. The range across the sectors rises to 7.5 ppl from Cheese/Butter returns to WMP. SMP has lifted to £1570/t, still £116/t above a rising Intervention price and 1% above the last GDT auction, which rose 14% in Sterling equivalent. The GDT price equivalent (GDTPE) is up to 22.2 ppl

and rolling at 17.2 ppl. At the last GDT auction in August tonnages were up 20% on July, 2% above August 2015 so markets really are back to normal. The MPE is now up a massive 4.5 ppl on the year and up 4.7ppl since February 2016. US production is running at +0.9% in July, New Zealand was 0% in June while the EU was -1.5% in June.

Farm Gate Prices

July 2016 price rose to 20.6 ppl as seasonality dropped out, still down 2.9 ppl on the year. The weighted annual average is down 4 ppl on the year to 22.7 ppl. The milk price curve is still drifting down, but the MPE curve is moving sharply upwards, so it is now just waiting for the time lag (normally 3-4 months) between markets and the farm gate to play out. Summer has continued with the generally warm and wet



conditions, but with reduced supplementary feeding milk output and milk proteins have reduced. Sterling has stabilised around €1.17 raising the SMP Intervention price to £1454, but markets have surged ahead to £1570/t. UK production in July was 1162 million litres, 105 below 2015 and 21 below the 5 year average. August is forecast at 1140 million litres, 81 million litres below 2015 and September is now forecast to be below 1100 million litres. The milk price is expected to rise sharply this autumn as markets firm globally and the UK exchange rates not only remain weak, but could weaken further if US interest rates rise again and as the Brexit negotiations get underway.

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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.