

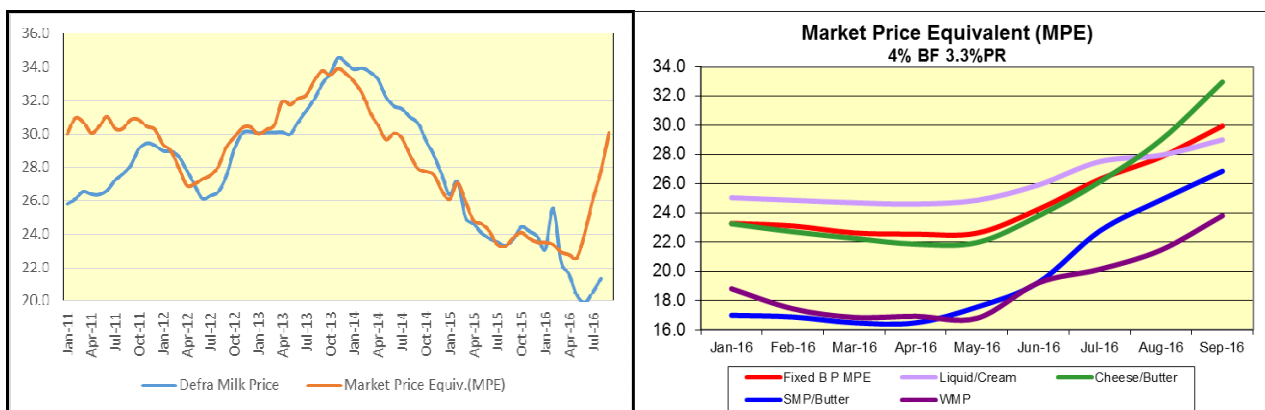
PRESS INFORMATION from *The Dairy Group*

30th September 2016

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

The Time Lag is Over, Farmgate Price must Catch up fast

“There is a natural delay between market movements and changes in the farmgate price as it takes time for clear market trends to become established and for cash to flow along the supply chain” says Nick Holt-Martyn of The Dairy Group. He goes on to say “while it is hard to pin down exactly how long that delay is looking back over the last 5 years suggests a 3 to 5 month lag is the norm. Many believe it is shorter when prices are falling and longer when markets are on the rise and with some justification.

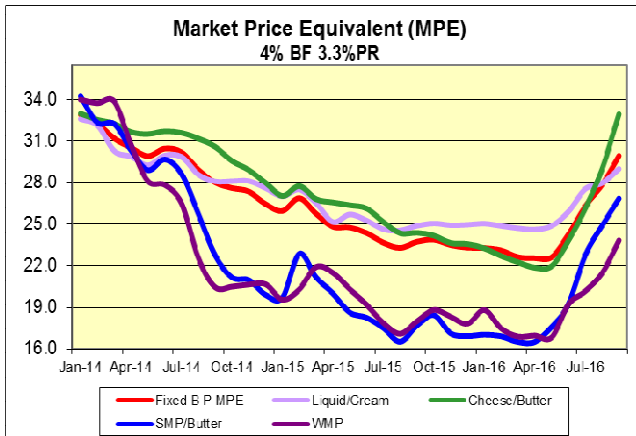


Source: The Dairy Group & AHDB

The graphs above show the close agreement between markets and the farmgate and the relatively small delay in price transmission. They also highlight the dramatic turnaround in market returns that have left the farmgate price floundering. The current weighted market returns suggest a farmgate equivalent over 28 ppl which should be received by the farmer in the next 3 to 5 months. The second graph shows that it is cheese (+42%) and butter (+92%) that are leading the way but liquid too has benefited from the rise in the cream value, which has doubled (+108%) in the last 6 months. The message from the farmgate is that price rises to date are welcome but the processors must act faster.

The UK supply has fallen at a consistent 6 to 7% per month since April and shows no sign of stopping, with September forecast at 1080 million litres (-7.5% on 2015). By the end of the milk year in March 2017 1 billion litres might have been lost from the UK milk supply. EU supply is falling with July at -1.4%, while New Zealand is also falling by around 1.7% per month. Only the US bucks the trend with +2% in August. So the combined daily supply falls again in July by -0.2%, a trend that looks set to continue and encouraging markets to firm. Markets will continue to firm until the decline in supply is halted, which means the UK equivalent prices have to get back to 30 ppl so farmers can hope to repair their damaged businesses. For some it will be too late.

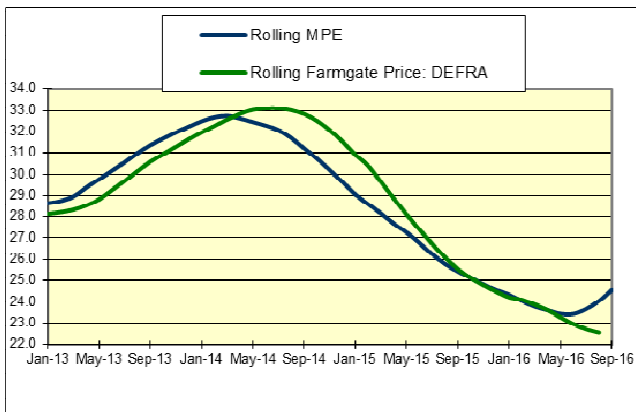
With all this additional money in the supply chain and further rises to come the average UK price should be able to reach 26 ppl by January 2017 and 30 ppl by April 2017.



Market Prices

The Market Price Equivalent (MPE) has marched on, up (7.6%) by 2.11 ppl to 29.95 ppl due to improvements across the board again particularly Butter, Mild Cheddar, Whey and Cream. The range across the sectors rises to 9.2 ppl from Cheese/Butter returns to WMP. SMP has lifted to £1670/t, still £216/t above Intervention price and 6% below the last GDT auction, which rose 4.9% in Sterling equivalent. The GDT price equivalent (GDTPE) is up to 24.3 ppl and

rolling at 17.8 ppl. At the last GDT auction in September tonnages were down 7% on August, 2.7% below September 2015 so normal service has been resumed. The MPE is now up a massive 6.2 ppl on the year and up 7.3 ppl since March 2016. US production is running at +2% in August, New Zealand was -1.7% in August while the EU was -1.4% in July.



Farm Gate Prices

The UK average August 2016 price rose to 21.3 ppl as seasonality starts again and possibly the first price rises. The weighted annual average is down 3.5 ppl on the year to 22.6 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 between markets and the farm gate price 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 is still drifting around on Brexit news, currently €1.16 raising the SMP Intervention price to £1454, but markets have surged ahead to £1670/t. UK production in August was 1125 million litres, 86 million litres below 2015 and 9 million litres below the 5 year average. September is forecast at 1080 million litres, 85 million litres below 2015 and October is now forecast to be around 1100 million litres. The milk price is starting to rise, but not as fast as market returns, which continue to firm globally and the UK exchange rates seem to be weakening further in expectation of a US interest rate rise and as the Brexit negotiating positions are outlined.

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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.