PRESS INFORMATION from
The Dairy Group

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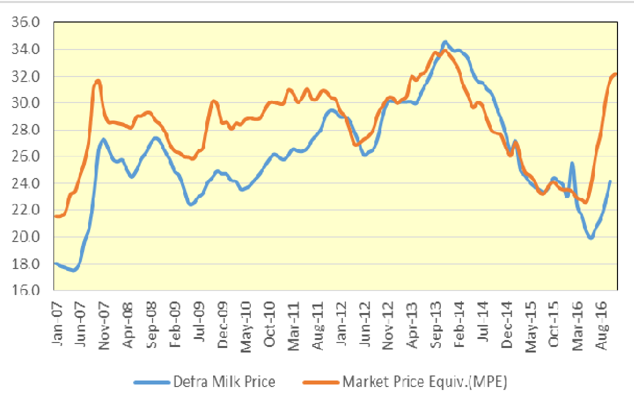
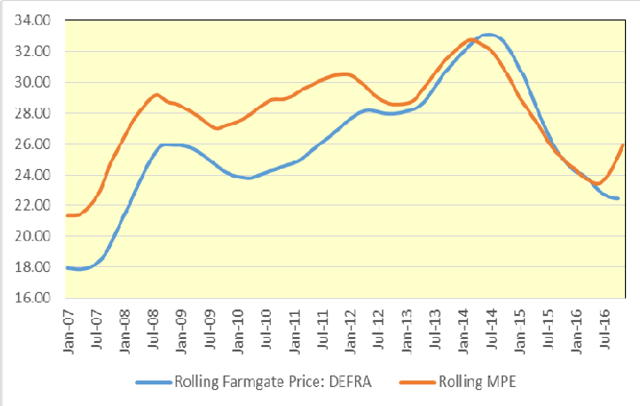
The Market Price Equivalent (MPE) Update November 2016

***By Nick Holt-Martyn,* The Dairy Group**

Farmgate Price Is Lagging Too Far Behind the Market

"Everyone knows there is a lag between markets improving and monies arriving in farmer's bank accounts; realistically markets change, existing contracts have to be renewed and products and cash have to move through the supply chain before farmers can see the benefit." says Nick Holt-Martyn of The Dairy Group. He goes on to say "while prices have moved and are moving with some companies setting out 30ppl for the new year there is an increasing gap between markets and the farmgate milk price.



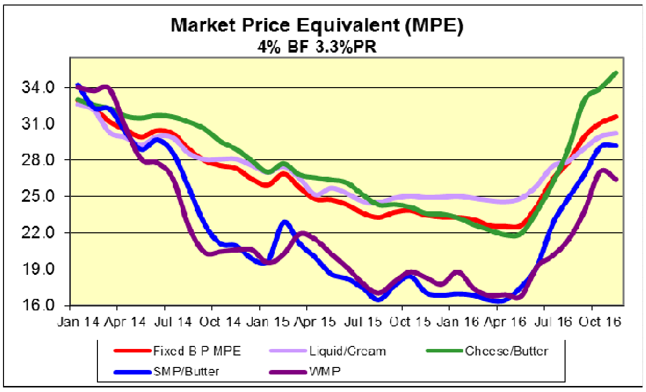


Source: The Dairy Group & AHDB

The graphs above look at the relationship between market returns and the defra milk price over the last 10 years. The graphs look at the relationship on a monthly basis and on a rolling basis and show a very clear relationship between the markets and on farm returns. The period covered is from the end of intervention stocks around 2005 and the EU dairy industry becoming fully market facing following Agenda 2000 reforms of the CAP. Clearly the recent downturn has been the worst since volatility first became apparent with market returns and farmgate price getting close to 10 year lows. The recovery in market returns can also be seen as recovering to relatively high levels compared to previous peaks while milk prices are still languishing at historically low levels.

On a monthly basis the gap between markets and the farmgate is as wide as at any time. With markets getting to 32 ppl a recovery to 28 ppl is now overdue. The rolling graph shows a similar position with the rolling milk price still not rising despite market returns turning the corner in June 2016. Failure to pass on market returns is doing serious damage to farmers businesses and will set back farmer/processor relationships. The evidence is further compounded by Dairy Crest's interim results showing a 19% increase in profits on a 7% reduction in turnover, which implies higher profit from lower input costs, also better known as milk prices!

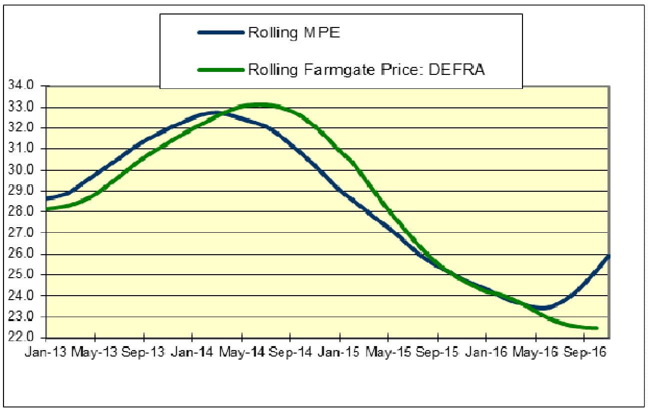
Meanwhile UK supply continues to fall with October down 6%, at 1131 million litres. EU supply reduced in September by 3.2%, while New Zealand fell by -5.5% in October and the US rose 2.5%. So the combined daily supply falls again in October by 1.5%, which is a deepening trend. Markets have steadied with SMP and Whey easing slightly, but are still on track to deliver UK prices of 26 ppl by January 2017 and 30 ppl by April 2017.



Market Prices

The Market Price Equivalent (MPE) is up again, by 0.54 ppl to 31.6 ppl due to improvements in Cream, Butter and Cheese, but small declines in SMP, Whey and WMP. The range across the sectors widens to 8.8 ppl from Cheese/Butter returns to WMP. SMP has slipped to £1850/t, £396/t above Intervention price and 11% below the last GDT auction, which rose 3.7% in Sterling equivalent. The GDT price equivalent (GDTPE) is up to 29.3 ppl and rolling at 19.3 ppl. At the latest GDT auction tonnages were up 24% on October so a further indication that markets are levelling. US production is running at +2.5% in October, New Zealand was -5.5% while the EU was -2.5% in September which should act to re-energise the upward market movement.

Farm Gate Prices



The Farmgate price is rising month on month, but the rolling figure is yet to turn the corner, October 2016 is still 0.2 ppl behind October 2015. The weighted annual average is down 2.7 ppl on the year to 22.46 ppl. The milk price curve is expected to move up in November while the MPE curve is still moving sharply upwards, so the waiting time is nearly over. Weather has turned colder and mostly dry, but the effects of reduced supplementary feeding on milk output will take some time to overcome. Sterling has been buoyed by a weaker $, currently €1.18 easing the SMP Intervention price down to £1454, but with markets ahead at £1850/t it is irrelevant at the moment. UK production in September was 1099 million litres, 67 million litres below 2015 and October was 1131 million litres, 73 million litres below 2015. November is forecast to be around 1070 million litres and December 1120 million litres. The milk price is rising rapidly in some sectors and has speeded up as market returns appear to be levelling off on a stronger currency. Liquid retail values are static and being left behind by the surge in cheese values and the persistent decline in volumes.

- Ends -

For further information please contact:

- **Nick Holt-Martyn,** The Dairy Group (01823 444488/e-mail: nick.holt-martyn@thedairygroup.co.United Kingdom)
- **Visit www.thedairygroup.co.United Kingdom**
- 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 14% of United Kingdom milk production and is effectively determined by the Council of Ministers and the prevailing exchange rate. AMPE (Actual Milk Price Equivalent) also only accounts for 14% of United Kingdom milk production. The MPE provides a far superior indicator of the wholesale value of milk and therefore the likely market returns available to the dairy farmer.