PRESS INFORMATION from
The Dairy Group

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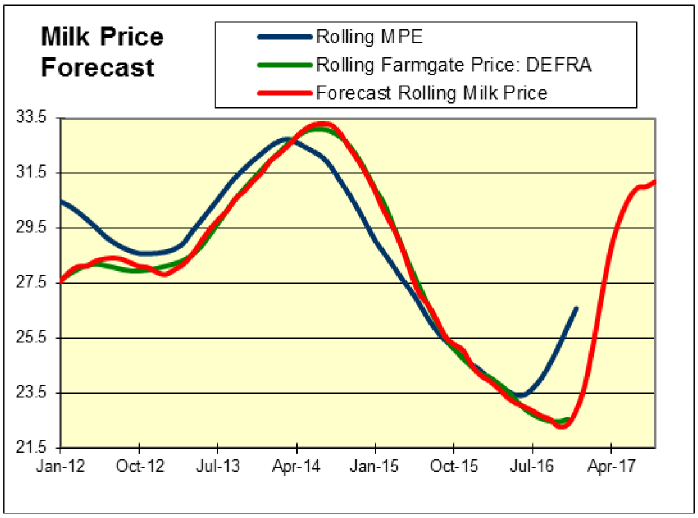
The Market Price Equivalent (MPE) Update December 2016
***By Nick Holt-Martyn,* The Dairy Group**

Falling production should deliver an average farm gate price of 30pl by April

"2016 turned out much as expected with hyper low milk prices in the spring, milk supply eventually falling, markets rising again and farm gate prices playing a delayed catch up. The drop in prices in spring 2016 was much worse than expected with dairy companies applying a "beggar thy neighbour" policy as recent sound company results demonstrate. Farmers accounts will have a different tale to tell with damage lasting through to 2018 or beyond. " says Nick Holt-Martyn of The Dairy Group. He goes on to say "quite un-noticed is the levelling off of market returns over the last three months with all major indicators including our MPE varying by just +/- 0.25 ppl which will have implications for farm gate price in the New Year. This is despite poor weather in New Zealand which will have reduced production by about 350 million litres and the EU down by around 850 million litres over the past year. At the farm gate these improved market returns will continue to deliver higher prices, with the strong cheese returns dragging the liquid market up to a better level, with liquid and cheese accounting for 80% of UK milk supply.



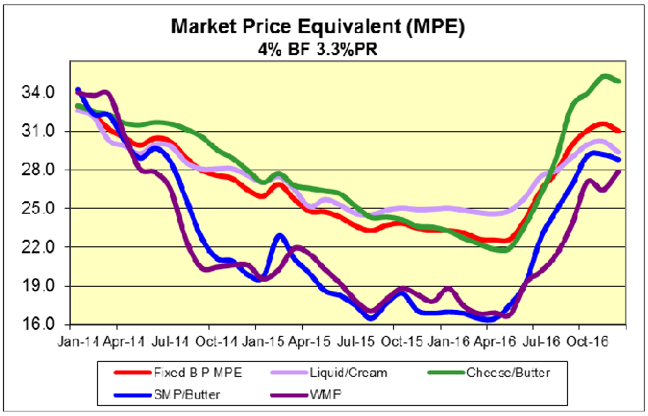
Source: The Dairy Group

The graph above shows how we expect rolling prices to climb significantly through to mid-summer with prices by April to June 2017 around 30 ppl in all sectors. With global supply still falling markets should continue to improve as supply is the key determinate of market tone.

Rising prices will inevitably lead to rising supply subject to the weather. The New Zealand season can almost be discounted having lost their October 2016 peak and still behind in November so there is limited scope to add significant volume. The focus shifts to the EU spring which after a very benign winter so far and with favourable spring could herald a recovery in milk production. The UK supply gap is starting to narrow and is likely to continue over the coming months.

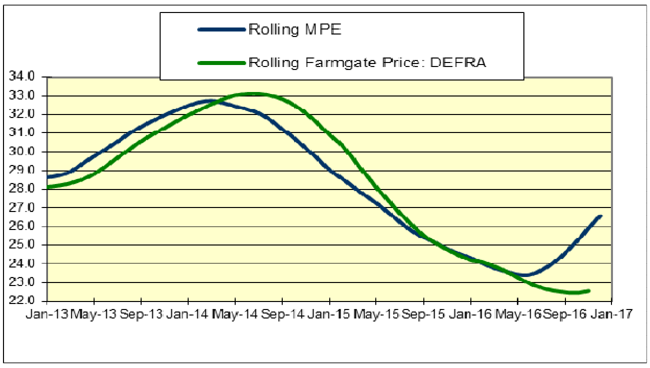
The UK supply continues to run below 2015 levels with October revised to 1110 million litres (-7.7%), November was 1079 million litres (-7.3%), with December forecast at 1142 million litres (-5.6%) and January is forecast at 1170 million litres (-4.4%). The UK is on track to fall below 14 billion litres by the end March 2017, down 850 million litres on the previous year.

EU supply continue to fall with October at -3.0% and forecast to be -2% in November, while New Zealand fell by -4.5% in November and the US again rose +2.5%. So the combined daily supply is expected to fall by 1% in November and December suggesting the fall in supply may be easing. Markets are steady and should improve by 10% if supply continues to fall and should deliver UK prices of 27 ppl by January 2017 and 30 ppl by April 2017.



Market Prices

The Market Price Equivalent (MPE) eases back by 0.56 ppl to 31.04 ppl due to seasonal falls in Cream and Butter while Cheese and SMP were unmoved. The range across the sectors narrows to 7.0 ppl from Cheese/Butter returns to WMP. SMP is stable at £1850/t, £428/t above Intervention price and 17% below the latest GDT auction, which fell 2.6% in Sterling equivalent. The GDT price equivalent (GDTPE) is up to 29.6 ppl and rolling at 20.9 ppl. At the latest GDT auction tonnages were stable, so a further indication that markets are levelling off. US production was running at +2.5% in November, New Zealand was -4.5% while the EU was -3% in October which should act to re-energise the upward market movement once the New Year is fully underway.



Farm Gate Prices

The rolling farm gate price has at last turned the corner and started to rise with November 2016 1.4 ppl above November 2015. The milk price curve will continue to improve in December while the MPE moves sharply upwards and so the recovery towards 30 ppl has begun. Weather has remained mostly dry, but the effects of reduced supplementary feeding and indifferent forage on milk output may not recover until grazing resumes. Sterling has slipped back against the $, but has been more stable against the €, currently €1.17 easing the SMP Intervention price down to £1422, but with markets ahead at £1850/t it remains irrelevant. UK production in October was 1110 million litres, 93 below 2015 and 10 above the 5 year average and November was at 1079 million litres, 85 million litres below 2015. December is forecast to be around 1140 million litres and January 1170 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. With 30 ppl already tabled in February by two cheese companies the pressure is on for the rest of the market to keep up. The expectation is that 30ppl will be the average by Easter with more to come in the summer if markets firm over the next quarter.

- Ends -

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- **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. 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.