

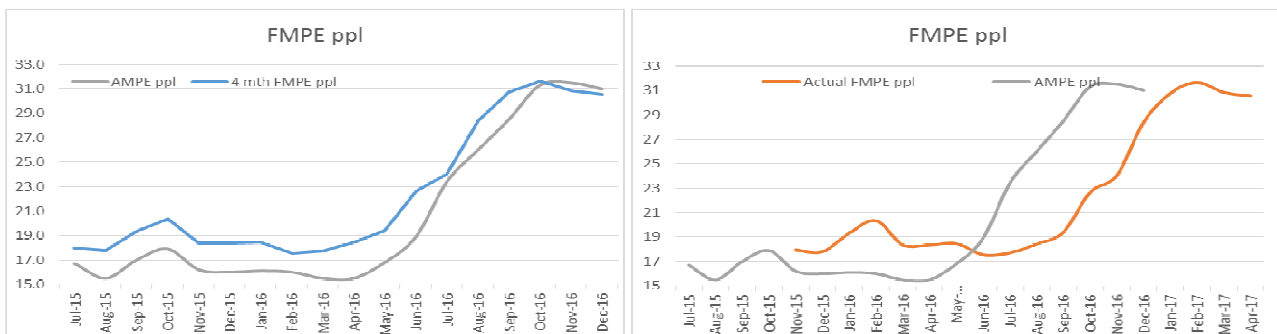
PRESS INFORMATION from *The Dairy Group*

31st January 2017

The Market Price Equivalent (MPE) Update January 2017 By Nick Holt-Martyn, The Dairy Group

Liquid Sector is Holding UK Prices Back

“The liquid sector’s fall from grace is complete, from jewel in the crown to bargain basement and is now holding the UK dairy market back by being the dominant use of milk” says Nick Holt-Martyn of The Dairy Group. He goes on to say “with the liquid sector in the hands of two processors and a handful of retailers there is precious little competition for supply despite the contraction in UK production over the last 12 months, down 630 million litres in 2016. In that time cream returns have risen 80% while retail liquid prices have risen by just 3%, to raise our Liquid/Cream Equivalent by 15% to 28.8 ppl, but all on the back of Cream. A check of the January 2017 league tables says it all, with non-aligned Liquid prices lagging at 25.6 ppl, 2ppl behind the main Cheese prices at 27.7 ppl. The focus on GDT commodities and Futures commodities prices is completely misplaced and almost irrelevant to the 77% of UK supply destined for Liquid and Cheese production. As the graphs below show commodity Futures prices do not forecast the future!

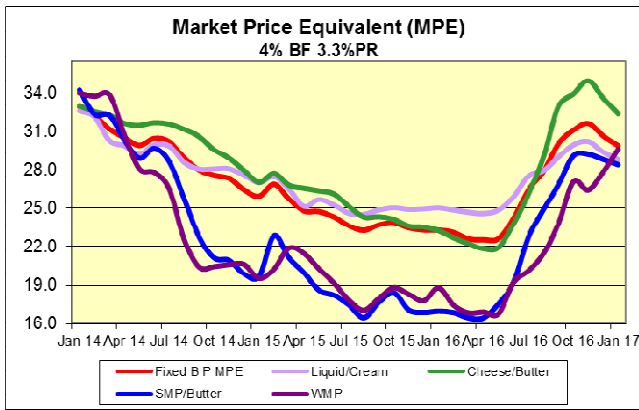


Source: AHDB & The Dairy Group

The graph on the left is the Futures prices converted into ppl as reported, which shows a correlation between AMPE and 4 month ahead Futures pricing. However when you compare the 4 month Future price against the AMPE price four months later it shows that futures markets are not forecasting - they are responding to current market signals to insure against the risk of future price rises. With global supply still falling, running about 2% below October 2015 to March 2016, markets should still rise further.

The UK supply continues to run 4 to 5% below 2015/16 levels with November confirmed at 1079 million litres (-7.3%), December at 1150 million litres (-4.9%) and January is forecast at 1170 million litres (-4.8%). The UK remains on track to fall below 14 billion litres by the end of the milk year in March, down 850 million litres on the year. If the liquid sector closed the gap with the cheese sector it would raise average UK prices by 1ppl just by virtue of its milk utilisation! This might provide the incentive to arrest the decline in milk production as there is still no profit for most producers at current milk prices.

EU supply fell 3.6% in November and is likely to fall 3.3% in December, while New Zealand fell by 2.7% in December with the US up 2.4%. So the combined daily supply is expected to fall by 1.5 to 2% in December, suggesting the fall in supply is continuing. Markets have remained flat, but should still pick up in February and March to deliver 30 ppl by April 2017.



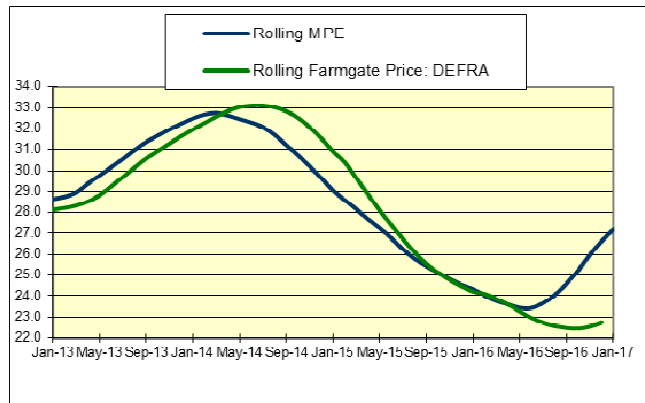
Market Prices

The Market Price Equivalent (MPE) eases back again by 0.75 ppl to 29.9 ppl due to seasonal falls in Cream and Butter, while Cheese and SMP were unmoved. WMP was up sharply helped by exchange rates. The range across the sectors narrows to 4.0 ppl from Cheese/Butter returns to WMP. SMP is £380/t above Intervention price and 14% below the latest GDT auction, which fell 1.2% in Sterling equivalent. The GDT

price equivalent (GDTPE) is 29.3 ppl and rolling at 21.4 ppl. A further indication that markets are levelling off. US production is running at +2.5% in November, New Zealand was -2.7% while the EU was -3.7% in October and -3.6% in November which should act to stimulate the market in the next month.

Farm Gate Prices

The rolling figure is now on the rise with December 2016 2.3 ppl above December 2015. The weighted annual average is down 1.7 ppl on the year to 22.74 ppl. The milk price curve will continue to improve in 2017, tracking the MPE curve through to the summer. Weather has turned wet of late, but the distinctly average winter continues. Milk quality has moved above 12 months ago indicating improved feeding



on the back of higher milk prices. Sterling has been volatile against both the Euro and Dollar as the effects of the Trump administration and Brexit machinations unfold, currently €1.16 and \$1.25. UK production in December was at 1150 million litres, 59 million litres below 2015. January is forecast to be around 1170 million litres and February 1080 million litres. The milk price is rising rapidly in cheese and commodity sectors, but is likely to level off without further market improvement. Liquid retail values remain static and are being left behind by 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 that 30ppl will be the average by Easter is starting to weaken unless markets rise further in February and March.

- Ends -

For further information please contact:

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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. 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.