

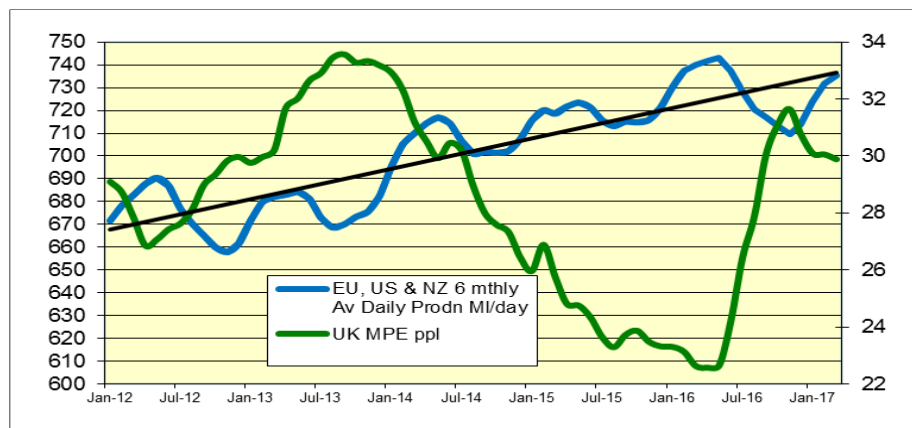
PRESS INFORMATION from *The Dairy Group*

1st May 2017

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

Rising Global Supply Causes Retrenchment in Farm Gate Prices

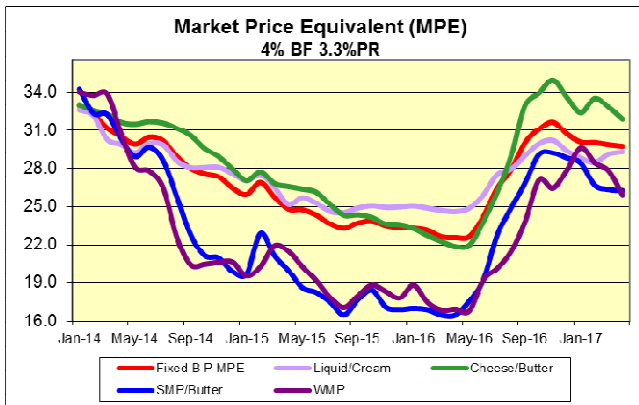
“2017 has seen a turnaround in global milk supply with a modest rise back up to trend level, which is quite normal for the spring. The time of falling supply in late 2016 is over, supply has stabilised with rises in USA and New Zealand and the EU spring flush means normal service has resumed,” says Nick Holt-Martyn of The Dairy Group. He goes on to say “with 350,000t of SMP in EU Intervention, with small additions starting in April and likely to continue to June, the position can only get weaker as the EU spring flush passes through. While milk proteins are in surplus with prices around intervention level, butterfat is enjoying strong demand with prices almost double intervention level. Unfortunately Butter and SMP are flip sides of the same coin! While EU year on year monthly milk supply is down around 1.5%, production of SMP (-9.2%) and Butter (-3.7%) are also held back, but not sufficiently to counter the supply rise in the USA and New Zealand.



Source: The Dairy Group

The graph shows the rolling 6 month average daily supply of the 3 key exporters (USA, EU and New Zealand) over the last 5 years and the trend growth over that period. Against that is shown the UK market returns as measured by the MPE which covers over 90% of UK supply. When supply is consistently below trend market returns improve and when supply is consistently above trend market returns weaken. The recovery in market returns in the last 12 months occurred when supply dropped below trend, echoing a pattern in 2012/13. In more recent months supply has started to rise, albeit only 0.25%, at a time of large intervention stocks. This has been sufficient to dampen down markets since November 2016 and has led to farm gate price falls in the UK in recent months.

To prevent markets weakening further supply needs to be constrained, although the latest from New Zealand was a sharp rise in March (+9.2%). Recent adverse weather may take the heat out of that rise, whilst dry conditions in the EU are likely to encourage an early but limited spring flush to temper market conditions. The key EU producers like Ireland, Germany, France and Netherlands all reported a supply contraction so far in 2017. So the most likely outcome is for supply and markets to stabilise through the summer months until the new milk season gets underway in the southern hemisphere. The recent price adjustments by Arla and Dairy Crest should be the limit of the milk price fall.



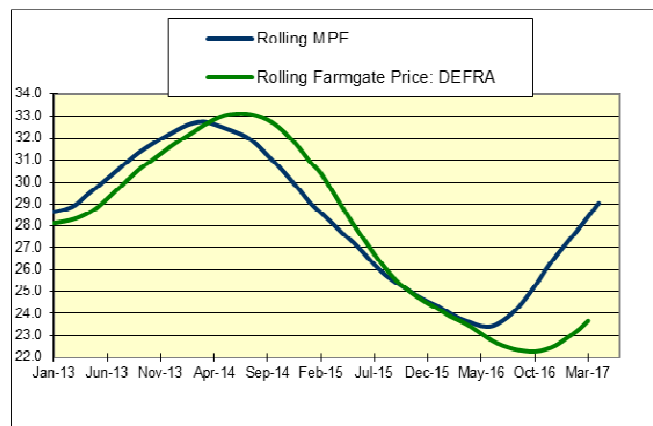
Market Prices

The Market Price Equivalent (MPE) drifts lower by -0.13 ppl to 29.8 ppl due to Cream and Butter rises offsetting weaker Cheese and Powders, with Liquid prices remaining flat in 2017. The range across the sectors narrows to 6.0 ppl from Cheese/Butter returns to WMP. SMP is just £59/t above Intervention price and 3% below the latest GDT auction, which fell 0.4% in Sterling equivalent. The GDT price equivalent

(GDTPE) is 25.9 ppl and rolling at 24.07 ppl. The GDTMPE rose 5% in the month and is up 8.3% in the last 6 months compared to the MPE which fell 0.4% in the month, but has fallen by 4.3% in the last 6 months. US production is running at +1.7% and New Zealand +9.2% in March while the EU was -1.0% in February, so global supply is creeping up again, by 0.25% per month.

Farm Gate Prices

The March 2017 farm gate price is up 5.0 ppl on March 2016 and rolling up 1.4ppl since October 2016. The weighted annual average is level 0.0 ppl on the year, but up 0.45 ppl on the month to 23.67 ppl. The milk price curve will continue to improve in 2017 tracking the MPE curve through to the summer when it is expected to reach 28.5 ppl. April weather remained cool and very dry as expected with grass growth tailing off as the month progressed.



Despite a welcome wet bank holiday weekend May is forecast to see a settled spell of high pressure with better grazing conditions following the rain. The General Election announcement caused Sterling to rise against both the Euro and Dollar to around €1.185 and \$1.295. UK production in March was at 1241 million litres, 19 million litres below 2016 to finish the year just over 14 billion litres, down 5.5%. April is forecast to be around 1276 million litres and May 1350 million litres, up 25 million litres (+2%) on 2016. Milk prices are slipping back as wholesale markets, particularly powders, but also cheddar, have weakened since November. Liquid retail values have not moved this year and have been left behind by cheese values and the persistent decline in volumes. Defra have reported March milk price unmoved from February at 27.5 ppl which may indicate an end to price rises with some slippage in June/July likely as price cuts take effect. Farmer margins remain under pressure with production costs increasing due to rises in feed, fertiliser and fuel.

- Ends -

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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.