PRESS INFORMATION from

The Dairy Group

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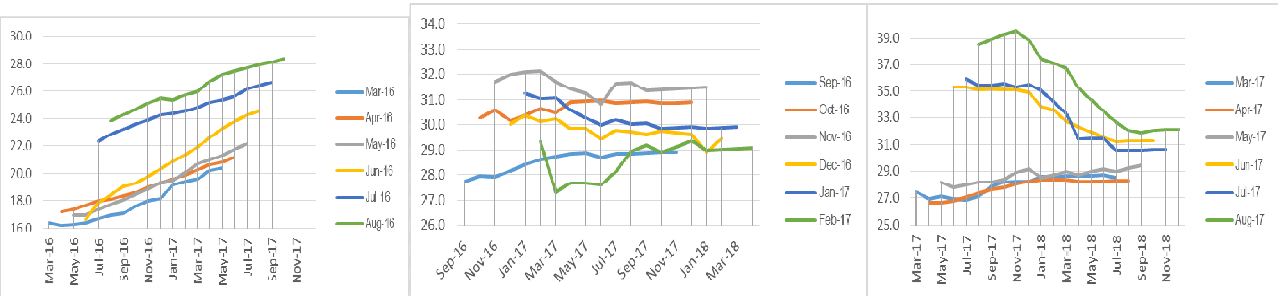
The Market Price Equivalent (MPE) Update August 2017

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

Futures contracts add some milk price certainty

“Muller’s introduction of futures contracts increases the opportunities for producers to fix a proportion of their milk price for a year ahead” says Nick Holt-Martyn of The Dairy Group. He goes on to say “but with that opportunity comes a need to understand what futures prices mean and how they relate to the current market position and what if anything they say about the future. While fixing in a price protects against market collapses it also limits access to booming prices, locking out both boom and bust. Futures contracting will need to be actively managed in a similar way to quota leasing of old and much more dynamically than most people manage their feed buying today.



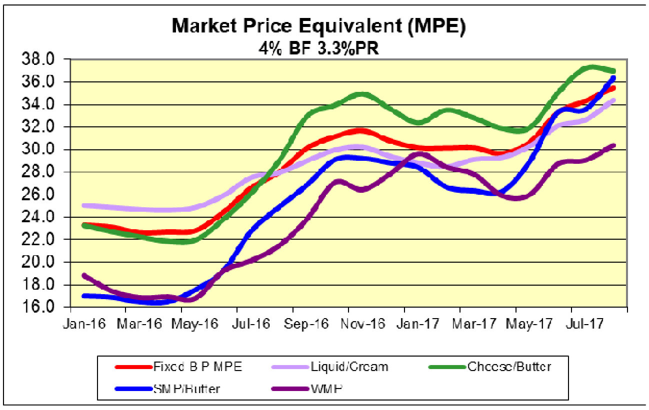
Source: The Dairy Group & INTL FC Stone Ltd/Milkprices.com

The graphs above are the kind of 6 month snapshots of the market that individually will be available to make contract decisions. The charts show futures markets always tend towards the market average the further ahead they look, where that average might be is then influenced by the current and recent market levels. So in Spring 2016, on a weak current market, futures prices were significantly above the market, whereas by the autumn the current market had lifted and futures prices were in line. The record butter/cream values of Summer 2017 was not foreseen by the market and lifted the short term market significantly in June and provided upwards pressure on the longer term futures market. Picking a good time to contract without the benefit of hindsight will never be that easy especially when the UKMFE price above is then discounted (to allow for transport, testing and margin) back to a farm gate equivalent 3 to 4ppl lower. For most this will require the futures contract to be offering at least 31 to 32 ppl to cover cost of production.

Participating producers will need to have a good handle on their costs of production, a robust forecast of milk production, an inclination to monitor the market on at least a monthly basis and be prepared for the market to change direction and leave them with a higher or lower milk price than might have been achieved.

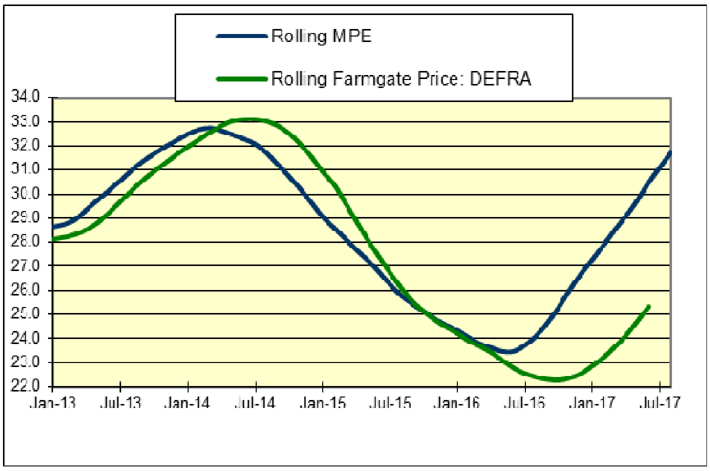
With the MPE up to 35 ppl this summer, should deliver an average milk price over 30 ppl by Christmas. With SMP at Intervention levels is preventing even higher prices and with global production rising at +1% markets look set to continue. All eyes are on the New Zealand new milk season and EU growth on the back of higher prices providing for an uncertain future.”

Market Prices



The Market Price Equivalent (MPE) has risen to a new record, up by 1.2 ppl to 35.5 ppl due to the relentless rise in Cream and Butter and WMP, although Cheese has eased by 0.2ppl. SMP dropped 1% to £1570, just 0.8% above Intervention. Liquid has lifted 0.4ppl and the first rise since January 2017. The range across the sectors is down to 6.6 ppl from record Liquid/Cream and SMP/Butter returns to WMP. SMP has dropped to just £13/t above Intervention price remaining 1% above the last GDT auction. The GDT price equivalent (GDTPE) remains at 26.9 ppl and rolling at 27.1 ppl. The GDTMPE fell 0.1% in the month and is down 4.4% in the last 6 months compared to the MPE which has climbed 3.4% in the month and 17.7% in the last 6 months. Global supply is starting to grow again with the US at +1.8% in July, NZ +2.1% and the EU +1.7% in June, giving a combined +1.8% in June and a forecast +1.7% for the rest of the summer. Even with the higher production growth, with global GDP rising at 3.5%, demand should keep up with supply. Provided butter remains firm markets will remain stable.

Farm Gate Prices



The June 2017 farm gate price is up 6.8 ppl on June 2016 to 26.75ppl. The June price was unchanged on May as seasonality and downward price adjustments take effect. The rolling milk price curve will continue to improve through the summer tracking the MPE curve when it is expected to reach 26 ppl. August weather has continued the variable theme with a warm showery mix to leave grass growth ahead of trend which looks set to continue through September. Sterling has fallen again to around $1.29 to the Dollar and to €1.08 to the Euro due to Brexit negotiations and a weaker economy. The forecast for July is 1190 million litres (+1.8% on 2016) and 1150 million litres in August (+2.1% on 2016). The forecast for September is +3.7% to 1115 million litres. Milk prices are moving up again to close the gap to wholesale returns and with a long term average gap of 2.4ppl average prices should be heading towards 32 ppl this autumn. Production is rising and market returns are good so the risk of weakening markets is possible in 6-12 months time as higher milk prices feed through to the farm gate.

- Ends -

For further information please contact:

- **Nick Holt-Martyn,** The Dairy Group (01823 444488/e-mail: nick.holt-martyn@thedairygroup.co.uk)
- **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.