PRESS INFORMATION from

The Dairy Group

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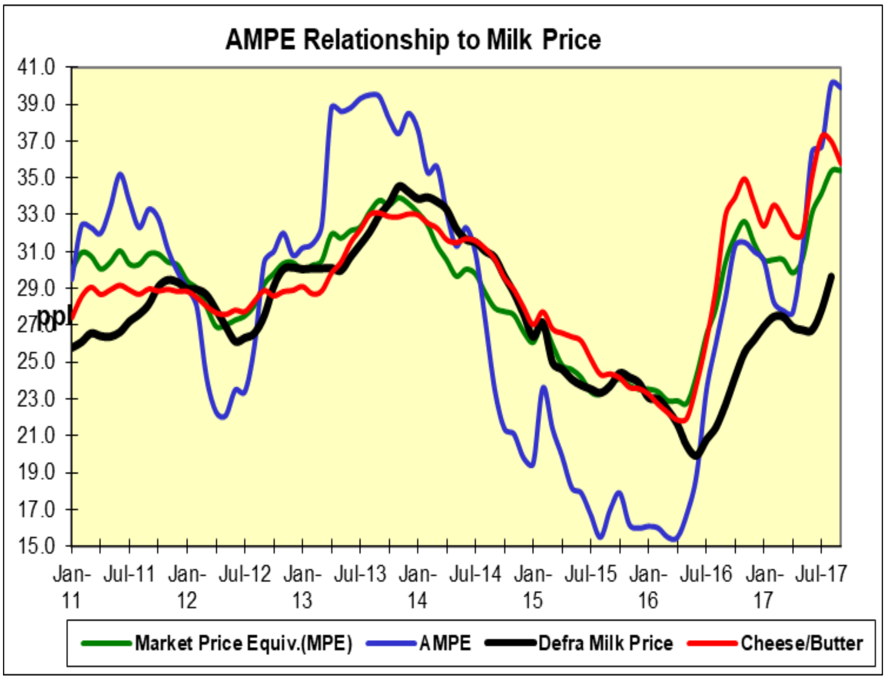
The Market Price Equivalent (MPE) Update September 2017

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

Futures Contracts and Forward Prices Need To Be 30ppl

"With Muller's futures contracts going live, recent announcements regarding a GDT style auction, Liquid Futures and Options for 2018 and several dairy companies offering fixed priced forward contracts, the pricing of milk is going to get a lot more complicated in future years" says Nick Holt-Martyn of The Dairy Group. He goes on to say "current futures are linked to AMPE which is the most volatile of market indicators as it is based on marginal supply/demand in global commodities and it ignores the value of 80% of UK milk utilisation (Liquid, Cheese and Yogurt). When markets are their most volatile, around peaks or troughs AMPE will be adrift of the core market on which most milk producers prices are based. The recent decline in cream and butter values and the effect on the futures prices in April-September 2018, which are down to 26-27ppl net, remind us that active involvement in futures might deliver no better returns at all.



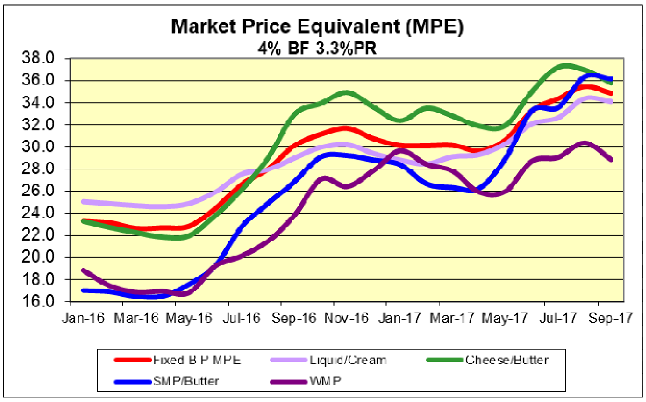
Source: The Dairy Group

The graph above compares AMPE with the Defra Milk Price, MPE and the Cheese/Butter component of MPE since January 2011. The effect of milk quota abolition and the unfettered rise in supply and the collapse of markets that followed are clearly visible. Looking at average prices over several periods provides the following:

Year Av.	ppl
1	26.5
3	25.1
5	27.7
7	27.5
10	26.7

On this basis a futures price or a forward contract around 26-27ppl seems reasonable, except it includes the quota abolition debacle which was the overriding cause of the dairy market collapse. The Defra price was below 25 ppl from March 2015 to November 2016, and lower than any point in the previous 2 market cycles. Taking the two previous market cycles; June 2011-September 2014, 39 months, gives a Defra average of **30.2 ppl.**

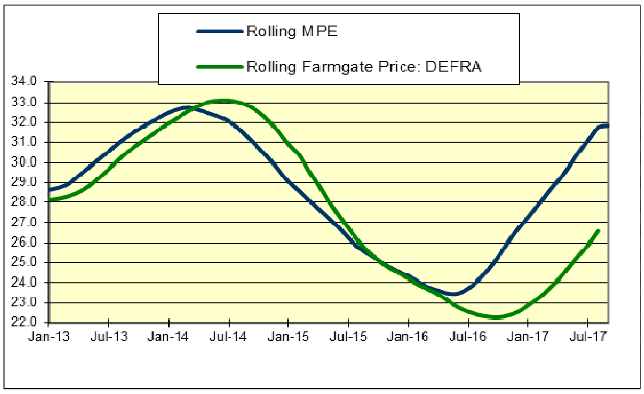
30 ppl would be in line with our latest cost of production analysis and offer a sustainable dairy future for 75% of producers. With markets softening on the back of improved EU supply it may be that Futures Contracts are less attractive, Dairy Options may have more to offer with their insurance type minimum price guarantee. 2018 could provide exciting times for milk producers, processors and futures brokers; meanwhile milk still needs to be produced at the lowest cost of production while still meeting the highest standards of hygiene and welfare.



Market Prices

The Market Price Equivalent (MPE) has eased, by 0.6 ppl to 34.9 ppl due to all sectors easing back not helped by the rise in Sterling. SMP dropped 2% to £1525 just 1.5% above Intervention. Liquid has fallen back 0.4ppl reversing the previous rise. The range across the sectors widens to 7.3 ppl from SMP/Butter returns to WMP. SMP has dropped to just £22/t above the Intervention price and remaining 7% above the last GDT auction. The GDT price equivalent (GDTPE) has eased to 26.0 ppl and rolling at 27.3 ppl. The GDTMPE fell 3.5% in the month and is up 2.3% in the last 6 months compared to the MPE which fell 1.7% in the month, but is up 15.6% in the last 6 months. Global supply is starting to grow again with the US at +2%, New Zealand -1.6% in August and the EU +2% in July, a combined +2% in July and a forecast +2% until the end of the year. Rising Global GDP should help to maintain overall market tone, although rising butterfat production was always likely to take the edge off cream and butter values.

Farm Gate Prices



The August 2017 farm gate price is up 8.2 ppl on August 2016 to 29.63ppl. The rolling milk price curve will continue to improve through the autumn tracking the MPE curve to the peak. September weather has been very wet which has knocked milk production slightly as the month has progressed. Sterling has recovered to around $1.34 to the Dollar and to €1.13 to the Euro, due to Brexit progress and a likely base rate increase. The forecast UK milk production for September is 1110 million litres (+3%) and 1135 million litres in October, up 27 million litres (+2.4%) on 2016. Milk prices are moving up rapidly to close the gap on wholesale returns, but with a long term average gap of 2.4ppl, the average farm gate price should be heading towards 32 ppl this autumn/winter. Production is rising and market returns are good, so markets are already showing signs of easing, which is likely to develop in the new year as higher milk prices feed through to the farm gate.

- 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.