

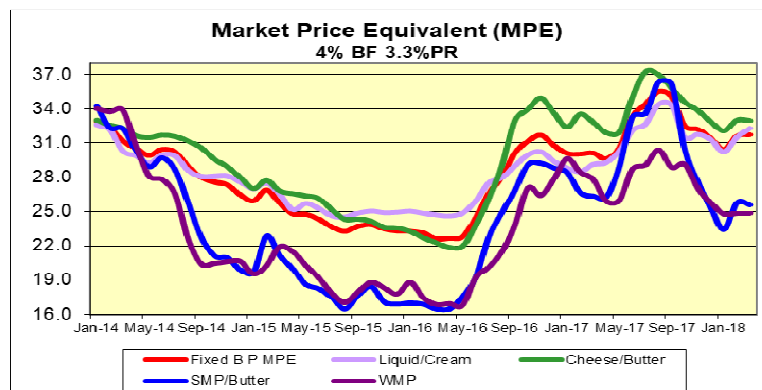
PRESS INFORMATION from *The Dairy Group*

2nd April 2018

The Market Price Equivalent (MPE) Update March 2018 By Nick Holt-Martyn, The Dairy Group

Market stability should be delivering 30ppl

“With the pre-Easter market stability established at a March 2018 MPE of 31.7ppl, a closer look reveals a relatively stable picture since October 2017. The MPE average over the last 6 months is 31.65 ppl, ranging from a peak of 32.48 ppl to a trough of 30.44 ppl, so a range of +/- 1ppl” says Nick Holt-Martyn of The Dairy Group. He goes on to say “under any definition from the last 4 years that is a stable 6 months. Within that period there have been some shifts in market returns; liquid + 9%, cheese -5%, SMP -25%, cream and butter -32%. But with liquid and cheese taking 81% of UK milk they act as a counter weight to the much weaker, but also smaller commodities. Most of the reductions in cream and butter occurred by January 2018 with a recovery ever since to levels higher than spring 2017.

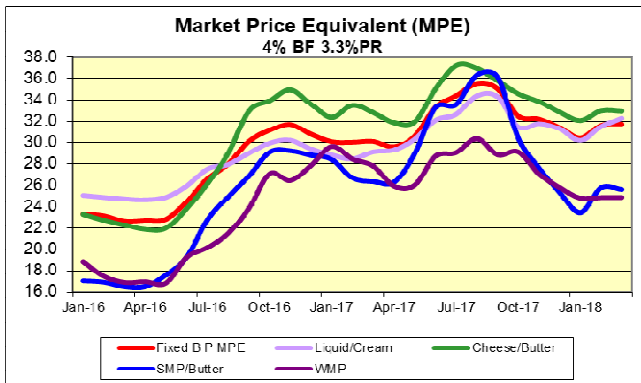


Source: The Dairy Group

The graph above shows the returns over the last 4 years with the MPE line (red) showing the strong contribution of liquid and cheese providing far more stable returns than butter and powders. Any hint of over-supply in raw milk translates very rapidly into weaker returns in butter and powders (2014 to 2016 & 2017), the gap between MPE and SMP/Butter returns averages 3.8ppl since January 2014 but in the last 6 months the average gap was 5.3ppl and in March was 6.1ppl. At its narrowest it was -1.3ppl in January 2014 and -1.1ppl in September 2017, due to the record butter returns. In the 4 years this reversal was only achieved 4 times in total when commodity returns (SMP in 2014, Butter in 2017) were particularly buoyant and albeit very brief episodes.

With this history of volatility, the lack of foresight of futures markets, the lack of volume of trade on the EEX and finally the high cost (9 to 20%) of participating in futures trading there is very little to commend this as a means of price setting or a safe haven from market volatilities.

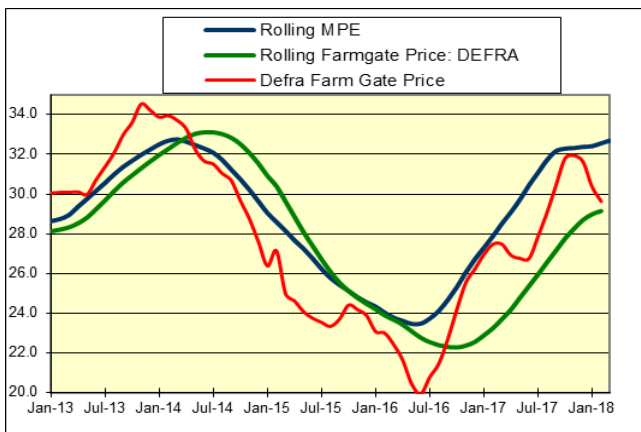
With the cold spring acting as a potential damper on EU milk (UK and Ireland at least) and weaker farm gate prices across the EU there is hope that supply gains can be reduced to under 2% helping to promote market stability. As outlined above the UK market has been showing signs of stability for 6 months which should become reflected in the farm gate price over the next 6 months. The worst of the price reductions should already be in place, some over zealous perhaps and we should now see some stability established.



Market Prices

The Market Price Equivalent (MPE) stabilises at +0.11 ppl (0.4%) to 31.73 ppl with small reductions in Butter and mild Cheddar but gains in Cream and Liquid. SMP gained 1.86% to £1150, 22% below Intervention. The range across the sectors stays at 8.1 ppl from Cheese returns to WMP. The GDT price equivalent (GDTPE) has slipped to 24.7 ppl and rolling at 25.8 ppl. The GDTMPE eased 0.6% in the

month and is down 5% in the last 6 months compared to the MPE which rose 0.4% in the month, down 9.5% in the last 6 months, but up 5.4% in the last year. UK SMP is now £198/t below the last GDT auction and is £334/t below Intervention. Global supply growth remains steady in January 2018 at +2.4% with the US at +1.9% in February, New Zealand -4.9% and the EU +4.3% in January. New Zealand drought has passed, but the impact on their supply for the rest of the season is not clear. Severe late winter weather and cold start to spring across the EU is expected to reduce supply growth.



Farm Gate Prices

The February 2018 farm gate price at 29.6 ppl, is down 2.3ppl from the November peak and is following the MPE curve, but is likely to flatten out as spring progresses as the MPE is up 5.4% on the year. The rolling milk price curve will continue to improve into the spring tracking the MPE curve which has now plateaued at 32.7 ppl following the March rise in MPE and should deliver an average milk price of around 30ppl.

Sterling has lifted to \$1.40 to the Dollar and to €1.14 to the Euro due to more favourable EU Brexit negotiations. The production for January was 1234 million litres (+1.4%) and 1232 million litres in February, up just 14 million litres (+1.2%) on 2017. The forecast for March is 1270 million litres (-1.2%) with around 20 million lost through snow and 1270 million litres (-2%) for April. Despite the MPE being 5.4% up on the year some dairy companies are stating the opposite as a reason for dropping their farm gate price - a significant drop in share price might be a bigger influence. The farm gate price should follow the fall in market returns which have stabilised, aided by the poor late winter/early spring weather. Over cutting of prices will be seen as unfair margin protection and profit taking.

- 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.