

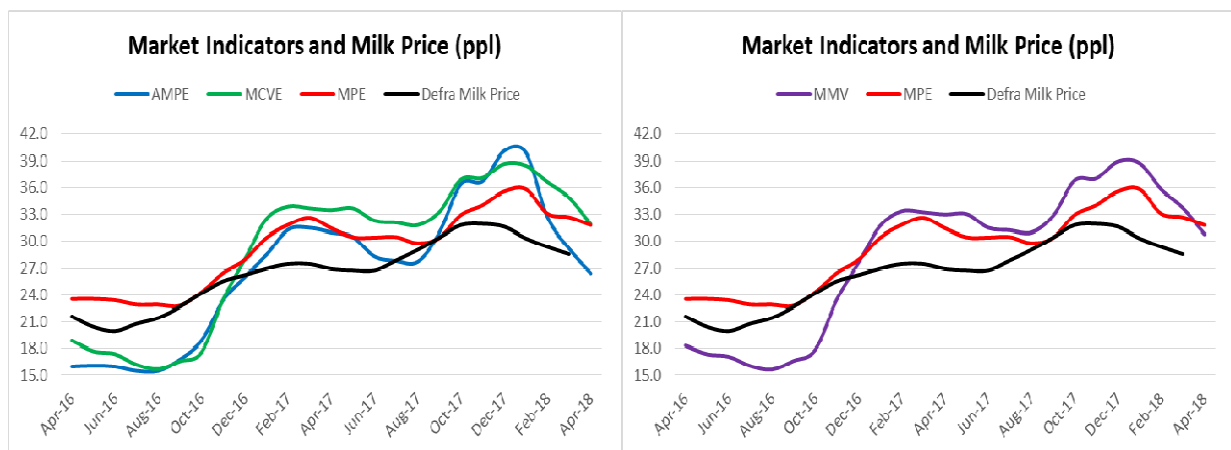
PRESS INFORMATION from *The Dairy Group*

1st May 2018

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

Commoditisation of UK Farm Gate Price is Complete

“The UK farm gate price is now almost entirely driven by dairy commodities as evidenced by the two major buyers paying an AMPE equivalent price for the last 3 months” says Nick Holt-Martyn of The Dairy Group. He goes on to say “there is a mediating influence from liquid and mature cheddar, but this has become increasingly marginalised and only impacts the farm gate at the extremes of the commodity range. AHDB’s new composite indicator MMV (Milk Market Value) which is composed from 80% MCVE and 20% AMPE illustrates the point in the graphs below.

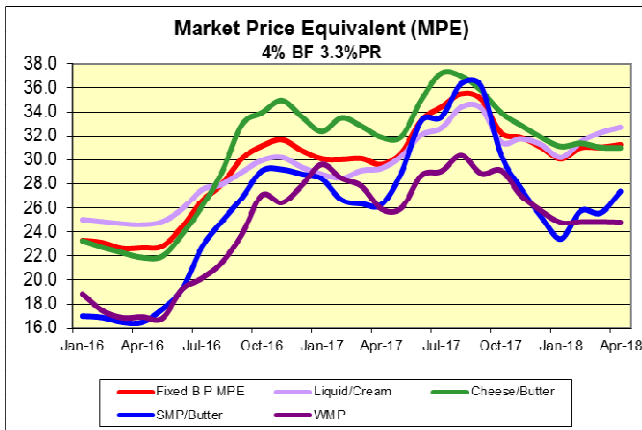


Source: The Dairy Group and AHDB

The charts both include the 3 month offset between market returns and the farm gate. AMPE and MCVE are very responsive to the changes in commodity prices and show far more volatility than seen in the farm gate price. The MPE includes a significant weighting from liquid returns (derived from AHDB’s GB 4 pint retail price data and bulk cream prices) and mature cheddar (sourced from DIN) which limits the effects of commodity markets at the extremes. The second chart shows the composite position with MMV. The correlation between both MMV and MPE and the farm gate price is 94% despite the evidence that through the summer of 2016 the farm gate price deviated from the commodity level through the support from liquid and mature cheddar.

Excluding the summer of 2016 the market returns have been between 30-36ppl while the farm gate price has been 27-33ppl so on that basis a fixed price contract of 27 or 28ppl is not overly generous. Given that the fixed element is the “core” or first production which is supplying raw material for the highest margin products to the very best customers, there is an argument for 30ppl+. The remaining milk will be priced with a greater reflection of the commodity returns, following the MMV line rather than the MPE line perhaps.

Globally production appears to be easing back to a trend of 2% growth at which markets should remain stable. With global GDP rising a higher supply growth can be sustained, so markets look set to remain firmer over the next 6 months, building on the stability of the last. The price reductions should begin to ease with modest rises possible on the back of better butterfat returns.



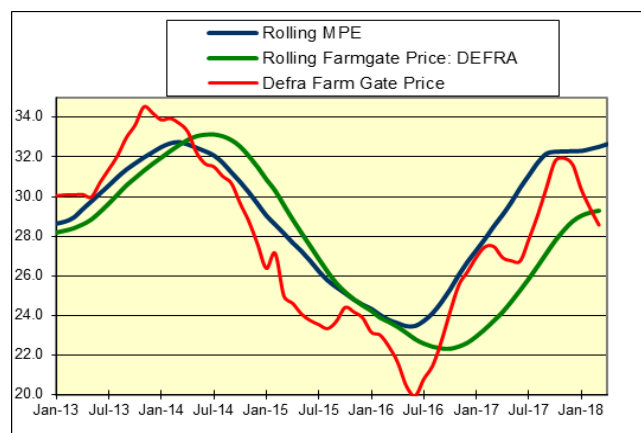
Market Prices

The Market Price Equivalent (MPE) remains stable at 31.3 ppl, +0.23 ppl (0.7%), with gains in Cream and Butter but a fall in Liquid. SMP gained 0.4% to £1155, 22% below Intervention. The range across the sectors slips to 7.9 ppl from Liquid returns to WMP. The MPE is up 5.6% on the year but down 3.1% in the last 6 months. The GDT price equivalent (GDTPE) has risen to 25.8 ppl and rolling at 25.6 ppl, up 4.4% in the month on the

back of a 4.7% fall in Sterling. UK SMP is now £313/t below the last GDT auction and is £326/t below Intervention. Global supply growth has eased in February to +2.1% with the US at +1.3%, New Zealand -1.5% in March and the EU +3% in February. Cool wet weather in New Zealand is reducing the supply as their season winds down. The late spring across the EU is taking the edge off the spring flush helping to ease supply growth and encouraging firmer markets.

Farm Gate Prices

The March 2018 farm gate price at 28.6 ppl, is down 3.4ppl from the November peak and is falling following the MPE curve, but is likely to flatten out as spring progresses with the MPE up 5.8% on the year. It remains up 1.2ppl on the year so the rolling milk price curve will continue to improve into the spring tracking the MPE curve which remains plateaued at 32.5 ppl despite the easing in the April MPE.



Sterling has dropped to \$1.36 to the Dollar, but remains €1.14 to the Euro. March milk production at 1256 million litres was down 27 million litres (-2.1%) on March 2017, mostly due to milk lost in the snow. Our forecast for April is 1290 million litres (-0.7%) and 1360 million litres (-0.2%) for May with the peak delayed by 2-3 weeks.

Milk prices have stabilised but despite firmer butterfat markets becoming evident there have been few price rises as yet. Despite the MPE being 5.8% up on the year the farm gate price is only up 4% echoing AMPE rather than the whole market. With indicators averaging from 27-31ppl over the last 6 months it cannot be right for the farm gate price to drop below the lowest indicator. Cost of production is rising due to the impact of poor weather and increased feed costs and with firmer markets milk price should be increasing.

- 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.