

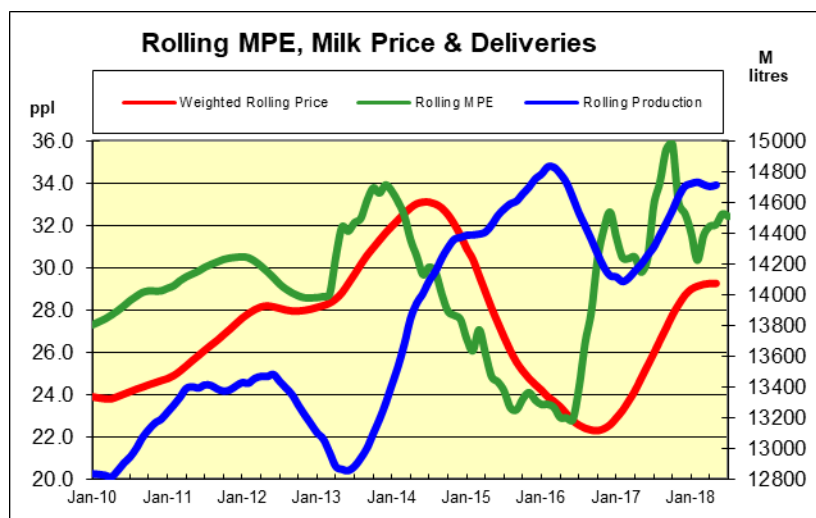
# PRESS INFORMATION from *The Dairy Group*

1<sup>st</sup> July 2018

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

### Fixed Price Contracts Need To Recognise the Cost of Production

“The rise of the fixed price element of contracts is welcome, but fixing at 28ppl will be a challenge to the average milk producer” says Nick Holt-Martyn of The Dairy Group. He goes on to say “committing to 3 years supply should come at a premium to a market hopelessly wedded to at or below commodity prices. These litres are the first that are produced and should be priced relative to core cost of production not and marginal economics.



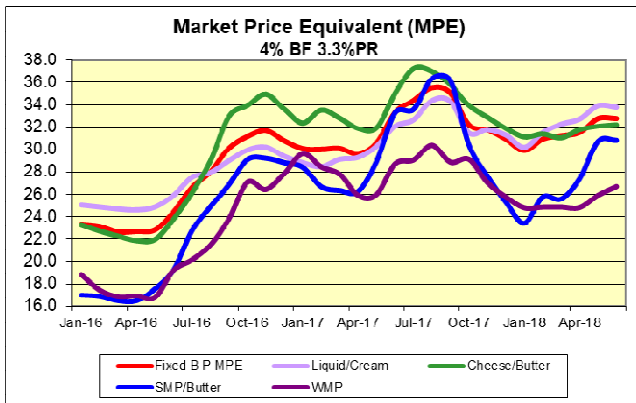
Source: The Dairy Group and AHDB

The graph above shows rolling milk price, UK milk supply and market returns since January 2010. What stands out is the disruption caused by quota abolition following on the heels of the weather affected supply in 2012/13. In the last 18 months supply has settled down into a more normal rhythm while markets are showing accentuated levels of volatility. Farm gate prices appear to have been pegged back to operate in a range further below market returns than before quota abolition and have not yet returned to levels market returns would suggest based on the pre-quota abolition period.

| Period         | Jan 10-Dec 14 | Jun 13-May 18 |
|----------------|---------------|---------------|
| 5 Year Average | <b>28.7</b>   | <b>27.7</b>   |
| 3 Year Average | <b>30.4</b>   | <b>25.7</b>   |
| 2 Year Average | <b>31.6</b>   | <b>27.0</b>   |

As the chart above shows while agreeing a 28ppl fixed price is positive compared to the last 5 years it doesn't compare so well against the period before quota abolition. Nothing fundamentally has changed in the cost of production (for the average it is stubbornly around 30ppl) so farmers have conceded profit margin to processors and consumers. Is this the new norm or will the relationship slowly return to pre-quota abolition status?

One thing we do know is that adverse weather (cold late spring, hot dry summer) will only add to the cost of production, affecting supply and leading to an increase in milk prices!



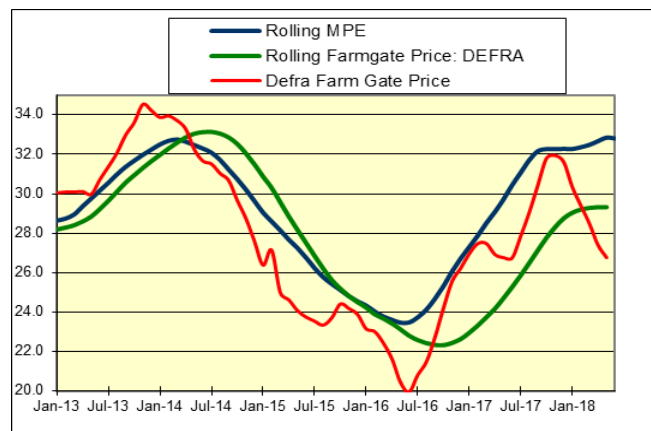
## Market Prices

The Market Price Equivalent (MPE) has stabilised at 32.8 ppl with small rises in mild cheddar and powders offset by slight declines in butterfats. SMP gained 3% to £1360, 8% below Intervention. The range across the sectors eases to 7.1 ppl from Liquid returns to WMP. The MPE is down 1.6% on the year and up 6% in the last 6 months. The GDT price equivalent (GDTPE) remains at 26.4 ppl, -0.2% in the

month, but up 13.6% in the last 6 months. UK SMP is now £160/t below the last GDT auction and is £124/t below Intervention. Global supply growth remains around +1% in March 2018 with the US at +0.6%, New Zealand +2.9% in April and the EU +1% in March. The late spring in the EU has taken its toll on production, but much better weather in May will see a recovery through to June. However the EU wide hot dry summer will be affecting milk supplies through July and possibly beyond.

## Farm Gate Prices

The May 2018 farm gate price slides to 26.8 ppl, down 0.6 ppl from April in contrast to the MPE curve which has been stable at 32.5ppl. The farm gate price curve is still expected to change direction in June so the rolling curve will flatten, but not fall as it resumes tracking the MPE curve. The MPE is up 6% in the last 6 months and starting to impact on farm gate prices. The expectation remains that with markets still rising the UK farm gate price will be over 30ppl by the start of next winter.



Sterling has stabilised against the Dollar at \$1.32 and remains at €1.135 to the Euro. The production for April was confirmed at 1285 million litres, -12 million litres (-0.9%) on 2017, while May was 1373 million litres, +9 million litres (0.7%). The forecast for June is 1260 million litres, -5 million litres (-0.3%), July at 1220 million litres, +2 million litres (0.2%) and 1175 million litres, -30 million litres (-2.5%) for August.

As expected with dairy markets averaging 32.5ppl some significant price rises are coming through for August. With weather affecting milk supply and with rising costs squeezing farmer margins, the focus correctly remains on milk price. You get what you pay for or not if you don't.

- Ends -

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- **Visit [www.thedairygroup.co.uk](http://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.