

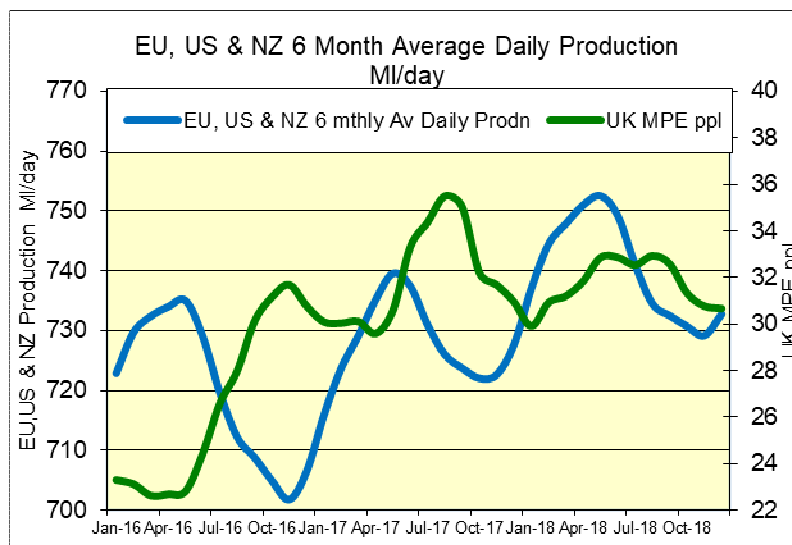
PRESS INFORMATION from *The Dairy Group*

3rd March 2019

The Market Price Equivalent (MPE) Update February 2019 By Nick Holt-Martyn, The Dairy Group

Accurate, Timely Milk Supply Statistics Vital For Market Transparency

“Defra’s initial reporting that UK January milk supply was 2% (25 million litres) below 2018 and 2% (25 million litres) down on December 2018, despite the daily figures at the end of January suggesting a 3.6% increase (44 million litres) on the previous year, would have been the first time in 25 years that January was less than December. The latest indications from the daily supply figures suggest January production of 1269 million litres while Defra have now amended their figure to 1255 million litres, +21 million litres on December and up 1.7% on the previous year.” says Nick Holt-Martyn of The Dairy Group. He goes on to say “the key fundamentals to market transparency are accurate, timely, reliable data on milk supply, milk prices and wholesale market prices. Reporting that January production was lower than December beggars belief on historical grounds and flew in the face of all other information. If data is clearly suspect it should not be reported or at least carry a heavy health warning with a timetable for validation.

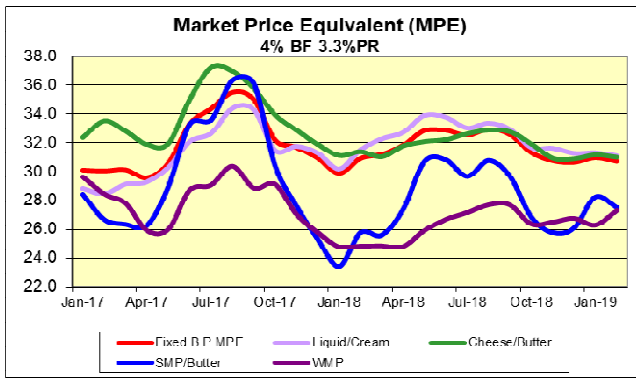


Source: The Dairy Group and Defra

The graph above shows the relationship between milk supply and market returns over the last 3 years. Volatility in supply (weather, political, economic) triggers volatility in markets which feeds back to effect supply. Timely, accurate information is necessary to facilitate the feedback mechanisms and induce the correct responses in both supply and markets.

Brexit is an obvious political event, like quota abolition, that is likely to have an effect on supply and markets. Good statistical data will be imperative in making sure the UK dairy industry responds in the appropriate way to whatever changes take place.

The latest data suggests that while the GDT has recovered in the last 3 months the UK market has remained very stable around 30.8ppl suggesting a farm gate price of 29ppl. Meanwhile the supply data is showing growth of less than 0.5% due to flat EU production countering strong growth in New Zealand. Unless there is a sharp EU supply recovery in the spring the farm gate price should remain stable through to the summer of 2019.



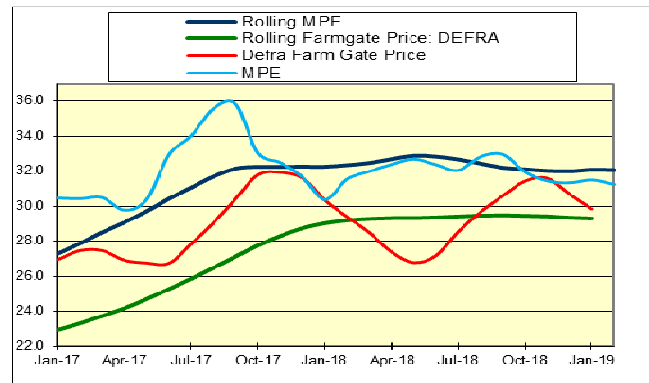
Market Prices

The Market Price Equivalent (MPE) slips back to 30.7 ppl (-0.8%, -0.25ppl). MPE is down 2.2ppl (-6.7%) in the last 6 months and down 0.2ppl (-0.6%) year on year. SMP rose 1.2% to £1690, Butter was down 6% and Cream down 6.2% on strong UK supply. The range across the sectors eased to 4.9 ppl from Cheese/Butter returns to WMP. The GDT price equivalent has risen to 26.2 ppl, +6% in the last month, +7% in

the last 6 months. Despite the recent rises UK SMP is still £285/t below the most recent GDT auction, but is £214/t above Intervention. Global supply growth stalled at nil in November and 0.2% in December, with the EU -0.7% in November and -1% in December, while New Zealand was +4.4% in December and +7.7% in January. EU supply looks set to remain flat despite strong growth in the UK and Ireland.

Farm Gate Prices

The January 2019 farm gate price has fallen by 0.8 ppl to 29.9 ppl, up 1.3ppl (4.6%) in the last 6 months, but down 0.5ppl (-1.7%) in the last year. The rolling Farm Gate price has slipped to 29.25ppl, but has been above 29ppl for the last 12 months. The graph shows the relationship between the farm gate price and market returns over the last 2 years.



UK supply continues to grow with January at +1.7% and February forecast +2.3%. The UK farm gate price slipped to 29.9ppl in January and is forecast to fall 0.5ppl to 29.4ppl in February.

Brexit uncertainty continues, but currencies have strengthened as the risks of a no deal diminishes, £/€1.16 and £/\$1.33 at the end of February. The production in December was confirmed at 1234 million litres (+15 million litres) and January was 1255 (+21 million litres). February production is running at +2.3% (1150 million litres) and March is expected to be similar at 1300 million litres. The 2018/19 milk year is expected to be +110 million litres on 2017/18, boosted by a strong last quarter. Milk prices should be stable for March and look set to remain so into the new milk year. Improved returns globally and the rising SMP values have been countered by declines in butter and cream of late and supply growth in some countries (New Zealand, UK and Ireland). Weather remains relatively benign so far with warm weather being replaced by above average conditions aiding grazing herds. Soya prices have come back sharply and should help the cost of production, but other feed costs remain high so cost of production is unlikely to fall much from our forecast for 2018/19 of 33.5ppl."

- 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.