

# PRESS INFORMATION from *The Dairy Group*

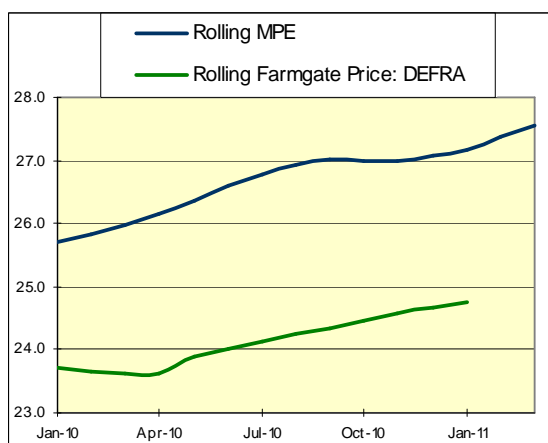
31<sup>st</sup> March 2011

## The Market Price Equivalent (MPE) March 2011

By Nick-Holt Martyn, The Dairy Group

### *UK milk price remains 23<sup>rd</sup> in the EU price league*

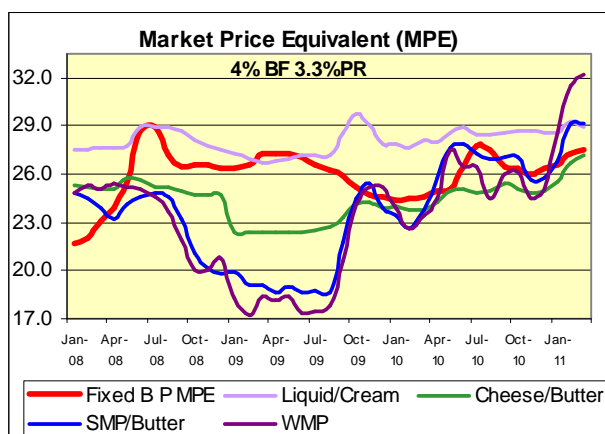
“The UK is at last seeing farm gate prices move towards a more realistic market level, but with high costs means there is still much further to go. Price rises are positive news but still along way to go to adequately reward farmers for their effort and investment. The UK dairy industry should be ashamed to see the UK still lying in 23<sup>rd</sup> place in the EU milk price league, just above the Baltic States and Romania!” says Nick Holt-Martyn of The Dairy Group. He goes on to say “Although global markets have cooled recently, the UK farm gate price still lags behind market returns which remain the fundamental driver of farm gate prices. There is still every reason to expect further price rises as market returns feed through to the farm gate.



As the graph shows the gap between market returns and farm gate prices is still far too large with the latest Defra UK average price in January just 25.72 ppl. Market returns are now just 0.5 ppl below their peak in October 2007 so further farm gate price increases should be delivered through the summer. In the last 6 months the average milk price increase was 1.5 ppl with a range from 2.6ppl down to 0ppl with the commodity related markets leading the way. Now that mature cheddar (see Market Price section below) has risen by 5% there is every expectation that prices can continue to rise to a more realistic level.

Despite the recent fall in global prices the fundamentals remain sound and the market should stay firm. Production in the northern hemisphere is still two months off peak, so a market correction is not unsurprising at this time. Production in the US and EU is only marginally up, limited by high feed prices and a cool start to spring. The political unrest in North Africa and the Middle East followed by the devastation in Japan are unsettling markets, but could lead to increased demand for dairy product as safe secure supplies are sought. Provided supply doesn't increase dramatically over the next 3 months then the prognosis for prices is good and the farm gate price should continue to increase to close the gap on the market returns.”

## Market Prices

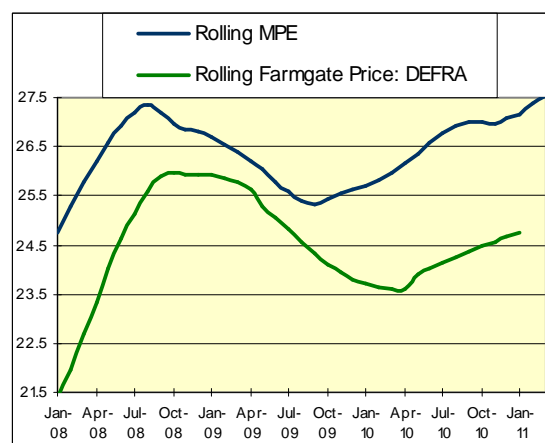


At last the mature cheddar price has moved up lifting the cheese sector returns by 0.5 ppl to 27.2ppl. The Northern Ireland auction price slipped back to 26.66 ppl as returns from commodities falter. The Market Price Equivalent (MPE) stabilises at 28.42 ppl, down 0.06 ppl on February, up 0.9 ppl since September 2010 and up 2.01 ppl on last year. The market fundamentals remain sound so the market should sustain these higher levels for a while. Political uncertainty and the Japanese problems together with rising

northern hemisphere production have taken the edge off demand for now.

## Farm-gate Prices

Milk price rises are still coming through with most producers likely to see rises in March or April. The largest increases have come from those closest to commodity markets although the gap with market returns is not closing. With mature cheddar returns up 5%, rises in the cheese sector look more likely adding further pressure on liquid prices. As expected countries with more dynamic milk utilisations are seeing faster market responses than the UK with its 80% core supply in liquid and domestic cheese, which goes some way to explaining the 23<sup>rd</sup> position in the EU price league. As market returns feed through and with more stable commodity pricing the UK should begin to climb back to a more satisfactory position.



- 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 UK market utilisation of milk. The MPE is calculated from wholesale market values, whereas IMPE (Intervention Milk Price Equivalent) accounts for just 11% of UK milk production and is effectively determined by the Council of Ministers and the prevailing exchange rate. The MPE provides a far superior indicator of the wholesale value of milk and therefore the likely market returns available to the dairy farmer.