

# PRESS INFORMATION from *The Dairy Group*

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## The Market Price Equivalent (MPE) Update June 2013

*By Nick Holt-Martyn, The Dairy Group*

### The Scary Effects of Supply Volatility

“The latest Global Dairy Auction results show markets have stabilized at their recent high levels giving confidence that all farm gate prices will now exceed 30 ppl this year with top prices over 35 ppl,” says Nick Holt-Martyn of The Dairy Group. He goes on to say “while these prices are needed to meet production costs of around 35 ppl, the shift over the last 12 months is positively scary!”, he continues. “In the last 2 years dairy commodities have fallen and then risen equally rapidly to create the turmoil of 2012 and the welcome respite of 2013. The UK is not immune to these changes as market returns fundamentally drive milk prices overriding production costs, unless underwritten by a retailer.

	Jun-11	Jun-12	Change	Jun-13	Change
LIQUID ppl	48.2	47.7	-1%	49.6	4%
RETAIL PRICE ppl	57.8	51.4	-11%	54.4	6%
CREAM	1800	1020	-43%	1690	66%
BUTTER	3800	2250	-41%	3500	56%
MATURE CHEDDAR	3200	3200	0%	3450	8%
MILD CHEDDAR	2950	2850	-3%	3250	14%
SMP	2250	1800	-20%	2800	56%
WMP	2641	1897	-28%	3149	66%
WHEY POWDER	742	683	-8%	834	22%

Source: DairyCo and The Dairy Group

As the table above shows the violent swings in cream, butter and powder prices produced an AMPE of just 23.5 ppl in June 2012 compared to 35.2 and 38.8 in 2011 and 2013 respectively. Our own all market weighted MPE was 31.1, 27.2 and 32.4 ppl which reflects the stability of liquid and cheese which accounted for 79.2% of UK milk utilization in the last 12 months. Locking into a commodity driven formula price is not for the faint hearted!

The cause of this volatility is not demand which is relatively turgid but supply which is at the mercy of weather in the key dairy areas of the EU, USA and New Zealand. Given such violent market changes you could be forgiven for thinking that production must also have changed in a similar way, not so.

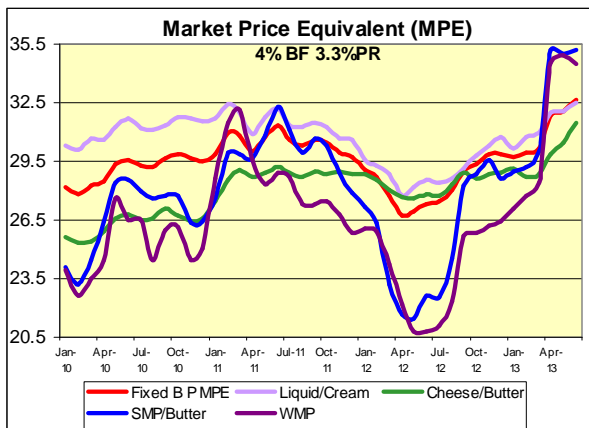
	Change in supply Jan-Jun '12 over '11 Mt	% of Annual Supply	Change in supply Jan-Jun '12 over '11 Mt	% of Annual Supply
EU	1.326	1.0%	-0.917 [a]	-0.7%
US	1.399	1.6%	0.078 [b]	0.1%
NZ	0.831	4.4%	-0.818 [c]	-4.0%
	<b>3.556</b>	<b>1.4%</b>	<b>-1.657</b>	<b>-0.7%</b>

Source: The Dairy Group, a] Jan-Mar, b] Jan-May, c] Jan-Apr

The table above shows that relatively small changes in supply trigger violent movements in commodity prices which only reflect the marginal production. Basing the value of the total supply on the marginal value of commodities prevents producers and processors to a

lesser extent from being able to plan forward. Despite markets being on a high it is only a question of time before supply responds triggering markets to adjust.

While statements regarding demand increasing from Asia and China are basically true the time span over which they will occur and the kind of product demanded are ignored. Reported declines in the rate of GDP growth in China will lower any rate of growth and Chinese demand is most obvious for commodities which can be used as raw materials in China. The use of and rules for amendment or disengagement in formula pricing will need to be carefully considered before farmers sign up, locking into a commodity driven price could be catastrophic at some point in the future.



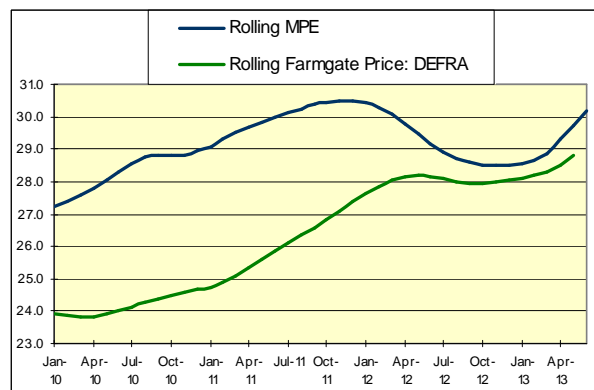
### Market Prices

The Market Price Equivalent (MPE) is on the move again, up 0.59 to 32.63 ppl due to 5% rises in mature cheddar and cream, but exchange rate easing in WMP and Whey. The range across the sectors has narrowed but liquid and cheese are still behind butter and powders. The latest Fonterra auction was up 0.7% due to SMP and autumn WMP, but falls in butter values. The MPE is now up 5.32 ppl on the year and up 2.7 ppl since December 2012. New Zealand production continues to collapse and is

likely to end the year below 2012. The UK is still running below last year, but is up to the 5 year average and is likely to pass 2012 in July.

### Farm Gate Prices

The graph shows the rolling MPE continuing to rise sharply due to cheese prices. Despite the May farm gate average dipping below 30 ppl due to seasonality, UK prices should all be between 30 - 35 ppl by October. The 5% rise in mature cheddar should feed through to farm gate prices this summer. The weather has delivered an average summer with good quality forage and time to make up for below par forage yields. There should be positive effects on production and there are expectations of lower feed prices for the winter. With the UK production running at 2% down in June the lines are likely to cross in July as 2013 “normal” conditions replace the horrors of 2012. The 2013-14 forecast remains at 13 B litres, around 50 million litres up on 2012-13.



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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.