PRESS INFORMATION from
The Dairy Group
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The Market Price Equivalent (MPE) Update January 2014

By Nick Holt-Martyn, The Dairy Group

Quota Effectiveness Will Decline in 2014/15

"Although quotas will not end until March 31st 2015 their effectiveness as a brake on production is likely to weaken in the final year as farmers look to an expansive future without them" says Nick Holt-Martyn of The Dairy Group. He goes on to say "a lot will depend on the prevailing dairy economics and weather, but when there are only months to run greater risks will be taken with overproduction in 2014/15. There is already some evidence of expansion in the key northern European dairy nations this year with many countries heading over quota.

M litres	Apr-Nov 2013 vs 2012
Denmark	89
Poland	60
Germany	495
Ireland	171
Netherlands	484

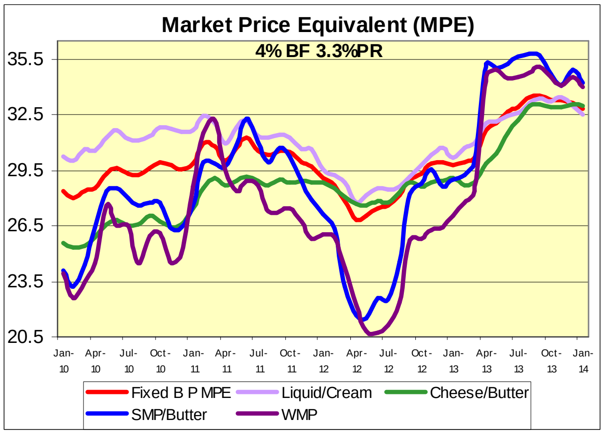
Source: The Dairy Group

The table above shows that the countries most likely to be over quota this year have increased production compared to 2012 by 1.3 billion litres to the end of November 2013. Of these only Ireland (-3%) and Netherlands (-0.4%) were under quota in 2012/13 although over in the previous year. Other countries that might be over are Austria and Belgium although Austrian production is down this year along with southern and south eastern EU countries. The EU 28 net position at November 2013 was +1.39 billion litres (+1.49%) despite the EU wide cold spring and low spring flush. This shows the EU has a significant potential to produce milk once quotas are removed, provided the economics are sustainable and the weather favourable.

The November weighted average EU farm gate price was €40c/litre which is very similar to the UK, although the range was from €31c/litre in Romania to €58c/litre in Cyprus. The key dairy nations were between €42c/litre to €45c/litre indicating the UK is still underperforming our nearest competitors. With Super Levy set at €28.7c/litre in Ireland there is still a disincentive to go widely over quota although fine tuning production without damaging output in April will be the key. There are reports of farmers drying off cows early rather than selling off fresh cows as a strategy to limit the exposure to super levy, whilst maintaining business scale before quota abolition becomes a reality. In a years time the argument to maintain production will be stronger, so expect more countries to be over quota and those above to be further over than this year, weather permitting of course.

No such worries for the UK, despite scurrilous reporting of late, but the UK and France are among those countries below quota which are seeing production rise, which is probably due to better summer weather and the improved milk price. In April to November 2013 the UK was up 215 million litres and France 112 million litres.

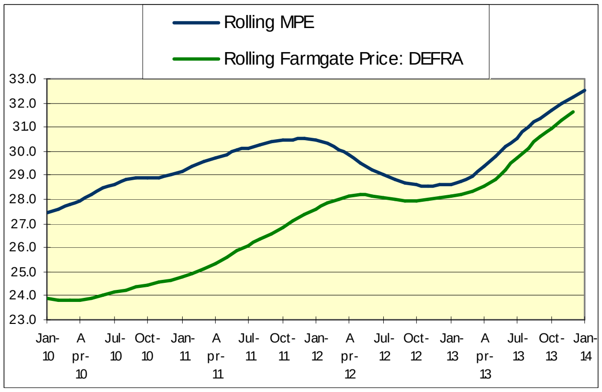
The importance of all this is that a modest 1% rise in EU milk production equates to a 7% rise in New Zealand which in the past has been significant to global markets. Currently New Zealand is running at +4%, whilst the US has stalled on the back of bad weather, so global supply, while still growing, has slowed of late but still remains above the trend level. Markets remain stable with only small fluctuations, which is normal at this stage in the cycle. Where it goes next will be decided by the weather; if there is a late EU spring and drought in New Zealand then the markets will stay firm or even firm some more, but an early EU spring and a grassy New Zealand autumn and the markets will soften on the back of rising supply. Most forecasts are currently indicating something in between."



Market Prices

The Market Price Equivalent (MPE) has softened again to 32.8 ppl with further falls in cream and butter. The range across the sectors has narrowed, but utilisations show a rise in powder and cheese production which will soften values. The latest GDT auction was up +1.4% due to butter, MPC and cheddar with SMP -0.5% and WMP flat. The contract prices remain stable through to July 2014. The MPE is up 3.0 ppl on the year and down 0.1 ppl since July 2013. New Zealand production is still playing catch up on 2012, running +4% in November, -1.6% on the year and forecast at +4%; the US is running flat, whilst the EU is +0.36% and Australia -4%. Globally production is rising, but markets look set to remain firm, while exchange rates begin to impact on UK market prices.

Farm Gate Prices



The graph shows the rolling MPE starting to level off as the market returns are sustained at their summer peak. The farm gate price is following a similar path albeit a couple of months in arrears. The wet weather continues to dominate the headlines and is forecast to remain wet, but mostly mild through February. The fundamental economic picture hasn't changed with margins showing a good recovery. UK production is soaring ahead of the 5 year average for the rest of the quota year and 2013-14 production is now forecast at 13.7 billion litres, which is up 5.7%, 744 million litres above 2012-13 and 263 million litres above the 2011-12 total.

- Ends -

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- **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 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.