PRESS INFORMATION from

The Dairy Group

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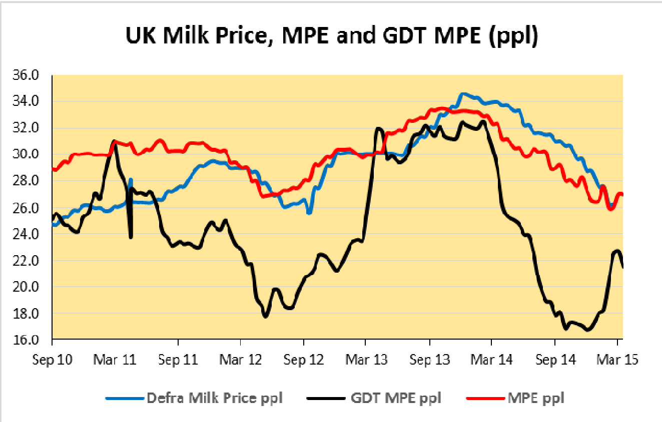
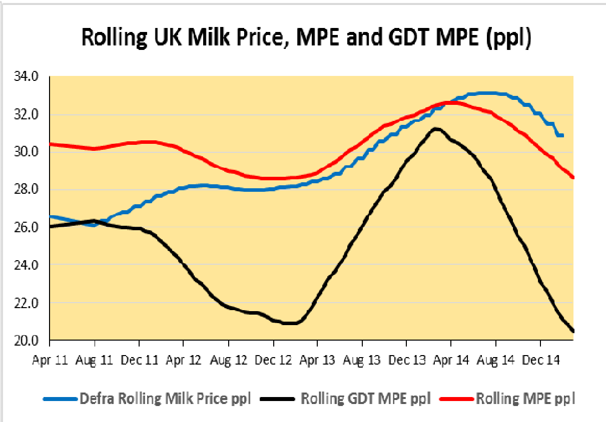
The Market Price Equivalent (MPE) Update March 2015

***By Nick Holt-Martyn,* The Dairy Group**

UK markets drive UK milk prices and not GDT volatility!

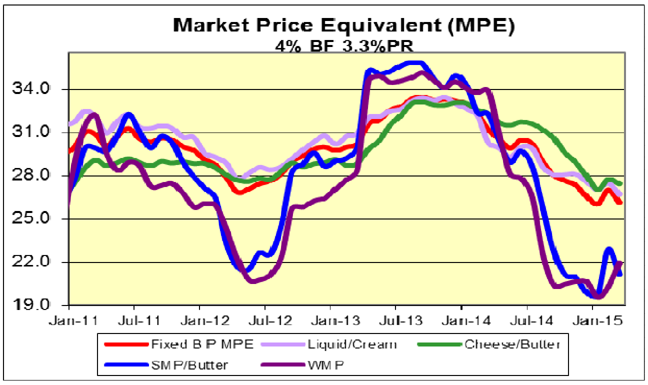
The GDT, while informing UK and EU pricing must not become a driver of farm gate prices where the balance of products and sectors served are completely different. Too often dairy companies cite the GDT as the reason for price movements when they have precious little exposure to those products or markets," says Nick Holt-Martyn of The Dairy Group. He goes on to say "Recent UK utilisation data shows that Liquid and Cheese still accounts for 77% of UK milk with butter and powders amounting to just 15%, despite the 27% growth in powders in the last year and powders taking 40% of the increased milk output. Liquid has grown by 2.2% and Cheese was up 7.5%, taking up 15% and 27% of the almost 1 billion litre increase in UK milk output over the last 12 months. When the majority of a dairy company's income stream is based in the core liquid/cheese sectors, blaming the GDT, which is over 81% milk powders, is not good enough.





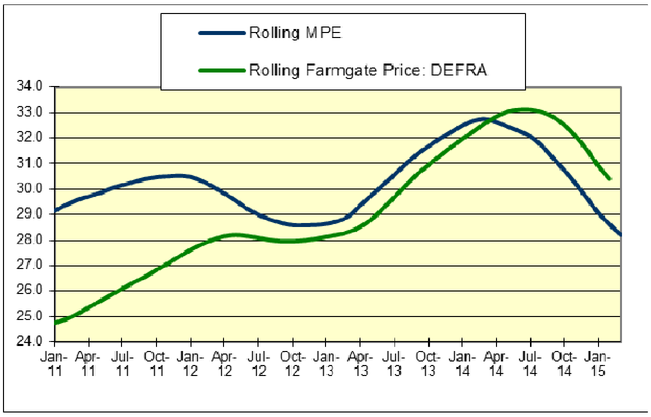
Source: http://www.globaldairytrade.info/en/product-results/
Analysis by The Dairy Group

The first graph above shows the extreme volatility of the GDT over the last $4^{1}/_{2}$ years due to the rapid growth in milk output followed by sharp drought driven contractions in supply. By comparison the UK, while still affected by the volatility, shows a much more consistent level of returns and transmission to the farm gate price. The more recent GDT volatility has been amplified by the volatility in the tonnages offered by the sellers with recent sales only 50% of what was offered a year ago. The 2nd graph shows the rolling performance of the UK milk price, the MPE and the GDT, all in pence per litre. Clearly the UK market returns have outperformed the GDT due to the resilience of the core sectors supplying a domestic market. Over this period the GDT has averaged 24.7 ppl compared to the MPE at 30.0 ppl and the UK farm gate prices of 29.2 ppl. The March average for the GDT was 22.14 ppl which was 5 ppl less than the February UK farm gate price of 27.22 ppl. Obviously within that 27.22 ppl there is a massive range in milk price of +/- 5ppl which indicates significant pressure on individual milk cheques this Spring for those facing A+B pricing or seasonality reductions. Looking forward at business plans in to the future, a cost of production below 30 ppl would seem to be a minimum requirement to ensure sustainability in a post quota era.



Market Prices

The Market Price Equivalent (MPE) has dropped back 0.9 ppl to 26.1 ppl due to falls across the board, in part due to currency and little impact from the early Easter. The range across the sectors falls to 6.4 ppl due to improvement in WMP. SMP which has fallen to £1500/t and Butter at £2350/t are below the latest GDT auction which fell 5.2% in Sterling equivalent across most commodities and contract periods. The GDT price equivalent (GDTPE) was down to 21.5 ppl ending a period of 6 successive rises. The MPE is down 5.0 ppl on the year and down 1.9 ppl since September 2014. US production is now running +1.7% in February with annual growth of +2.5% while the EU is +1.3% in December with annual growth of +4.3%. The New Zealand drought and lower supply to the GDT auction (-45% year on year) have driven market improvements in 2015 so far, but markets might be stabilising in advance of the northern hemisphere spring flush.



Farm Gate Prices

The graph shows the familiar pattern of rolling MPE falling back as market returns drop away, down below levels last seen in 2012. The rolling farm gate price is tracking MPE as expected with a significant fall in January as monthly prices replace the higher values of 12 months ago. The weather has remained cool for 10 weeks in the northern hemisphere, whilst rain is elevating the drought impacting on New Zealand production. Oil prices are more stable and now Sterling has eased due to General Election uncertainty should help milk prices. UK production is running 0.6% behind last year with March forecast at 1250 million litres, so the UK is still on track to finish the last ever quota year at 14.38 billion litres, 810 million litres below quota on a butterfat adjusted basis. The expectation for the new milk year remains flat (at or below 2014), but subject to weather, spring calving and the numbers of out-goers.

- Ends -

<u>For further information please contact:</u>

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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.