PRESS INFORMATION from

The Dairy Group

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The Market Price Equivalent (MPE) Update March 2016

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

Has Quota Abolition Wrecked the Global Dairy Market?

"As EU production continues to grow, despite the collapse in milk prices globally, there is little evidence of weak markets holding back supply in the EU, the World's leading dairy exporter" says Nick Holt-Martyn of The Dairy Group. He goes on to say "the Commission are adamant that the EU is not to blame, citing growth in New Zealand over the last 10 years as more significant. However, markets are not concerned by percentage expansion, but only by the extra tonnes of dairy product that needs to find a home, with 1% of EU production equating to 7% of New Zealand output.

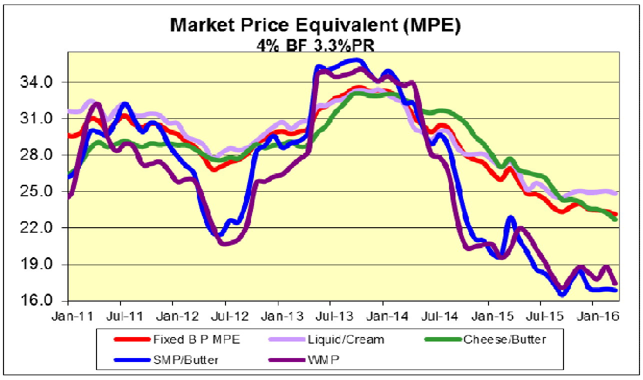
Supply B litres	2012	2013	2014	2015	Change 2012:2014		Share of Growth
European Union	135,660	137,474	144,098	147,251	11,591	9%	71%
New Zealand	20,517	20,149	21,842	21,532	1,015	5%	6%
United States	90,612	91,253	93,462	94,444	3,832	4%	23%
	246,789	248,875	259,402	263,227	**16,438**	**7%**	
	1.6%	0.8%	4.2%	1.5%			

Source: The Dairy Group

The table above shows the growth in supply from the major dairy exporters through the last years of quota relaxation and abolition in 2015, which also covers the period between the last two market crashes (2012 and 2014/15) and the market peak in January 2014. The weak growth in 2013, due to poor local weather, encouraged the above trend growth in 2014. Market returns fell, but quota abolition lead to further growth in the EU and only the quota restrictions in January to March 2015 kept that down to +1.5%. The EU is on course for +3.5% in the first milk year following quota abolition, despite crashing milk prices. As quota relaxation was the build up to quota abolition, which was signalled well in advance, it is disingenuous to say abolition has not affected the level of EU milk supply.

The market would still have fallen in 2014, but if quotas had remained in place the growth would have been more limited and the effect on the global market less severe. We would not be seeing any improvement in 2016, but markets and prices would be higher on a lower supply. Quota abolition always brought the risk of a hard landing from excess supply and the Commission and supporting Governments like the UK were warned what was likely to happen. There were probably no market conditions under which a soft landing could have been achieved, due to the very nature of dairy farmers around the world and their innate desire for growth.

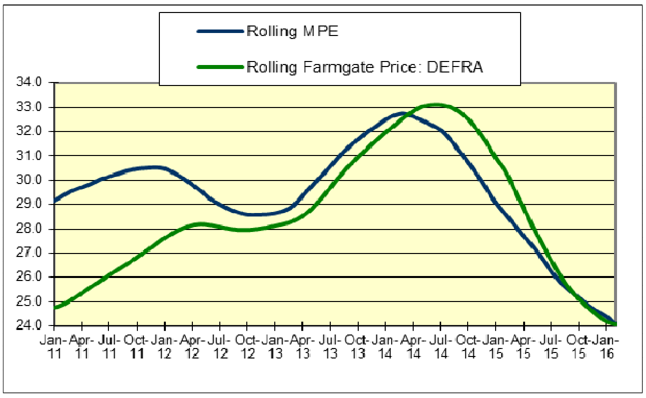
El Nino has passed with very little effect so far on supply. The UK appears to be falling back by 1%, but the EU shows no sign of growth ending, with Ireland +37% in January & February, so the prospects for 2016 show no sign of improvement yet. Indeed recent price cuts indicate there may be more downside still to come.



Market Prices

The Market Price Equivalent (MPE) has fallen 0.38 ppl to 22.78 ppl due to weakening cheese, butter and cream. The range across the sectors increases to 8.2 ppl from Liquid/Cream returns to SMP/Butter. SMP remains at £1200/t, still £121/t below a rising Intervention price and £23/t below the latest GDT auction, which fell 2.5% in Sterling equivalent. The GDT price equivalent (GDTPE) was down to 15.5 ppl. The last GDT auction saw tonnages fall further indicating Fonterra are reducing the GDT influence on their own returns. The MPE is down 3.1 ppl on the year and down 1.0 ppl since September 2015. United States production is running at +0.8% and New Zealand was +2.0% in February while the EU was +4.9% in December and is forecast at +3.6% in January.

Farm Gate Prices



The February 2016 price shows the effect of Arla's 13th payment lifting the average price to 25.4 ppl and a weighted average of 24.06ppl, down 1.78 ppl on the year. Whilst the curves are flattening out they are still falling and expected to fall below 24 ppl by March 2016. Spring is dragging its feet with only average conditions forecast, further helping supplies drop behind 2015. Sterling has stabilised at €1.29 maintaining the SMP Intervention price above the weak market returns and strengthened against the dollar to $1.44. UK production in February is uncertain with Defra producing an unreliable figure, with the AHDB daily data suggests it was +0.5% (28 days) at 1146 million litres, March is forecast at 1252 million litres, -11 million litres below last year. The forecast for the year slips to +2.1% taking the UK to just below 14.7 billion litres. The slow spring should ease spring flush fears although the Defra December survey shows a rising national herd despite increasing culls in January and February. The milk price forecast for March 2016 is to fall below 23 ppl due to weakness in the cheese market causing concern, to leave the year end rolling figure around 23.9 ppl.

- Ends -

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- 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. The MPE is calculated from wholesale market values, whereas IMPE (Intervention Milk Price Equivalent) accounts for just 11% of United Kingdom 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.