

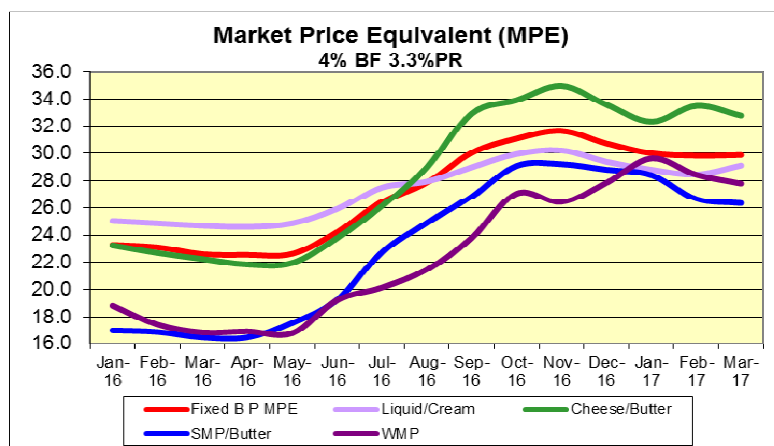
# PRESS INFORMATION from *The Dairy Group*

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## The Market Price Equivalent (MPE) Update March 2017 By Nick Holt-Martyn, The Dairy Group

### Weaker market dampens prospects for milk price

“After 7 months of stable markets and a weakening in the market price of 1.75 ppl since November 2016 it was a question of when prices might ease and by how much, rather than if” says Nick Holt-Martyn of The Dairy Group. He goes on to say “while the cheese sector was the most buoyant, hitting 30ppl and potentially vulnerable, it is SMP and WMP that have been most exposed to weakness. Arla’s market responsiveness and exposure to powders has become apparent with the first price reduction since last summer.

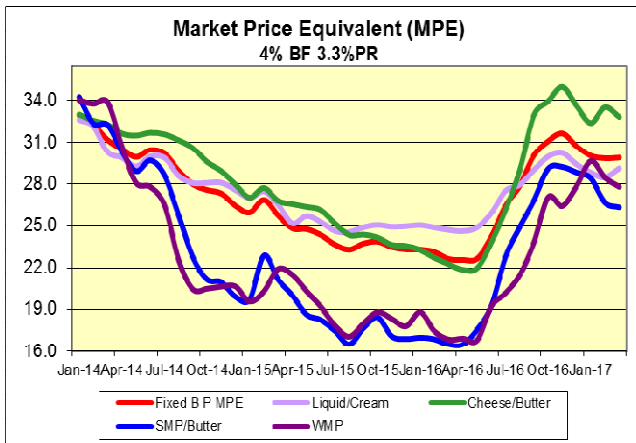


Source: AHDB & The Dairy Group

The graph shows how the sectors have fared during the last 6 months with a strong recovery in cheese and powders and a more subdued response in the liquid sector, a sector now with just two main processors and dominated by what the retailers are prepared to pay. Cheese is a much more dynamic market and has benefited from a weaker Sterling making Irish cheese less competitive. The problem with SMP appears to be the 420,000t in EU storage, 23.5% of 2016 annual production, which needs to find its way into a weakening global market. With market returns falling to just £73/t above the intervention price there is little chance of a reduction in stocks and already product is being added through Private Storage Aid despite EU supply falling 8% in January 2017. Globally only butter demand is supporting higher prices, milk protein is distinctly out of favour and undermining markets.

The prognosis for 2017/18 is for cream and butter to support milk prices overall, but further rises will be limited and price easing is likely to spread to other sectors with limited cream/butter support. The cost of production is also under pressure from general inflation and more importantly feed prices which are up by 25% (2.1ppl) compared to Spring 2016. Red diesel is up by 42% compared with last year, which adds 0.2ppl to the production cost.

EU supply fell -2.0% in January with only Poland showing any significant growth so the falling trend is likely to continue, but flatten out as spring approaches. New Zealand was +0.6% in February with the US +2.3%. The combined daily supply has now levelled off raising concern that supply might grow again through the Spring flush in the EU and US, weakening markets further and increasing the chance of more SMP entering Intervention.



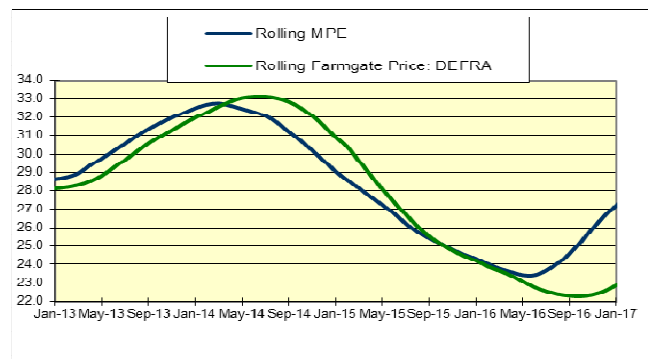
### Market Prices

The Market Price Equivalent (MPE) flat lines by 0.05 ppl to 29.9 ppl due to cream and butter rises offsetting weaker cheese and powders, with liquid prices unchanged in 2017. The range across the sectors narrows to 6.5 ppl from cheese/butter returns to SMP/butter. SMP is just £73/t above Intervention price and 1% below the latest GDT auction, which rose 1% in Sterling equivalent. The GDT price equivalent (GDTPE) is 25.4 ppl and rolling

at 23.25 ppl. The GDTMPE fell 10% in the month, but is up 4.8% in the last 6 months compared to the MPE which rose 0.2% in the month, but has fallen by 1% in the last 6 months. US production is running at +2.3% in February, New Zealand was +0.6% while the EU was -1.2% in January, so global supply has come back into balance.

### Farm Gate Prices

The February 2017 farmgate price is up 4.6 ppl on February 2016 and rolling up 1ppl since October 2016. The weighted annual average is down 0.7 ppl on the year but up 0.36 ppl on the month to 23.23 ppl. The milk price curve will continue to improve in 2017 tracking the MPE curve through to the summer when it is expected to reach 28.5 ppl. March weather has remained cool and wet as expected, but April is forecast to see a settled spell of high pressure with better grazing conditions.



Sterling has remained stable against both the Euro and Dollar maintaining around €1.16 and \$1.25 despite the Article 50 announcement. UK production in February was at 1086 million litres, 62 million litres below 2016. March is forecast to be around 1245 million litres and April 1250 million litres to leave the UK at 14 billion litres for 2016/17, down 800 million litres. Milk price increases have stalled as wholesale markets, particularly powders, have weakened in recent months. Liquid retail values have not moved this year and have been left behind by cheese values and the persistent decline in volumes. The expectation of 30 ppl has subsided with Arla's cut in April and the hope that 29ppl will be the average by Easter has softened and 28.3 ppl looks more likely.

- 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 United Kingdom market utilisation of milk. AMPE (Actual Milk Price Equivalent) also only accounts for 14% of United Kingdom milk production. The MPE provides a far superior indicator of the wholesale value of milk and therefore the likely market returns available to the dairy farmer.