

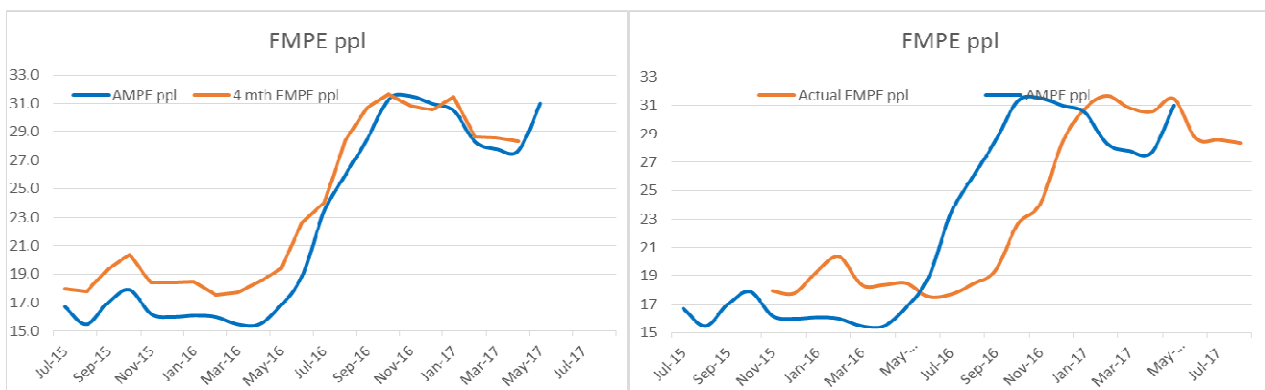
PRESS INFORMATION from *The Dairy Group*

31st May 2017

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

Futures Markets Don't Predict the Future, they Insure Against a Different Outcome!

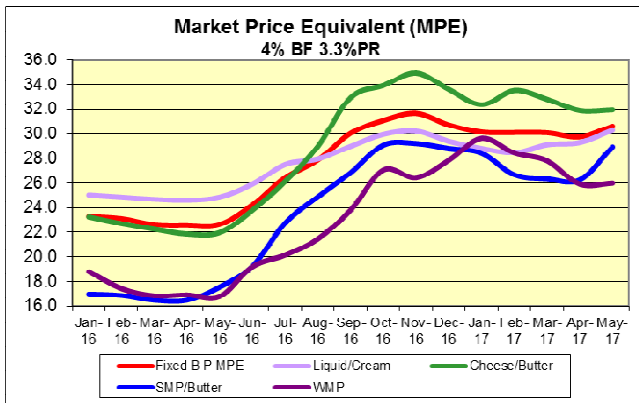
"The schism between butter and SMP wholesale markets around the world grows ever wider, with butter reaching record prices of over £4000/t while SMP trades at just £110/t above Intervention level," says Nick Holt-Martyn of The Dairy Group. He goes on to say "this difference is causing confusion in farmgate pricing with prices easing while supply is stable, weather variable and yet butter is reaching record values. Futures contracts have been offered up as a solution to manage volatility and reduce risk with price or margin insurance a possibility in post-Brexit UK Agriculture Policy. While in Ireland the release of a fresh round of fixed price forward contracts for 2018 indicates that forward pricing has become well established in some countries. What all these mechanisms have in common is that there is no attempt to predict future market values and only to hold values in line with current markets by using a variety of market mechanisms.



Source: The Dairy Group & AHDB

The graphs above show the strong relationship between Futures Market Price Equivalent (FMPE) and AMPE. When the 4 month date difference between AMPE and Futures price is displayed it is clear that Futures markets reflect the current market position and there is no element of prediction. Futures markets provide an opportunity to lock into the current market months ahead, taking out the risk of a market change. Glanbia's 26ppl equivalent forward contract for 2018 is much the same, allowing farmers to lock into a fixed volume and a fixed price 6 months ahead. For Glanbia these are proving popular with 20% of their milk pool fixed with 60% of their suppliers fixing on average 25% of their supply. By giving up the opportunity to benefit from rising markets in return for protection against market falls members are putting their faith in their Co-op. As Co-op members they will benefit from any adjustment that might be needed.

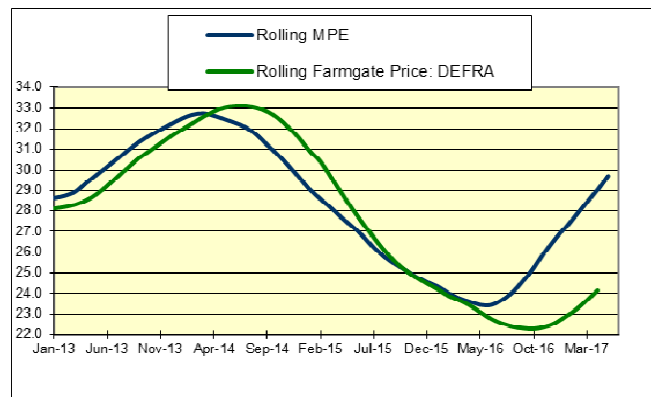
By reducing the impact of volatility, both good and bad, farmers can focus on managing their cost of production down to a level that ensures profitability. A focus on things you can influence instead of being distracted by those you can't.



Market Prices

The Market Price Equivalent (MPE) rises by 0.88 ppl to 30.6 ppl due to the relentless rise in cream and butter and the first rise in SMP since October 2016. Cheese and WMP remain flat. The range across the sectors is steady at 5.95 ppl from cheese/butter returns to WMP. SMP is up to £110/t above Intervention price and on par with the last GDT auction, which rose 3.4% in Sterling equivalent. The GDT price

equivalent (GDTPE) is 27.9 ppl and rolling at 25.0 ppl. The GDTMPE rose 7.9% in the month and is down 4.6% in the last 6 months compared to the MPE which climbed 3% in the month but has fallen by 3.2% in the last 6 months. Global supply is starting to grow again with the US at +2%, New Zealand +6% in April and the EU 0% in March, a combined +1.3% in March and a forecast +1.1% in April. The prognosis for the summer is for supply to grow at 0.5 to 1.0% putting a dampener on market returns overall. Butter and SMP are likely to continue to operate at different ends of the price spectrum providing a modicum of stability.



Farm Gate Prices

The April 2017 farm gate price was up 5.4 ppl on April 2016 and +2.84ppl (+11.7%) since October 2016. The April price slipped back 1.6% to 27.0 ppl as seasonality and downward price adjustments take effect. The rolling milk price curve will continue to improve through the summer tracking the MPE when it is expected to reach 26 ppl. May weather has been variable with a mixture of wet, dry, hot and cold to leave grass growth back on a normal plane. Peak production was similar to 2016 in both date and quantity, but may move ahead with better grazing conditions following the rain. Sterling has eased against both the Euro and Dollar to around €1.16 and \$1.28 as the General Election polls have narrowed. UK production in April was 1251 million litres, on par with 2016 and May is forecast to be +0.3% at 1325 million litres and June 1225 million litres, up 17 million litres (+2%) on 2016. Milk prices have slipped back as wholesale markets, particularly powders and also cheddar, have weakened since November, but with high butter/cream values and rises in cheese and powder prices may be about to change direction again. With the UK spring flush past, markets are in better balance and attention will switch to the southern hemisphere for market impetus. Production costs remain under pressure as farmgate prices settle out around 27ppl.

- Ends -

For further information please contact:

- **Nick Holt-Martyn**, The Dairy Group (01823 444488/e-mail: nick.holt-martyn@thedairygroup.co.uk)
- **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 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.