

# PRESS INFORMATION from *The Dairy Group*

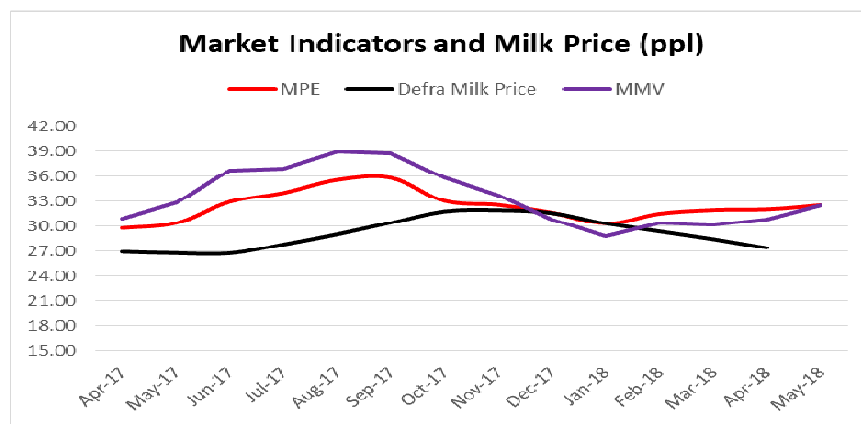
31 May 2018

## The Market Price Equivalent (MPE) Update May 2018

By Nick Holt-Martyn, The Dairy Group

### UK Farm Gate is Falling Behind the Strengthening Dairy Market!

“For a price that is driven by dairy commodities the UK farm gate price is falling too far behind the upwards surge in commodity prices” says Nick Holt-Martyn of The Dairy Group. He goes on to say “January 2018 was the trough month, with steady market progress ever since. The April farm gate price is 2ppl below the average of the January 2018 indicators suggesting a less than responsive industry.



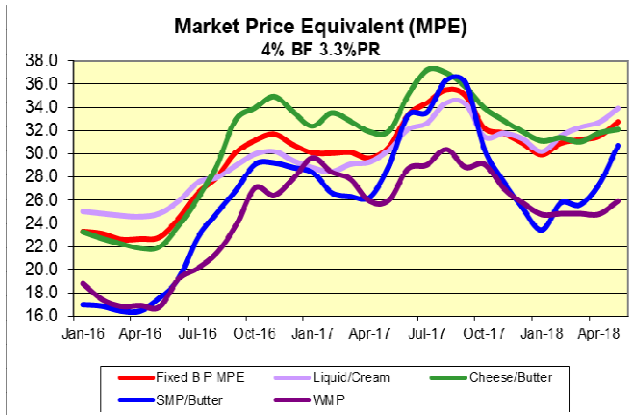
Source: The Dairy Group and AHDB

June will see the first farm gate price increases despite all indicators being between 32ppl and AMPE at 33 ppl, 6 ppl above the April Farm Gate price. MMV, based on AMPE and MCVE is showing a strong response to the rise in butterfat prices and the recent lift in SMP. MPE is tempered by the more sluggish liquid and cheese markets, but still shows the upward influence from cream and butter. In summer 2017 the farm gate price responded to market improvements in 4 months (April 2017 to July 2017) so by the same measure 2018 is certainly lagging behind the market.

Recent financial results posted by Dairy Crest with operating margins around 15% suggest dairy companies have weathered the price turbulence of the last 12 months with ease; the same cannot be said for their milk suppliers who have just endured one of the worst springs on record.

The cold late spring has taken the edge off the EU spring flush and delayed the peak by around 2 weeks following on from the growth reduction in March. For the UK March production was down by 1.2% and April by 0.8%, a trend that has continued into May which is currently forecast -0.7% to 1355 million litres. With milk supply peaking in the third week of May at the same level as 2017, June production is expected to be on par with 2017 provided conditions remain helpful to grass production. With no real supply growth markets should remain positive.

Globally production growth has eased back to 1.0 to 1.3% which should encourage markets to keep on improving. With butterfat prices already ahead of 2017 and the EU steadily shifting the old intervention stock, UK farm gate prices should remain on the up for the next 6 months. By the start of next winter Farm Gate prices should be above 30 ppl across the board.



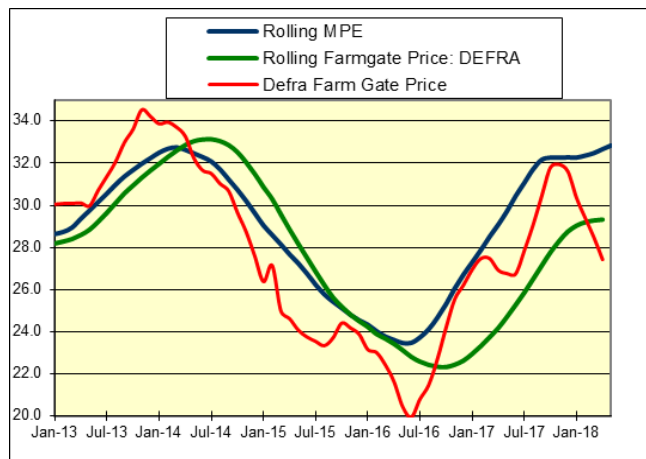
### Market Prices

The Market Price Equivalent (MPE) has jumped by 1.3pp to 32.8 ppl (+4.0%) with strong gains in SMP, Cream and Butter. SMP gained 14% to £1320, 11% below Intervention. The range across the sectors rises slightly to 8 ppl from Liquid returns to WMP. The MPE is up 7% on the year and up 4% in the last 6 months. The GDT price equivalent (GDTPE) has risen to 26.4 ppl and rolling at 25.6 ppl, up 7% in the month on the back of a 5.5% fall in Sterling. It rose

2.4% at the last auction, but down 5.3% on the year. UK SMP is now £196/t below the last GDT auction and is £164/t below Intervention. Global supply growth has eased in March 2018 to +1% with the US at +0.6%, New Zealand +2.9% in April and the EU +1% in March. Better weather in New Zealand is giving them a good end to their season. The late spring in the EU has taken its toll on production, but much better weather in May will see a recovery through to June.

### Farm Gate Prices

The April 2018 farm gate price reduces to 27.4 ppl, down 1.1 ppl from March in contrast to the MPE curve which has been rising since February 2018. The farm gate price curve should change direction in June so the rolling curve will flatten, but not fall as it resumes tracking the MPE curve. The MPE is up 10% since January which will be reflected in the farm gate price over the summer months. The expectation is that with markets still rising the UK farm gate price will be over 30ppl by the start of next winter.



Sterling continues to fall against the Dollar at \$1.33, but remains at €1.14 to the Euro. The production for March was confirmed at 1268 million litres, down 27 million litres (-2.1%) on 2017, because of poor weather, while April has improved to 1287 million litres, -10 million litres (-0.8%). Our forecast for May is 1355 million litres (-0.7%, 8 million litres) due to the later peak, June at 1265 million litres (-0.1%, 1 million litres) and 1230 million litres (+1.1%, +13 million litres) for July.

With the dairy market indicators averaging 32.5ppl some significant price rises should be expected over the coming months. The rising cost of milk production will be squeezing farmer margins until this occurs, so the focus is back on milk prices yet again!

- 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](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.