

PRESS INFORMATION from *The Dairy Group*

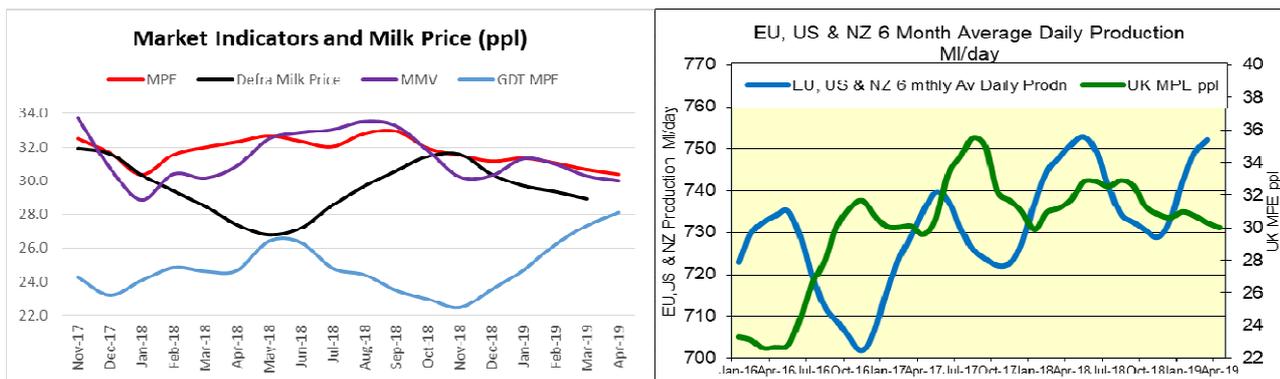
30th April 2019

The Market Price Equivalent (MPE) Update April 2019

By Nick Holt-Martyn, The Dairy Group

Dairy Supply and Demand Sets a Confused Picture!

“While the GDT commodities surge past EU prices, rapidly rising production in parts of the EU (UK, Ireland and Poland) on the back of a benign spring is dampening any immediate market response and adding to the confusion” says Nick Holt-Martyn of The Dairy Group. He goes on to say “the UK rolling milk price remains close to 29ppl whereas the market indicators have been drifting lower over the last 6 months. The decline in EU production was halted in February, but the 2018/19 milk year looks set to finish at just +0.4%, meanwhile drought stricken New Zealand looks set to finish the year around +3.5%. With Brexit kicked into the long grass normal trading appears to have returned, which is good news for the UK with its record levels of production, which could see May exceed 1.4 billion litres for the first time since before deregulation.

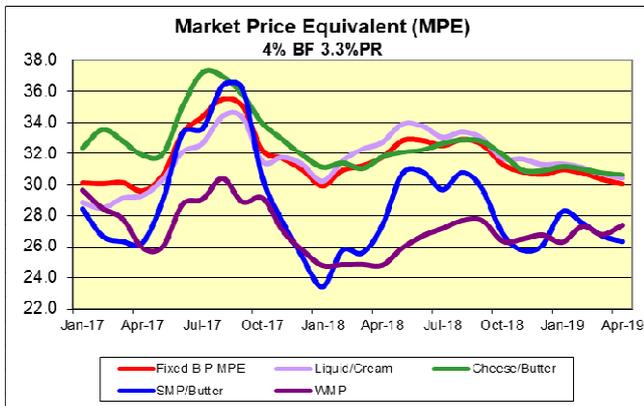


Source: The Dairy Group, NFU and Defra

The graph of the dairy market indicators show the UK moving in the opposite direction to the GDT and appearing to be coming together around 28-30ppl. By increasing the use of concentrate feed levels UK farmers have produced significant growth in supply which is likely to have kept milk prices lower than might have been expected by the scale of the 2018 drought. The decline in EU production from November 2018 to January 2019 has meant the global position shows no sign of excess supply. From the graph it appears that 2019 peak supply will match 2018 at best.

Weak EU supply would have been expected to lift prices, whereas strong New Zealand supply should dampen theirs, but in fact the opposite has happened. EU commodities had a short lived rally of 1ppl in the winter while New Zealand has seen prices rise by more than 5ppl since November 2018. Meanwhile global supply growth has been +1% or less since October 2018. From this picture it is hard to say what will happen next except rising EU supply is a concern, tempered by forecasts of another dry summer in the offing.

Domestically strong UK supply growth continues with April around +4.5% following on from +4.1% in March. Overall the 2018/19 milk year was up 150 million litres (+1.0%) despite the drought. Strong UK supply coupled with continued Brexit uncertainty is likely to mean that prices remain stable at best with Arla and its EU dimension continuing its positive price position.



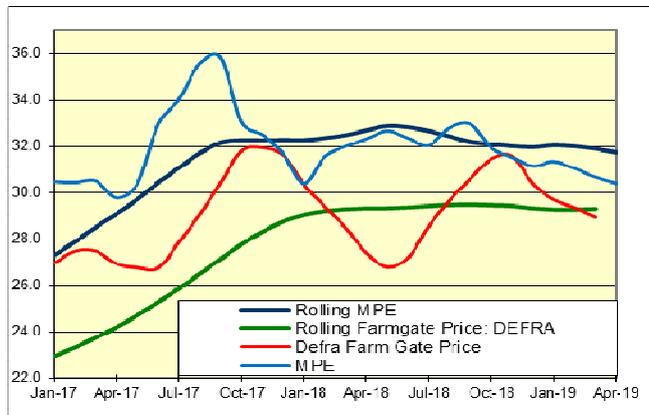
Market Prices

The Market Price Equivalent (MPE) eases again to 30.0 ppl (-1.0%, -0.3ppl). MPE is down -1.3ppl (-4.1%) in the last 6 months and down 1.7ppl (-5.5%) year on year. SMP fell 1.2% to £1650, Butter was down 1.4% and Cream down 0.7% on growing UK supply. Butterfat production in March was the highest monthly supply in the last 10 years. The range across the sectors lifted slightly to 4.3 ppl from Cheese/Butter

returns to SMP/Butter. The GDT price equivalent has risen again to 28.1 ppl, +2.8% in the last month, +22.4% in the last 6 months. The UK SMP price has weakened to £237/t below the most recent GDT auction but is £181/t above Intervention. Global supply growth has picked up in 2019, with the EU +0.2% in February while New Zealand was +0.5% in February. EU supply, with France, Netherlands and Germany negative, is likely to remain flat despite strong growth in the UK, Poland and Ireland.

Farm Gate Prices

The March 2019 farm gate price has fallen by 0.5 ppl to 28.9 ppl, down 1.7ppl (-5.4%) in the last 6 months, but up 0.45ppl (+1.6%) in the last year. The rolling Farm Gate price slips to 29.2ppl, but remains above 29ppl as it has since January 2018. The graph shows the relationship between the farm gate price and market returns over the last 2 years and the strong seasonal element in April-June.



UK supply continues to grow with March at +4.1% and April forecast +4.5% to finish the milk year +150 million litres (+1.0%) with most of that extra milk produced in the last quarter. The UK farm gate price of 28.9ppl in March is forecast to seasonally fall by 1.5ppl to 27.4ppl in April, particularly given the favourable weather.

With No Deal Brexit almost certainly ruled out currencies have remained fairly stable, at £/€1.16, but weakened to £/\$1.29 at end of April. The production in February was confirmed at 1157 million litres (+30 million litres) and March was 1320 (+52 million litres). April production is running at +4.6% at 1344 million litres suggesting May could be as high as 1400 million litres.

Milk prices look set to remain stable until the extent of the spring flush is known. Weather remains benign, but drought fears are beginning to increase as drier conditions prevail. Feed prices have come back and will help the cost of production in the new milk year, but has a long way to go to bring it back to the long term level around 30ppl from its current high of 33.5ppl. Brexit uncertainty and the Government response to future farm labour supply means labour supply persists as the number one issue on many dairy farms looking forward."

- 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.