

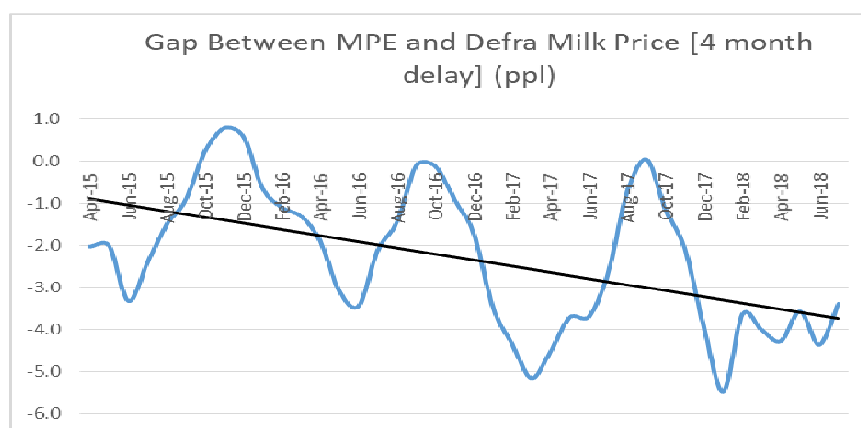
PRESS INFORMATION from *The Dairy Group*

5th September 2018

The Market Price Equivalent (MPE) Update August 2018 By Nick Holt-Martyn, The Dairy Group

Milk buyers retaining an increasing share of the market value

“Milk prices started rising in June 2018, which was 4 months after markets increased from February 2018 following the January slump.” says Nick Holt-Martyn of The Dairy Group. He goes on to say “The long term (18 year) average gap between the market value and the farmer milk price is 2.3ppl and seems particularly insensitive to whether it’s a 3, 4 or 5 month lag. There is evidence that the gap narrowed during the period of extreme low markets and prices around quota abolition as the graph below shows.



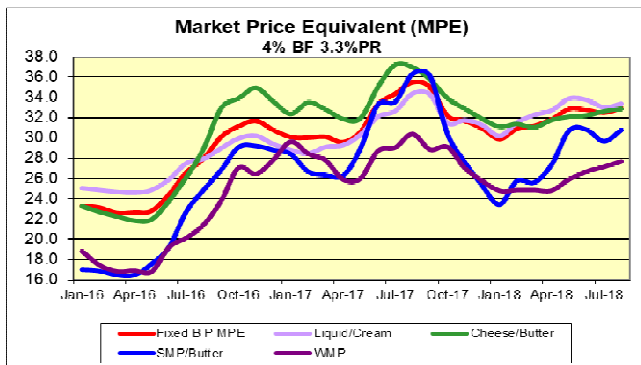
Source: The Dairy Group and Defra

Following the ending of milk quota and once markets and prices normalised the old relationship was resumed, but the gap between the market value and what is paid to farmers has increased to 3 ppl in the last 12 months and 4 ppl over the last 6 months. Producers should expect market movements to be transmitted to the farmer milk price without undue delay.

There is almost a flock type mentality at work with processors holding out as long as possible before increasing prices when one breaks and they all follow on behind like sheep. There does appear to be a speedier response when markets fall than when markets rise. That was certainly the case in the last 12 months following the butter spike in 2017 and post-Christmas slump in January 2018.

With the long term average gap of 2.3ppl we believe the market should have delivered a milk price of 30ppl by August 2018. AHDB's commodity based Milk Market Value has been above 33ppl since June 2018 confirming our view that 30ppl is a minimum. With The July Defra price at 28.6ppl there is plenty of upside to be delivered in the next month if 30ppl is to be realised by October 2018. Our milk contract model suggests that processors will underpay by 0.75 ppl, short changing UK milk producers yet again.

UK markets rose across the board in August and EU milk production growth has eased to +1.5% in June suggesting markets returns will be sustained into the winter. High time the processors paid the market value at a time of rising production costs due to the late spring and summer drought.



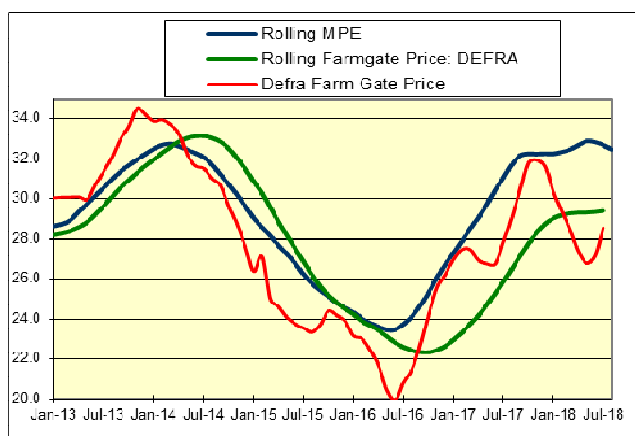
Market Prices

Market tone remains upwards with gains across the board, lifting the Market Price Equivalent (MPE) to 32.9 ppl (+1.3%). MPE is up 2.0ppl (6.5%) in last 6 months but down 2.6ppl (7.3%) over the past year. SMP gained 3% to £1380, 9.4% below Intervention which rose on weaker Sterling. Butter was up 4.1% and Cream 3.7% as the butterfat market tightens. The range

across the sectors eases to 5.7 ppl from Liquid returns to WMP. The graph above shows markets have been rising steadily since the trough in January 2018. The GDT price equivalent (GDTPE) has dropped to 24.4 ppl, -1.5% in the month and -1.6% in the last 6 months. UK SMP is now £132/t below the last GDT auction and is £144/t below Intervention. Global supply growth eased back to +1.4% in June from +1.8% in May with the EU +1.5% and New Zealand +5% in July. The hot summer hasn't had much impact in the EU so far, although there was a 3.1% fall in Irish milk production in July where there is greater reliance on grazing.

Farm Gate Prices

The July 2018 farm gate price has risen by 1.4 ppl to 28.6 ppl, down 1.8ppl (5.9%) in the last 6 months, up 0.7ppl (2.5%) in the last year. The MPE curve averages 32.5 ppl and is up 4.6% in the last 6 months. The graph suggests a weaker relationship between markets and milk price now compared to 2013-15. UK supply is holding up better than expected, +0.4% in August but even so the UK farm gate rolling price should be over 30ppl by October.



Sterling has weakened due to Brexit uncertainty with the Dollar at \$1.287 and €1.108 to the Euro which should further support rises in milk prices. The production for July was confirmed at 1236 million litres (+1 million litres on 2017), while August is expected to be similar to 2017. Supply is expected to be close to 2017 through the autumn.

The milk price increases are feeding through to the farm gate with the markets indicating that 30ppl should be the minimum. More normal weather down the western side of the country has allowed grazing to resume although forage stocks remain below par. There are doubts about drought effects on the milk supply, but production costs have risen as forage and bedding remain in short supply and expensive. Feed costs are up £30-40/t on the year, with the cost of production expected to rise by 3pp (10%) in the 12 months to March 2019."

- Ends -

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- **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.