

PRESS INFORMATION from *The Dairy Group*

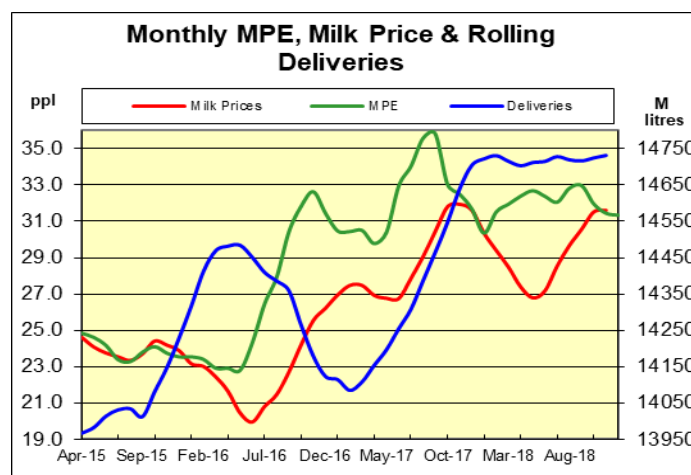
6th January 2019

The Market Price Equivalent (MPE) Update December 2018

By Nick Holt-Martyn, The Dairy Group

UK dairy farmers face a double whammy!

“Despite the long, wet winter of 2017/18 finished off by the ‘Beast from the East’ and swiftly followed by one of the driest summers on record, UK milk production in 2018 has barely flickered, averaging +0.2% month on the previous year.” says Nick Holt-Martyn of The Dairy Group. He goes on to say “farmers achieved this remarkable feat by increasing concentrate feed levels by 10% in April, May and July, despite the sharp falls in milk price in January to March, which increased costs and lower margins. The result has been to maintain milk output throughout 2018, probably healthier cows, better milk quality and now signs of increasing yields. With limited forage stocks resulting in heavier feeding through the autumn/winter and a benign winter so far, there is every possibility of milk supply increasing just as milk prices are falling again.

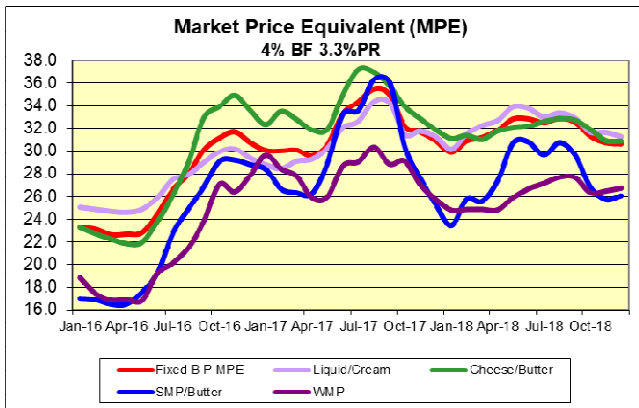


Source: The Dairy Group and Defra

The graph above shows the level supply, relatively stable markets, but the significant volatility in milk price. The previous relationships seem to have been put aside in 2018 despite dairy companies over-reacting to weak market returns in January. Faced with few alternatives due to the shortage of forage, farmers fed higher levels of concentrates and maintained output. There were few retirements, only 79 producers quit in England and Wales in the year to October 2018, a fall of just 0.8% compared with a 5 year average of 2.5% per annum. Cull cows were up sharply in January, April and July to remove passengers from the national herd to leave a younger, fitter and healthier herd at the year end.

Despite limited winter forage stocks, milk production looks set to grow through to the peak in May. Market returns are holding up despite weakness in cheese, helped by the recovery in SMP prices and 6 weeks of rises on the GDT, but countered by slowing growth in the Chinese economy. 2019 is starting with some conflicting issues - stable markets, possibly weakening demand and a rising supply.

Will there be a dip in UK New Year markets? GDT says no, and the MPE has performed better in December than expected due to the rise in liquid returns. New Zealand production has slipped due to adverse weather, but UK production is on the rise. 2019 will be an interesting year even without including the still unknown Brexit factor!



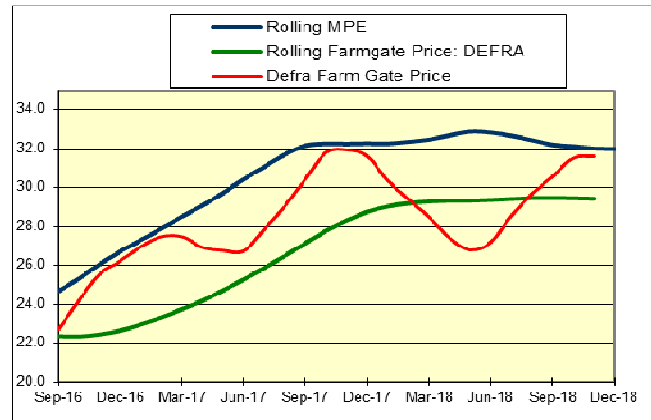
Market Prices

The market continues to drift lower with the Market Price Equivalent (MPE) down on last month to 30.7 ppl (-0.3%, -0.1ppl). MPE is down 2.2ppl (-6.7%) in the last 6 months and down just 0.3ppl (-0.9%) year on year. SMP rose 5% to £1500, £91 (6%) below Intervention. Butter was down 1.9% and Cream down 7.6% due to weak Christmas demand. The range across the sectors fell to 5.2 ppl from Liquid/Cream

returns to SMP/Butter. The GDT price equivalent has climbed to 24.25 ppl, +8% in the last 6 weeks, -1.8% in the last 6 months. UK SMP is now £245/t below the most recent GDT auction and is £91/t below Intervention. Global supply growth stabilised at +1.2% in September from +0.8% in August, with the EU +0.1% and New Zealand +5.8% in October, but slipping to +1% in November. October is likely to see a spike in supply to +1.5% with drought recovery in the EU coinciding with New Zealand peak production. Supply is expected to settle down to +1.0% in November and December.

Farm Gate Prices

The November 2018 farm gate price has risen by 0.1 ppl to peak at 31.6 ppl, up 4.8ppl (18%) in the last 6 months, but down 0.3ppl (-1%) in the last year. The MPE has averaged 32 ppl in 2018, in a range of +1/-1.6ppl. The graph suggests UK prices remain within a band from 27 to 32ppl with a strengthening seasonal effect. UK supply remained stable, at +0.7% in October, +0.6% in November, but is forecast at +1.8% in December. The UK farm gate price has peaked at 31.6ppl in November with falls already signalled for December of around 1ppl.



Brexit uncertainty has weakened currencies in the wake of the initial post deal recovery. The production for October was confirmed at 1200 million litres (+9 million litres on 2017), while November was 1177 million litres (+7 million litres) and December is forecast at 1241 million litres (+22 million litres). 2018 supply is expected to be +50 million litres on 2017.

The milk price falls for January/February have continued, following weaker market returns since August and are likely to continue with cheese returns weaker and supply rising. Winter has been very benign so far with mild damp conditions producing significant grass growth in the west ahead of spring grazing. The rise in feed, fertiliser and fuel costs have materialised with a marked impact on the cost of production. The production cost in 2017/18 was up 1.1ppl (+3.7%) to 30.9ppl, while the forecast for 2018/19 remains on track at +8.4% to 33.5ppl.”

- 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. 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.