

PRESS INFORMATION from *The Dairy Group*

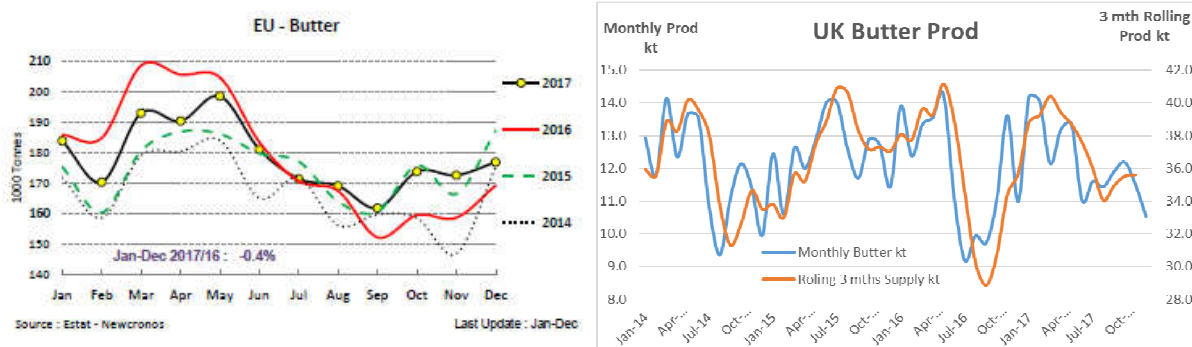
1st March 2018

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

Milk price cuts over-react to autumn market correction

“A third round of price cuts by Muller (4ppl in total), the massive 2ppl drop by Arla (5.2ppl in total) and now 1.25ppl by Dairy Crest (3ppl in total) is against a recent back drop of rising markets and MPE.” says Nick Holt-Martyn of The Dairy Group. He goes on to say “while there is undoubtedly a reduction due to falls in market returns since returns peaked in September 2017 the MPE has only lost 5ppl to January 2018 and has now gained 1ppl in February 2018. The gap between MPE and the farmgate averages 3ppl over the long term so we would expect a farmgate price 27 to 28ppl based on January 2018 market returns, these cuts have gone beyond that by some margin.

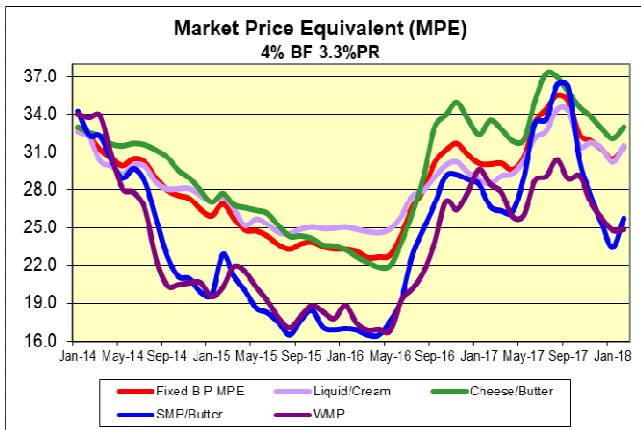
With the average cost of production resolutely around 30ppl the milk prices in 2018 are now at least 10% below which will, if not already, act as a brake on milk production. The UK could see supply drop behind 2017 with the wintry weather forecast to persist through March which should encourage farm gate prices to stabilise at the very least.



Source: Euro MMO, The Dairy Group

The autumn butter spike, highlighted by Arla’s media work, fuelled the higher milk prices, was short-lived and very EU centric and resulted in a 40% collapse in returns by January. Through the GDT and more recently the EU it now appears to be recovering, up 17.5% in February. The graphs above show EU and UK butter supply in recent years and shed little light on the volatility of the butter market. Across the EU butter supply is seasonal with 2017 looking more balanced than recent years and supply sufficient enough not to fuel fears of shortages. Similarly with the UK graph, the 3 month rolling supply was better in 2017 than late 2016 with no hint of a shortage despite the UK’s 75% self-sufficiency. So it’s a mystery why butter returns are so volatile. While demand for butterfat is definitely rising and protein remains in excess there has been little change in the way farmers are paid to encourage butterfat at the expense of protein. Clear signals need to be transmitted back to farmers to encourage butterfat production over protein. The days of the “white water” contract are long gone.

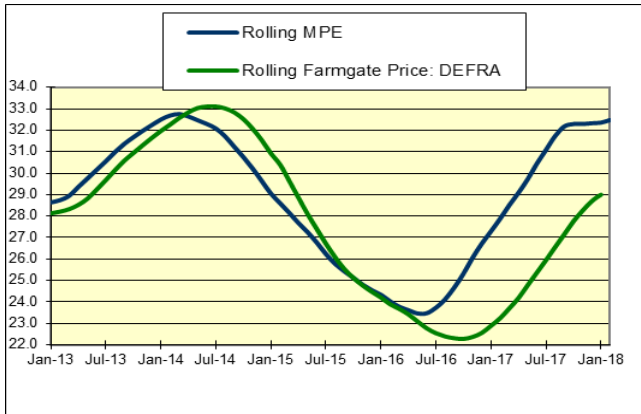
With milk supply on par with 2017 and the late wintry weather delaying spring across the EU there are increasing doubts about the spring flush. The early Easter is helping lift markets and EU supply growth shows signs of slowing, but remains the main risk to market stability. Milk buyers, particularly the large Co-ops, have a responsibility to provide their suppliers with appropriate market feedback to smooth out changes in supply. Rapid changes only serve to fuel volatility, which does no-one any good!



Market Prices

The Market Price Equivalent (MPE) bounces back up by 1.01 ppl (3.3%) to 31.43 ppl with rises across all sectors driven by the 19% rise in cream and 17.5% in butter. SMP dropped 2.6% to £1130, 24% below Intervention and the lowest recorded in the last 18 years. The range across the sectors narrows to 8.1 ppl from cheese returns to WMP. The GDT price equivalent (GDTPE) has risen to 24.9 ppl and rolling at 25.8 ppl. The GDTMPE rose

3.4% in the month and is down 7.6% in the last 6 months compared to the MPE which rose 3.3% in the month and is down 11.5% in the last 6 months. UK SMP has dropped to £179/t below the last GDT auction and is £365/t below Intervention. Global supply has steadied up in December 2017 at +2.2% with the US at +1.7%, New Zealand -4.9% in January and the EU +4% in December. New Zealand drought is likely to impact their supply for the rest of the season, but is dwarfed by EU/US growth. With farm gate prices dropping sharply so far in 2018 UK supply growth seems to have stopped and EU production growth may ease by the spring.



Farm Gate Prices

The January 2018 farm gate price at 30.6 ppl, is down 1.3ppl from the November peak and is falling following the MPE curve and is likely to move down as spring progresses. The rolling milk price curve will continue to improve into the winter tracking the MPE curve which has now plateaued at 32.48 ppl following the February rise as the MPE is 4.6% up on the year.

Sterling has stabilised so far in 2018 at \$1.39 to the Dollar and to €1.13 to the Euro. The production for December was 1219 million litres (+5.6%) and 1231 million litres in January, up just 14 million litres (+1.2%) on 2017. The forecast for February is 1225 million litres (+0.6%) and 1290 million litres (+0.5%) for March. Milk price cuts are coming through thick and fast with most farmers receiving less than their cost of production. Production is still rising in the EU and market returns have stabilised for now, but the prognosis for farm gate prices in 2018 remains poor. Unless EU production is curtailed before the spring, prices could fall after the Easter hiatus.

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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.