PRESS INFORMATION from

The Dairy Group

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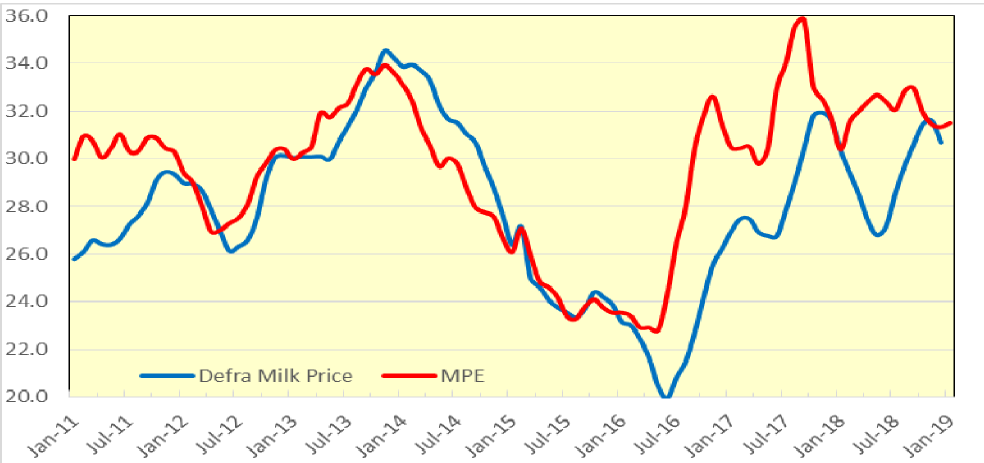
The Market Price Equivalent (MPE) Update January 2019

***By Nick Holt-Martyn,* The Dairy Group**

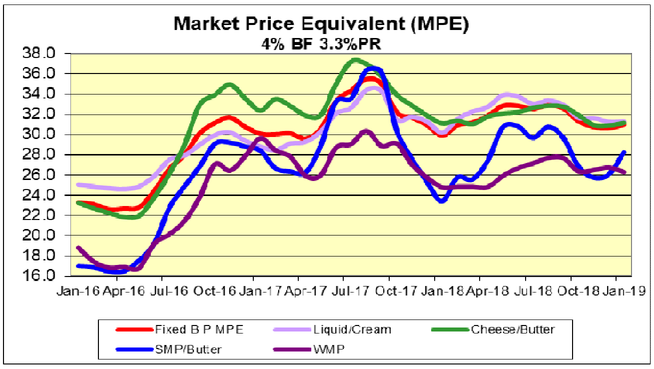
Milk Price Insurance Arrives this Month!

"The welcome addition of simple milk price insurance to offer protection to farmers from dips in milk prices is a novel market response to persistent volatility." says Nick Holt-Martyn of The Dairy Group. He goes on to say "the key ingredients to making a decision whether to take out insurance will be attitude to risk, cost of premiums and available market intelligence. Knowing your cost of production is a given to understanding the business exposure to low milk prices and it is possible banks might require an insurance safety net as part of their future lending terms. It is also important for all in the industry to understand what constitutes "normal" prices and the likelihood of prices falling out of a normal range.



Source: The Dairy Group and Defra

The graph above shows the level of market returns and milk price for the last 8 years. The 2 obvious dips in both market returns and then milk prices were in response to large increases in supply in either or both the EU and New Zealand. In 2011/12 New Zealand production grew 8.5% and the EU saw winter growth of +3%, weak markets/milk prices drove supply down 1.8% and 0.8% in the following year, which led to the subsequent market recovery. The recovery got carried away and the growth levels were repeated and extended in the EU for 3 years due to quota abolition. The effects of which have only now been dealt with as the final Intervention stocks get sold and SMP returns exceed Intervention prices for the first time in 17 months. The conclusion is that normal means market returns above 30ppl and milk prices above 26ppl. There would appear to be a low risk that markets will fall below these levels provided supply growth stays in check and in the absence of a large external factor. As with all insurance the premiums are specific to a quote which will need to be obtained if farmers want to investigate its suitability for themselves and their attitude to risk. So how will markets fare in 2019 and will milk prices fall sufficiently to make insurance a useful protection? The GDT has risen 10% in the last 2 months while the MPE has risen 1% in the last month and sits 3.6% above the last dip in January 2018. New Zealand production jumped 4% in December, but is now battling a heatwave and although the EU supply was flat going into the autumn UK production is rising at 3.5%. 2019 is starting on a firm footing, but supply and an unknown Brexit outcome could derail all that and make insurance worth considering.

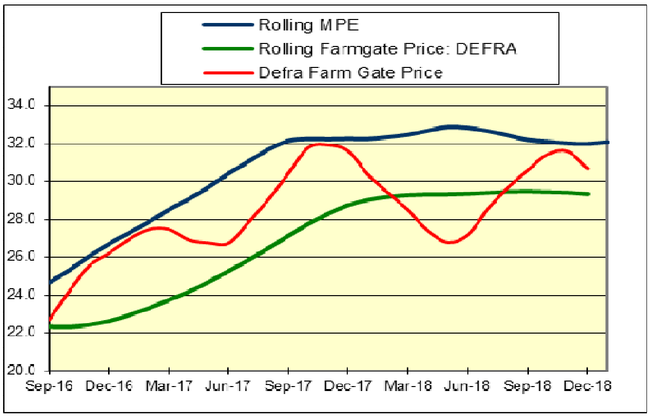


Market Prices

The Market Price Equivalent (MPE) starts the year climbing to 31.0 ppl (1.0%, 0.3ppl). MPE is down 1.7ppl (-5.5%) in the last 6 months, but up 3.6ppl (1.1%) year on year. SMP rose 10% to £1670, butter was up 5.6% and cream up 0.6% buoyed by the rise in the GDT through December & January. The range across the sectors eased to 5.0 ppl from Liquid/Cream returns to WMP. The GDT price equivalent has risen to 24.7 ppl, +10% in the last 2 months, -0.6% in the last 6 months. Despite the rise, UK SMP is still £200/t below the most recent GDT auction, but is £203/t above Intervention. Global supply growth eased back to +1.0% in October from +1.2% in September, with the EU 0% in October with New Zealand +1% in November and +4.4% in December. Supply appears to be settled at +1.0% in November and December, although rising UK production might be echoed around the EU.

Farm Gate Prices

The December 2018 farm gate price has fallen by 0.9 ppl to 30.7 ppl, up 3.5ppl (13%) in the last 6 months, but down 0.9ppl (-2.9%) in the last year. The Farm Gate price has averaged 29.3 ppl in 2018, in a range of +2.3/-2.6ppl. The graph shows the relative stability in both markets and at the farm gate over the last 2 years.



UK supply was stable through the autumn with +0.3% in November, but December has come in at +1.2% and our forecast for January is +3.6%. The UK farm gate price peaked at 31.6ppl in November and fell 0.9ppl in December and is forecast to fall 0.7ppl to 30ppl in January.

Further Brexit uncertainty has now strengthened currencies as the risks of no deal diminishes. The production in November was confirmed at 1174 million litres (+3 million litres) and December at 1234 million litres (+15 million litres). January production is running at +3.6% to 1278 million litres and February is expected to be similar at 1170 million litres. 2018 supply was up by just 28 million litres on 2017, but the 2018/19 milk year is expected to be +170 million litres on 2017/18, boosted by the last quarter and an absence of any 'beasts from the east'.

The milk price falls for February/March have abated with prices looking more stable to the end of the milk year. Improved returns globally and the rising SMP values give some confidence that farm gate prices haven't got far to fall before creeping back up in the spring provided supply growth doesn't continue. Winter weather has been relatively benign so far, although the colder weather is coinciding with the start of spring calving on grazing herds. Cost of production remains an issue on farm with the forecast for 2018/19 remaining on track at +8.4% to 33.5ppl. Labour supply on farm is becoming an increasing concern as a Brexit outcome ends free movement and the rules on skilled migrant labour looking both difficult and expensive to meet."

- Ends -

<u>For further information please contact:</u>

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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.