

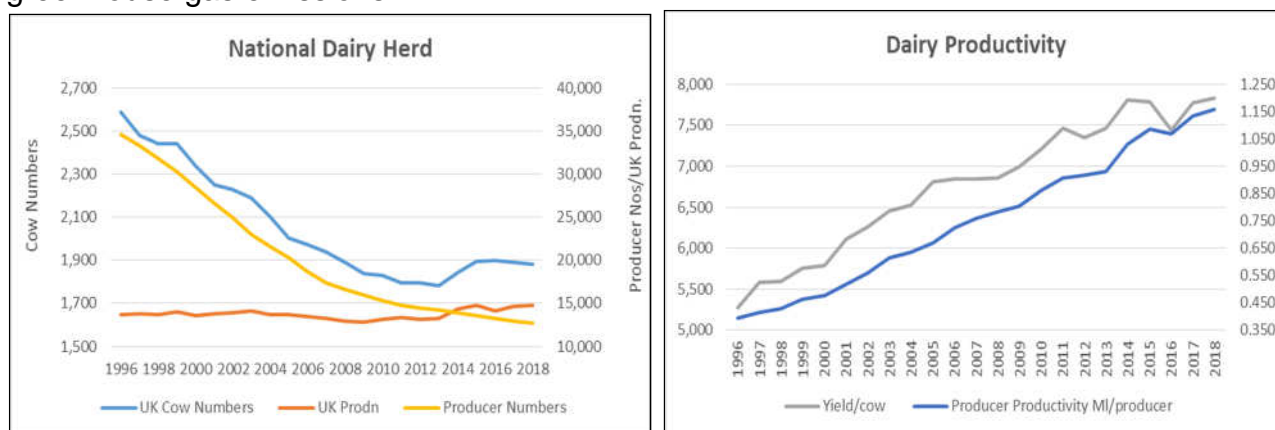
PRESS INFORMATION from *The Dairy Group*

31st May 2019

The Market Price Equivalent (MPE) Update May 2019 By Nick Holt-Martyn, The Dairy Group

Dairy Industry Under Constant Climate Change Media Assault!

“The proliferation of half-truths, mis-truths and outright lies by a lazy media and legions of amateurs on social media seems to constantly beleaguer the dairy and livestock industry” says Nick Holt-Martyn of The Dairy Group. He goes on to say “the number of reports that fail to recognise the renewable nature of foods and their production systems as part of the carbon cycle, while excusing biodiesel and bioethanol and accepting coal, oil and gas extraction, which only add to the carbon in the carbon cycle. The reality is that dairy farming has seen large increases in productivity in the last 25 years which is its main defence against greenhouse gas emissions.

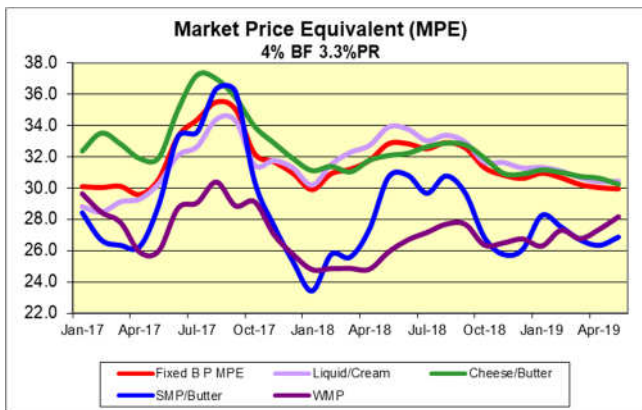


Source: The Dairy Group, AHDB and Defra

The graph of the National Dairy Herd shows the 27% decline in cow numbers and 63% decline in UK producers since 1996, although cow numbers have lifted slightly in recent years, but appear to have stabilised. Meanwhile production has grown by 8% with all of that since 2013. The effect has been a 48% increase in yield per cow and 193% increase in production per producer! What this boils down to is a significant increase in resource efficiency and therefore reduction in greenhouse gas emissions per litre of milk. Coupled with a reduction in the national beef cow herd of 16%, a combined 23% reduction in adult cattle means that consumers of UK produced dairy and beef products can be assured that they are supporting a reduced impact on Climate Change and the wider environment!

Increases in cow yield together with reductions in dietary protein to reduce methane and nitrogen excretion coupled with the recycling of by-products from the human food industry all help improve dairy and livestock's climate impact.

Global supply growth remains benign around 1%, helped by the collapse in the New Zealand end of season production and subdued growth in the EU. UK and Ireland have enjoyed a good spring, but there are signs that the UK is becoming drought affected with supply growth back to under 1%. Stable milk supply suggests stable markets at worst and possibly strengthening markets later in the year if dry conditions persist in both hemispheres. Higher prices are needed to counter increased cost of production over the last 2 years just to maintain profitability.



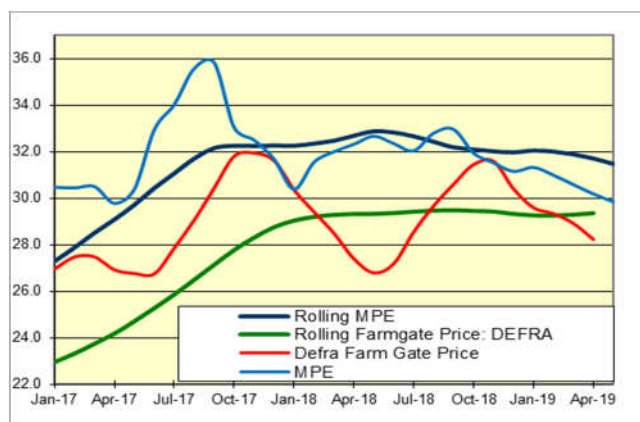
Market Prices

The Market Price Equivalent (MPE) eases again to 29.9 ppl (-1.1%, -0.34ppl). MPE is down -1.7ppl (-5.3%) in the last 6 months and down 2.8ppl (-8.6%) year on year. SMP rose 4.6% to £1730, butter was down 0.6%, but cream up 0.7% as supply falters post peak and falling butterfat levels. The range across the sectors narrowed to 3.7 ppl from Liquid/Cream returns to SMP/Butter. The GDT price equivalent has risen again to 28.7

ppl, +1.9% in the last month, +28% in the last 6 months. The UK SMP price is still £260/t below the most recent GDT auction, but is £249/t above Intervention. Global supply growth has picked up in 2019, but is bumbling along around 0% with the New Zealand drought affected year end -8.2% and -8.4% in March and April. EU supply is estimated at -0.5% in March with weak production in France, Netherlands and Germany, but stronger growth in UK, Poland and Ireland.

Farm Gate Prices

The April 2019 farm gate price has fallen by 0.7 ppl to 28.2 ppl, down 3.2ppl (-10.2%) in the last 6 months, but up 0.8ppl (+3.0%) in the last year. The rolling Farm Gate price rises to 29.3ppl and continues to remain 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 to June. The graph suggests milk will remain above 2018 levels despite weaker market returns, hence the narrowing of the gap between the rolling 12 month curves.



The UK finished the milk year +1.1% at 14,874 million (M) litres, up 159 M litres on the year. The production in March was confirmed at 1329 M litres (+61 M litres) and April was 1341 (+57 M litres). UK supply peaked in late April on the back of the good spring but supply is faltering as dry conditions persist. May production is running at +1.4% at 1390 M litres (+18 M litres) and June is forecast at 1290 M litres (+21 M litres) subject to rainfall amounts.

The UK farm gate price of 28.9ppl in March is forecast to seasonally fall by 1.5ppl to 27.4ppl in April as grazing kicks in, particularly given the favourable weather. With the Conservative leadership contest Brexit has been put on the back burner until the autumn when the 31st October deadline will focus minds yet again. Currencies have been weakened by the turmoil down to £/€1.13 and £/\$1.26 at the end of May increasing costs, but also supporting milk prices. Milk prices continue to look stable with the spring flush now past and dry conditions limiting grass growth. Drought fears are increasing although temperatures so far have been normal. Feed prices have reduced and are now being affected by US wet weather and trade disputes. The Cost of production remains high and unlikely to return to the long term level of around 30ppl from its current high of 33ppl. Brexit uncertainty still means labour supply persists as the number one issue on many dairy farms looking forward.”

- Ends -

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