

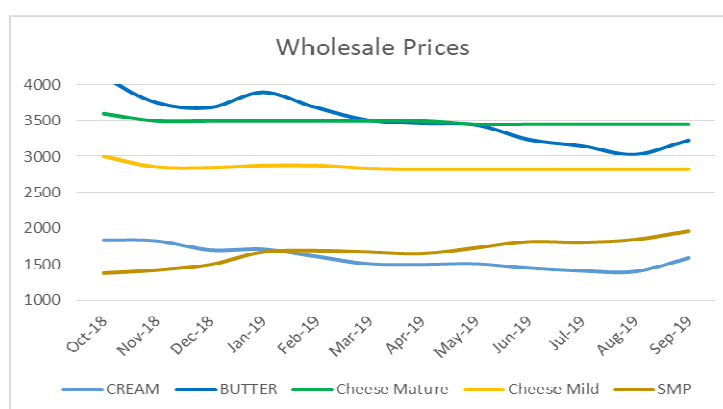
# PRESS INFORMATION from *The Dairy Group*

30<sup>th</sup> September 2019

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

### Signs of life In the dairy market

“Just as the MPE falls to it’s lowest level for 3 years we get signs of life in the butterfat market” says Nick Holt-Martyn of The Dairy Group. He goes on to say “although SMP has been rising for a year from its intervention level and cheese has remained very stable, cream and butter have been slipping down to levels not seen since the dip in January 2018. While the stability of the cheese sector has been reflected in the milk prices from the cheese makers the non aligned liquid sector has been falling.



Source: The Dairy Group, AHDB and Defra

The graph above demonstrates the contrasting fortunes of the different commodities over the last year. In the UK SMP production isn't large enough to drive farm gate prices although it will have helped Arla maintain their price stability over the past 12 months, countering the negative aspects of the butterfat market. Their broad product portfolio clearly supporting a stable price all year, which is helpful in a year of record butterfat output. Butterfat supply in the UK in August was +2.4% ahead of August 2018, but easing back, down 12% from the record production in May. With milk supply steady at +0.5% the key to the autumn/winter will be milk quality levels which with good forage stocks look set to be close to the levels seen in the last 2 years.

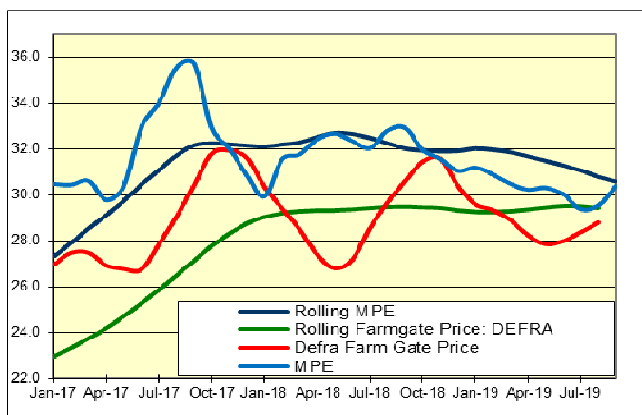
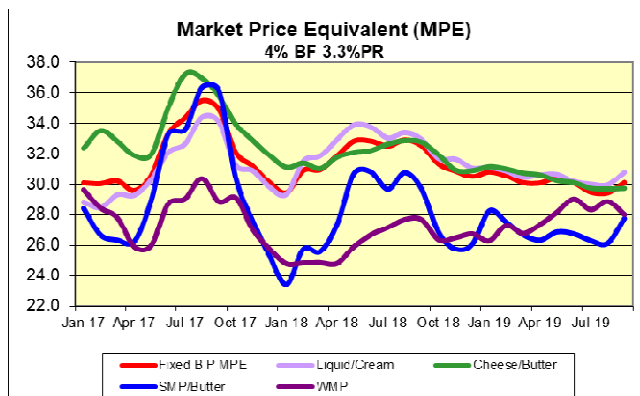
Global supply remains benign at -0.1% through the summer and is expected to rise to +0.5% in the autumn. This suggests an improving market position is likely, but a faltering global economy is a significant counter weight. The GDT has stabilised around a GDT MPE of 27 to 28ppl further indicating stability. Despite the Brexit outcome remaining elusive markets are providing a stable to steadily improving market position for the autumn months. The usual time-lag will apply to the UK meaning any improvements at the farm gate will take 3-5 months to materialise and may mean further falls are offset later in the winter. Meanwhile the previous weakening returns will be impacting at the farm-gate just as some sort of Brexit resolution becomes apparent or not.

With production costs up by 13.9% in the last 2 years to 33.7ppl, farmers will be looking to take advantage of lower protein and cereal prices to reduce feed costs, particularly if milk prices prove weaker in to the winter.

## Market Prices

The Market Price Equivalent (MPE) turned around, up 0.66 to 30.1 ppl (2.0%). MPE is unmoved in the last 6 months, but down 2.4ppl (-7.4%) year on year. SMP climbs again 5.6% to £1960, Butter was up 6.2% and Cream up 11.9% as butterfat supply (+2.4% YoY) eases back. This is the first rise in Butter prices since the peak in January 2019. The range across the sectors eases back to 3.0 ppl from Liquid

/Cream returns to SMP/Butter. The GDT price equivalent has reduced to 27.8 ppl, due to currency swings. The UK SMP price has narrowed to £119/t below the GDT auction, but is £456/t above Intervention. Global supply growth has slowed to -0.1% with weakness in EU supply to -0.3% in June, but is expected to recover in late summer/autumn to +0.5%.



## Farm Gate Prices

The August 2019 farm gate price has risen by 0.4 ppl to 28.8 ppl, down -0.54ppl (-1.8%) in the last 6 months, down 0.87ppl (-2.9%) in the last year. The rolling Farm Gate price drifts lower to 29.4ppl and continues to remain above 29ppl suggesting a monthly price norm of 26 to 32ppl and a rolling average price of 29 to 30ppl. 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-June and October. The graph suggests a weaker upward trend this year reflecting lower prices in some sectors.

Production in July was confirmed at 1265 M litres (+35 M litres) and August was 1207 M litres (+11 M litres). UK weather has remained warm with a lot of rain bringing an early start to winter for some. September production is running at +0.5% at 1160 M litres (+6 M litres) and October is forecast at 1210 M litres (+10 M litres) subject to weather conditions. UK 2019/20 supply remains forecast at 15000 M litres (+128 M litres).

Brexit confusion continues with Parliament recalled but no deal still appears possible. Sterling continues to react to each twist & turn and is currently at £/€1.12 and £/\$1.25.

Further falls in milk prices for October have been announced suggesting a downside is likely despite market improvements. With the average cost of production at 33.7ppl in 2018/19 and a 50% decline in profit before family labour, farmers will be looking to reduce costs this winter. Brexit uncertainty over agricultural markets will continue and new migrant rules means labour supply remains a key issue on many dairy farms."

- Ends -

## For further information please contact:

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- **Visit [www.thedairygroup.co.uk](http://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.