

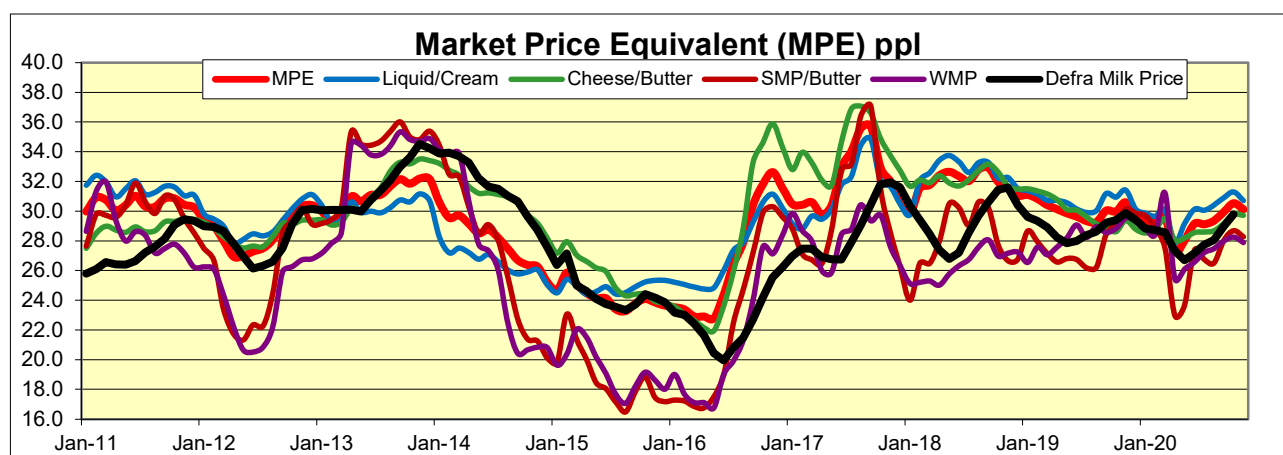
PRESS INFORMATION from *The Dairy Group*

1st December 2020

The Market Price Equivalent (MPE) Update November 2020 By Nick Holt-Martyn, The Dairy Group

Will Volatility Be Coming Back in 2021?

“Over the last 3 years dairy markets and milk prices have been incredibly stable once the volatility caused by quota abolition had passed. Seasonal fluctuations aside ~ droughts, floods and a global pandemic have had very little impact on the markets other than short term shocks which are quickly overcome” says Nick Holt-Martyn of The Dairy Group. He goes on to say “with full Brexit just 4 weeks away and no deal agreed, most people in the food supply business see carnage in January, with or without a deal.



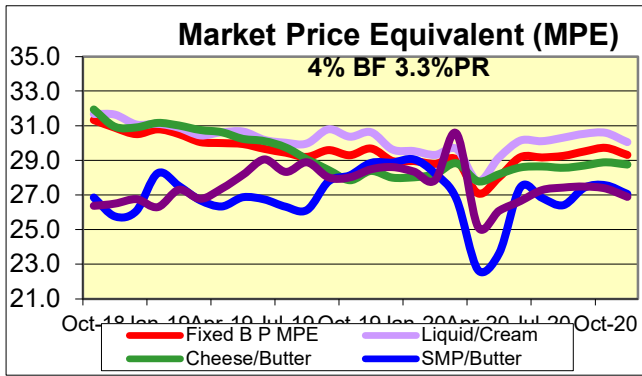
Source: The Dairy group

The graph above looks back over the last 10 years and shows the extreme volatility during the middle part of the decade, but a stable pattern since January 2018 once the butterfat spike had subsided. It is sad to report that market returns and therefore milk prices have achieved no growth in that time. Market returns have been between 28-32ppl while milk prices 26-30ppl. In fact for some, milk prices are not so very different from where they were shortly after deregulation in 1994.

The expectation of severe supply issues in January with a complete cessation of cream exports and corresponding difficulties for dairy imports even before the high risk of eye watering tariffs, volatility will be very much to the fore. As the graph shows, milk prices are directly linked to markets and any disruption, either financial, physical or regulatory will affect milk prices.

It is difficult to predict how this will manifest itself other than companies seeking the protection of higher margins by reducing prices. Supply shortages will cause internal market price rises countered by products in excess, cheese shortage and cream excess. Import substitution brings its own problems; for example, if UK mature cheddar is expected to replace Irish mild cheddar there will be either a reduction in returns or consumer resistance to price increases. There is unlikely to be any investment in processing capacity as the problem is too short term. The word that best encapsulates the situation in January is volatility.

Any hope that La Nina would limit global supply increases have not yet materialised, with global supply up 1.5% in September resulting in the risk of weaker markets in 2021 through higher supply.



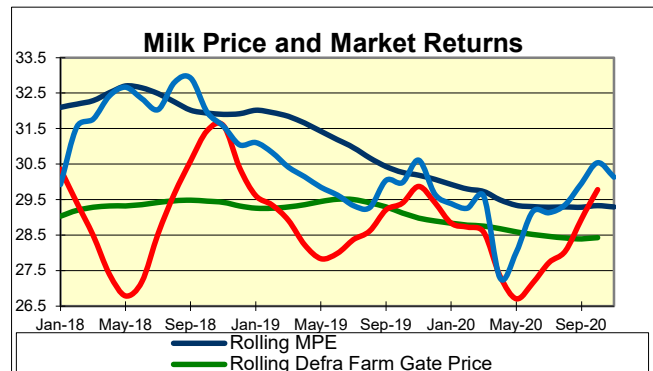
Market Prices

The market has noticeably slipped back in November due to lockdowns and as pre-Brexit issues start to emerge. The Market Price Equivalent (MPE) is down -0.4ppl to 29.3 ppl (-1.4%). MPE is up 1.3ppl (4.5%) in the last 6 months and down -0.4ppl (-1.3%) year on year. Prices slipped across the board with the unusual exception of liquid (+0.9%) with cream down -12% and butter -3%, with butter pulling down cheese and

powders. The range across the sectors remains at 3.2 ppl from WMP to liquid/cream. UK SMP price is 29% (£438/t) above the Intervention price. The market returns have been remarkably stable, but are starting to take fright from full Brexit in January.

Farm Gate Prices

The October 2020 farm gate price rose again to 29.8 ppl due to seasonality additions and high milk quality. Milk quality is above the record levels of 2019 and is set to peak in November at 0.4ppl above 2019 and on course to exceed 30ppl in November, the highest since December 2018. The rolling Farm Gate price rises to just 28.43ppl. Our November 2020 milk price forecast is up to 30.3 ppl, but subject to actual 2020 milk quality.



Production in August was confirmed at 1200 M litres -0.5% (-6 M litres), September was at 1163 M litres, +0.6% (7 M litres) and October was 1213 M litres +1.8% (21 M litres). Autumn weather finished fairly normally, so our November forecast remains 1184 M litres (+1.7%), December 1250 M litres (+1.9%) and January 1280 M litres (+2.4%).

Sterling has lifted on the back of positive vaccine news to £/€1.117 and £/\$1.33 as the month ended with Brexit negotiations dragging on. A deal is still looking likely while talks continue, but ratification and implementation by January more doubtful.

The short term outlook for milk price is becoming clouded by the Brexit outcome and its effects. The message for farmers is unchanged, look within their own business for improvements because of the almost inevitability of a volatile dairy industry for the next couple of years."

- Ends -

For further information please contact:

- **Nick Holt-Martyn**, The Dairy Group (01823 444488/e-mail: nick.holt-martyn@thedairygroup.co.uk)
- **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.