

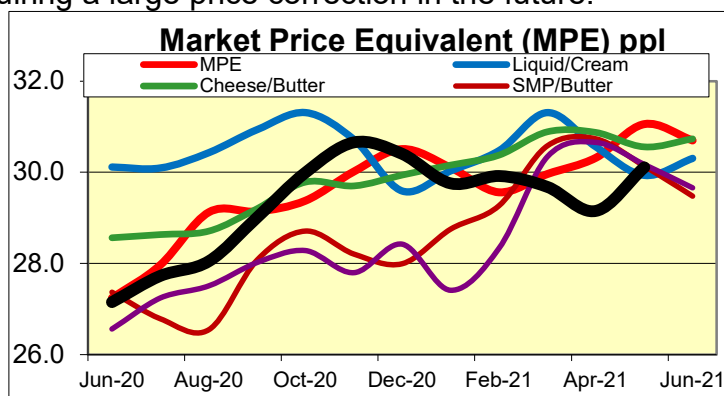
PRESS INFORMATION from *The Dairy Group*

1st July 2021

The Market Price Equivalent (MPE) Update June 2021 By Nick Holt-Martyn, The Dairy Group

Dairy Markets are Treading Water as Supply and Farmgate Prices Rise

“Another of the casualties of the pandemic is the normal relationship between milk supply and farmgate prices.” says Nick Holt-Martyn of The Dairy Group. He goes on to say “under normal circumstances rising supply would threaten farmgate prices to bring about a supply correction with demand being the key driver of the process. Commodity markets are drifting lower at the same time as New Zealand has a record opening price, US prices remain stable and both UK and EU prices are rising. The May 2021 Defra Farmgate price at 30.3ppl is the highest May price since 2014 which precipitated a 37% price fall by May 2016 to just 20.4ppl on the back of a 14% rise in output over 3 years. While we are nowhere near that point yet, the post pandemic global boom could be just the period to see supply and demand get out of kilter requiring a large price correction in the future.

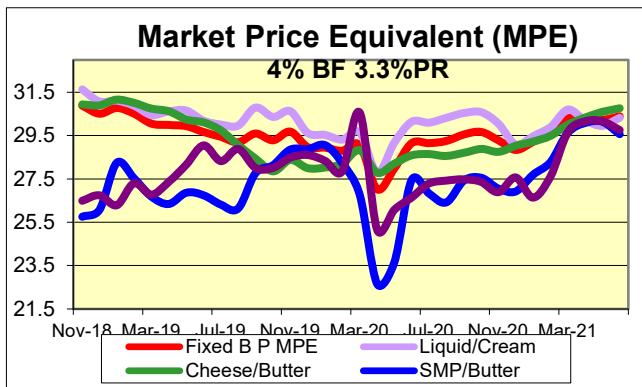


Source: The Dairy Group, AHDB, Defra

The table above shows the UK market returns for the various sectors along with the Defra Farmgate price. The graph covers the period from June 2020, after the initial shock of the pandemic had subsided, with the steady growth in commodity returns while the UK core sectors of liquid/cream and cheese/butter also benefited even though liquid and cheese prices have flatlined. The farmgate price shows a quick recovery followed by a normal seasonal pattern around 30ppl, before rising sharply in May 2021. With the high cost of feed in the last 12 months showing no sign of abating, the farm gate price is certainly not high in comparison to previous periods and with the cost of production remaining above the farmgate price for most producers.

The patchy lifting of lockdown measures around the EU and UK suggests there is little local demand left to be realised, so the firmness of global trade hangs on Chinese demand. Globally milk supply is rising with the main exporting countries running around +2 to +3% and forecast to remain there through the summer. If commodity returns continue to drift down a price correction is possible in the next 12-24 months. Despite higher replacement numbers and improved UK/EU weather, the pressure will be on for milk prices to resist commodity driven market forces without lower feed prices.

A post pandemic boom is under way with supply problems due to 2020 factory closures limiting supplies of materials, labour shortages due to Brexit and the pandemic mixed with a rise in global economic activity. Just the recipe for inflation which central banks seem unwilling to rein in so far. Booms are often followed by busts which central banks struggle to control, something the dairy industry was no stranger to within the EU. Next time the UK will stand alone, confidence is not high that the UK Government actions will fare any better.



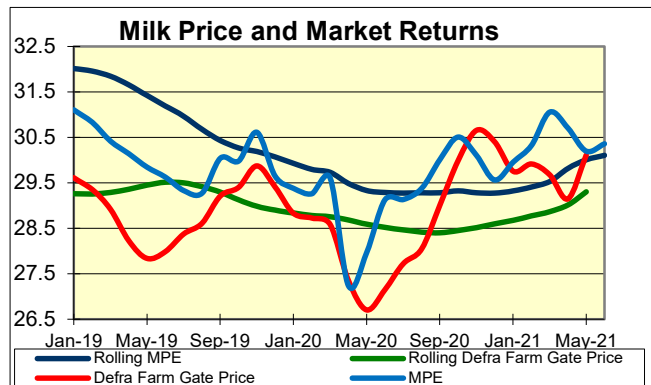
Market Prices

The Market Price Equivalent (MPE) is up to 30.4 ppl (0.5%) this month, up 1.5ppl (5.4%) in the last 6 months and up 1.2ppl (4.2%) year on year. Cream is up 5.9%, but Butter down 0.9% as the range across the sectors widens to 1.2 ppl from Cheese/Butter to SMP/Butter due to falls in SMP. Milk demand is flat with lower SMP and WMP, but rises in Whey, whilst Cheese remains stuck in the doldrums. The market returns

are reflecting supply with good growing conditions boosting milk. The warm damp weather through June into July has ensured grass supply will remain good which is leading to strong milk production (+1-2%).

Farm Gate Prices

May 2021 farm gate price rose by 0.9 ppl to 30.1 ppl, 3.4 ppl above May 2020. The rolling Farm Gate price rises to 29.3 ppl. April milk price was in line with our forecast, but May was ahead by 0.7 ppl reflecting the strong milk quality on the back of poor weather. Recently announced increases raises our latest November forecast to 31.2 ppl, 0.5 ppl above November 2020.



Production in April was confirmed at 1363 M litres +2.7% (+35 M litres) and May was provisionally 1403 M litres +1.4% (+20 M litres). The better growing conditions over the last 6 weeks is holding milk supplies up and limiting the seasonal decline. Based on the AHDB daily deliveries our June forecast is 1300 M litres (+1.5%), July remains at 1275 M litres (+1.0%) and August 1220 M litres (+1.6%).

Sterling has declined against the Dollar, but lifted against the Euro, to £/€1.17 and £/\$1.38. The economy is recovering sharply despite the delay in the roadmap. Expectations of stronger markets due to increased hospitality and staycations are more muted.

Globally milk supply is rising in many areas, at a level that normally suggests markets could weaken, but with sharply rising global GDP there remains upwards pressure on dairy markets and in turn on milk prices. As outlined above, demand will become satiated and market pressure may turn down. The big unknown is when will central banks react to rising inflation and raise interest rates from their historic lows.”

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For further information please contact:

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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.