

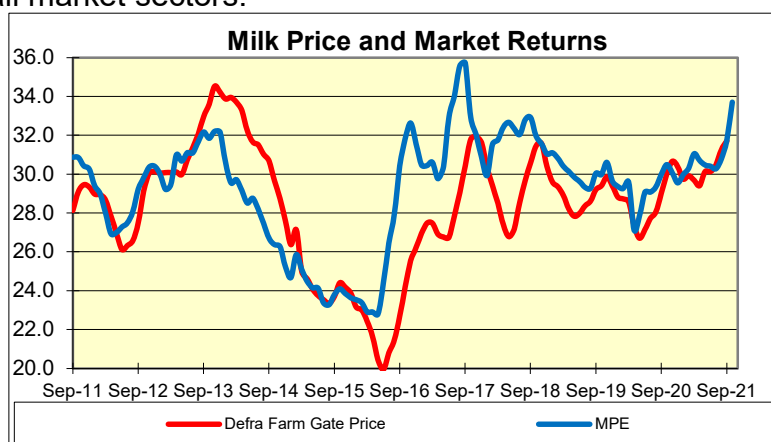
PRESS INFORMATION from *The Dairy Group*

1st Nov 2021

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

Markets take off but will the milk price keep up?

“EU and UK market prices have taken off in the last month with all sectors benefiting including liquid milk prices as well” says Nick Holt-Martyn of The Dairy Group. He goes on to say “this has led to the MPE jumping by 6% in the month, to levels not seen since September 2017 during the second butter spike. Those levels were not sustained and the farm gate price showed little sustained benefit, but this time should be different by virtue of the rises across all market sectors.

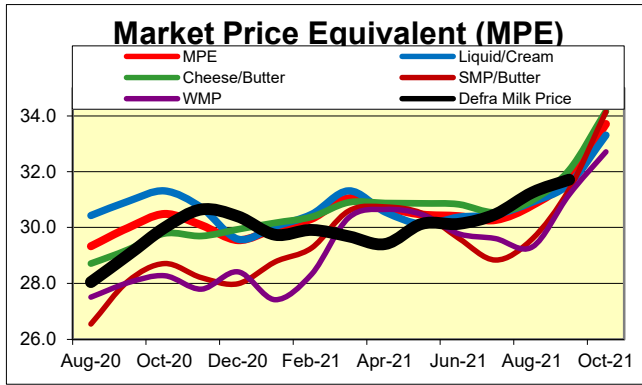


Source: The Dairy Group

The graph above shows the Defra Farm Gate Price and the Market Price Equivalent (MPE) over the last 10 years. This shows the broad correlation between farm gate price and market returns. During sustained stable periods of market returns there is a close relationship between the two. However, this relationship breaks down during volatile periods when market returns fail to feed through sufficiently to the farm gate. This is due to the time-lag between market returns and the farm gate which allows for the market to reset before prices are transmitted through the supply chain.

Given that the MPE is up 11% in the last 3 months and the time-lag evidenced above, the recent farm gate price moves are only the beginning of a milk price adjustment in line with the market. Until and only if the market settles down at a new level can we say where the farm gate price will eventually rise to. Based on the limited data to date it seems likely that the farm gate price will rise to 33-34ppl through the winter. Arla, the aligned contracts and the cheese makers are likely to be around 33-35ppl and the rest of the processors around 32ppl.

While rising milk prices are more than welcome they are of course only half of the story as there is also the cost side to be considered, which is rising fast. Winter feed prices in the short-term, fuel and fertiliser through the next 12 months and the rise in fixed costs linked to the wider economy all indicate an eye-watering rise in the cost of production that is not guaranteed to be fully met by the rises in milk price. With rolled barley costing £230/t on farm and fertiliser use likely to be constrained through price and logistics, the limited under-supply that's given rise to the increases in milk price is likely to continue and probably expand. This only serves to fuel an inflationary spiral that in the past was cured by extreme measures such as sharp jumps in interest rates and cuts in Government spending. The return to boom and the inevitable bust of the 1980s and 1990s is in play. The message to farmers is to focus on what they control, limit debt and prepare for some rocky times ahead.



Market Prices

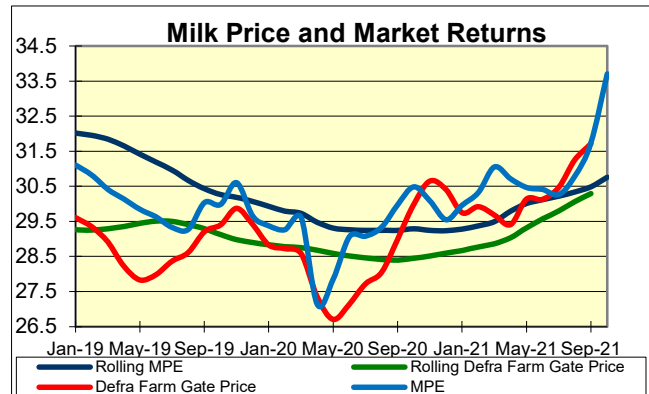
The Market Price Equivalent (MPE) jumps 1.5ppl to 32.7 ppl (+4.5%) this month, up 0.9ppl (3.1%) in the last 6 months and up 3.0ppl (10%) year on year. Cream, Butter, SMP and WMP are up 16-21% in the month with cheese up 11.5% and even liquid shows a 1.7% increase. The range across the sectors widens to 1.4 ppl from Cheese/Butter to WMP, due to rises in all sectors, but particularly butter. Weaker

supply is the dominant factor with the EU and New Zealand seeing lower volumes. Wholesale markets are responding to the weaker supply, coupled with supply fears fuelled by higher costs through the winter and beyond.

Farm Gate Prices

September 2021 farm gate price rose by 0.5 ppl to 31.7 ppl, 3.7ppl above September 2020. The rolling Farm Gate price rises to 30.3ppl. September milk price was 1.0ppl ahead of our forecast and with market returns rising across the board, prices have much further to go.

Production in August was confirmed at 1201 M litres 0% (0 M litres) and September was provisionally 1153 M litres, -0.6% (-7 M litres). Based on the AHDB daily deliveries our October forecast is 1198 M litres (-0.5%), November at 1180 M litres (-0.9%) and December 1245 M litres (-0.7%).



Sterling has gained against both the Dollar and the Euro, to £/€1.184 and £/\$1.368. The economic recovery is causing supply and distribution problems which are being seen through delays and inflation.

New Zealand weather remains variable, but production is expected to recover with warmer conditions encouraging supply. Limited impacts are expected on EU/UK markets. There are increasing La Nina signals in the pacific for early 2022 which will affect weather patterns on both sides of the pacific.”

- Ends -

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.