PRESS INFORMATION from

The Dairy Group

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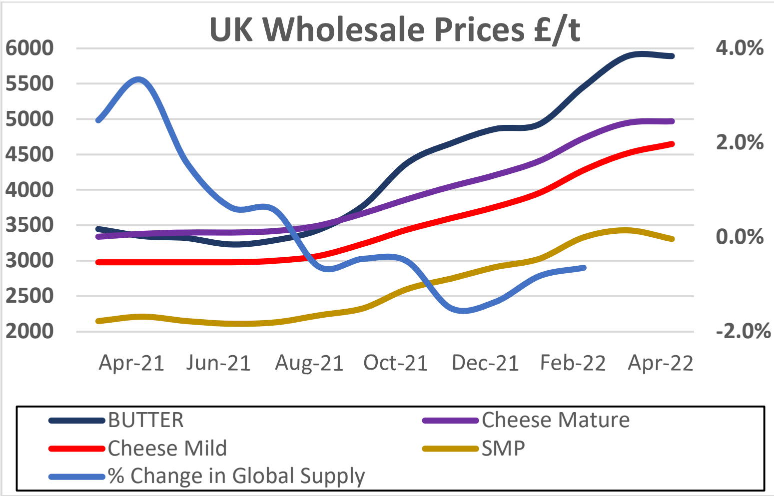
The Market Price Equivalent (MPE)

***By Nick Holt-Martyn,* The Dairy Group**

Commodity Markets Pause During Spring Flush ~ What Next?

"The levelling out signs visible in April have continued through May with modest declines in Cream, SMP and Whey while Butter was static" says Nick Holt-Martyn of The Dairy Group. He goes on to say "while the rest of the market made small gains, overall market returns have eased in May by 0.4% on a standard litre basis. UK May supply is forecast to be -1.9% below 2021 and there is a prospect of supply this milk year dropping below the 5 year average by 1%. So, despite rising farmgate prices and benign winter/spring weather producing quality forage, milk supply shows no sign of improving.



Source: The Dairy Group, AHDB

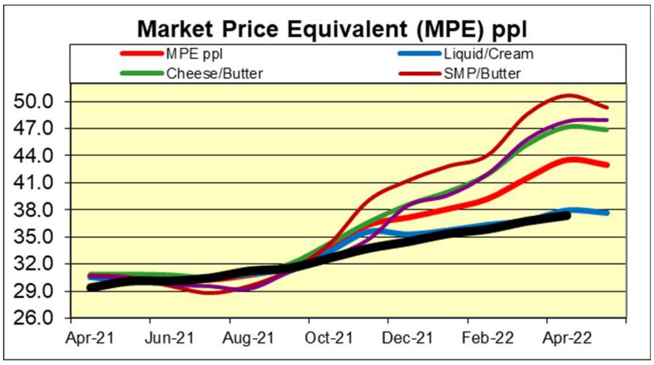
We are well used to markets being driven by supply/demand interactions with prices the outcome. The graph above shows how the global supply position has radically altered the market tone to deliver record levels of market returns and eventually farmgate prices. The supply position was so different in April 2021 with milk output rising year on year and markets flatlining through the summer. For the UK in particular a difficult summer produced variable forage quality. Feed prices escalated while milk prices remained subdued at the farmgate. The effect was that by the time autumn came around milk supply started to fall behind, feed prices kept on rising into the winter and it was only a matter of time before milk prices had to increase. It took until December for prices to really respond to the rising markets and even now the Defra April farmgate price is 2.6ppl short of 40ppl.

With Arla, Muller and Saputo amongst others with headline prices of 45ppl in June cash is certainly flowing through the supply chain back to the primary producer. The usual range across the industry is likely to be amplified with cheese and commodities processors driving the price agenda. If markets settle at the current level, but production costs remain wedded to feed prices of £350-400/t and fertilisers £700+/t for the next 12 months then milk supply is likely to remain constrained.

The dairy industry and wider agriculture may be entering a period where markets are unwilling or unable to provide the primary producers with sufficient return to encourage growth and investment to increase supply. Retailers may resist inflation on behalf of their customers and even squeeze their own margins to do it, but to get product they have to pay what it takes to produce. Any return to more "normal" values of inputs or outputs could be particularly painfall if prices and costs fall out of synchrony and would almost certainly be a threat to supply.

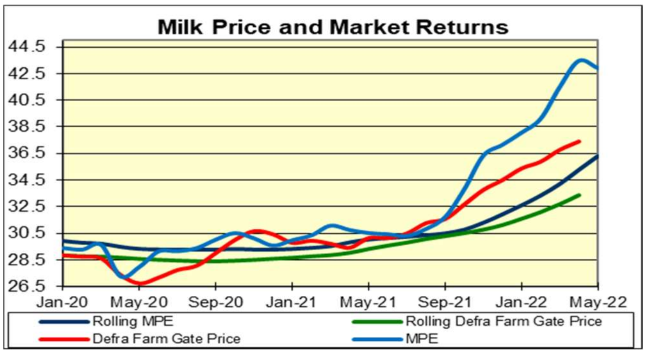
The rate of change in both income and expenses means its very difficult to gauge how businesses are doing. Money is flowing through businesses but is there a visible profit? Only some form of stability will allow producers to make the correct decisions regarding their milk output. Challenging times!

Market Prices



The Market Price Equivalent (MPE) eases by 0.6ppl to 43.0 ppl (-1.3%) this month, up 6.6ppl (18%) in the last 6 months and up 12.4ppl (41%) year on year. Products prices were mixed, from SMP -3.6% to Mild Cheddar up +2.8%. The range across the sectors eases to 11.6ppl from SMP/Butter down to Liquid/Cream. UK supply remains weak and now peak has passed looks set to remain subdued through the year. EU weekly commodity price reports confirm the easing of commodity prices through to mid-May, but registers more recent gains. June may see the upward rise in commodities leading to further rises in farmgate prices later in the summer.

Farm Gate Prices



The April 2022 farm gate price rose by 0.6ppl to 37.4 ppl, 8.0ppl above April 2021. The rolling Farm Gate price rises to 33.3ppl. April milk price was in line with our forecast and set to exceed 40ppl in May.

Our latest milk price forecast, based on current prices and the latest market returns, suggests the Defra milk price will be 40.2ppl in May, rising to 42.8ppl in June and reaching 45.5ppl in the autumn.

Production in March was confirmed at 1311 M litres -2.2% (-29 M litres) and April was provisionally 1327 M litres, -2.0% (-27 M litres). Based on the AHDB daily deliveries our May forecast is 1378 M litres (-1.9%), June at 1275 M litres (-1.8%) and July 1245 M litres (-0.4%). Our forecast for 2022/23 is 14.75b litres (-1.1%). A lot of quality forage has been made so far and weather remains favourable, but how will farmer's react to both milk price and feed inflation later in the year?

Sterling was relatively stable against the Dollar, but eased against the Euro, to £/$1.261 and £/€1.174. The consumer price index reached 9.0% in April and is expected to go to 10% as energy prices continue to rise.

Weather effects around the word are affecting crop production with no easing in supply likely. Russia's blockade in the Black Sea of Ukrainian ports is likely to become a hot issue as the year progresses, particularly if there is widespread famine in Africa. A NATO intervention cannot be ruled out which could spread the conflict or release significant grain onto world markets. The situation towards the winter is anything but uncertain."

- 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.