PRESS INFORMATION from

The Dairy Group

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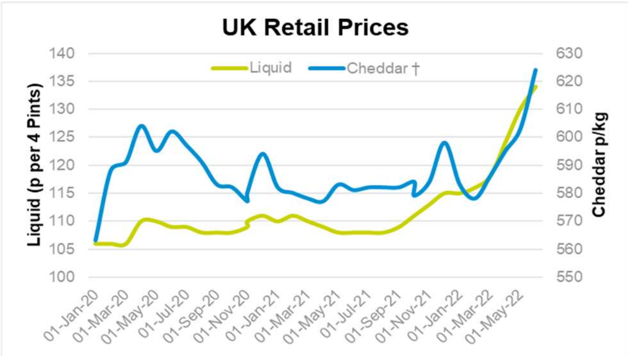
The Market Price Equivalent (MPE)

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

Dairy Retail Shows Uneven Inflation

"Just recently AHDB have been able to update their Retail Price series for the first time since the spring giving a good view of what has been happening at the consumer end of the supply chain" says Nick Holt-Martyn of The Dairy Group. He goes on to say "we are very aware of the changes at the farmgate and the wholesale markets and despite retailers saying there is significant detachment between the consumer and the farmgate it is still useful to know if there is more money entering the supply chain. In the latest round of inflation figures dairy was one of those items highlighted as a cause of inflation rising to 9.4%, but is that fair?

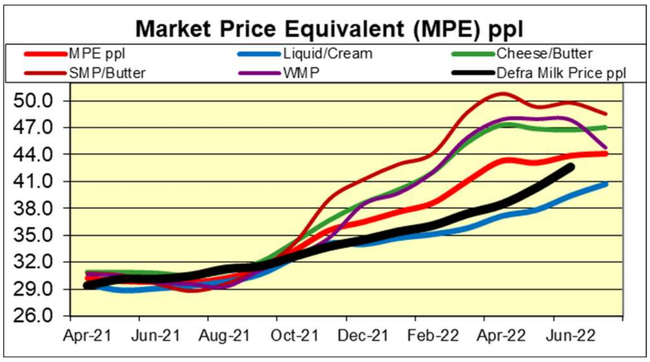


Source: The Dairy Group, AHDB

The graph above shows the latest retail price data for liquid and cheese, the dominant sectors of the UK dairy industry utilising 77% (10.8 billion litres) of the supply, Liquid 43% and Cheese 34%. Over the last 12 months the Liquid price is up 24% and Cheddar 7%. For Liquid there was a lift in December before the whole market took off in March. For years the Liquid sector has been holding back the farmgate price with slim margins being held down by retailers taking advantage of the fierce competition for market share by the dominant players. Cheddar, despite being more volatile over the preceding 2 years has generally performed better at the farmgate.

It is to be hoped that supply constraints that have fuelled the market increases this spring will allow a reset of liquid prices such that it is competing with Cheddar for supply. Provided supply remains below historic levels, July is estimated at -0.8%, then markets should be able to stabilise around the current market returns. Liquid and Cheese prices are still rising on the wholesale markets while commodities have faltered which could indicate that we are about to see the normal price hierarchy re-establish. This would mean Liquid and cheese prices running 1 to 2ppl above the commodity values. There is still some upward movement needed to bring this about, but it will be required if the supply is to be stabilised. UK supply has now been falling for 12 months, initially due to a combination of weather and economics, but now input inflation is the dominant factor. Prices need to improve further and input costs need to ease if the supplyside is to improve.

Globally supply is down further due to supply weakness in both the EU and the US, so market stabilisation is due to buyer resistance and not an improved supply position. This further suggests a stabilisation around current levels is likely at least until New Zealand's new season reports in late September. With grain prices slipping as Ukrainian exports start there is a glimmer of light on feed prices. However high inflation will impact on the cost of production as a whole and inparticular fertilisers and energy.



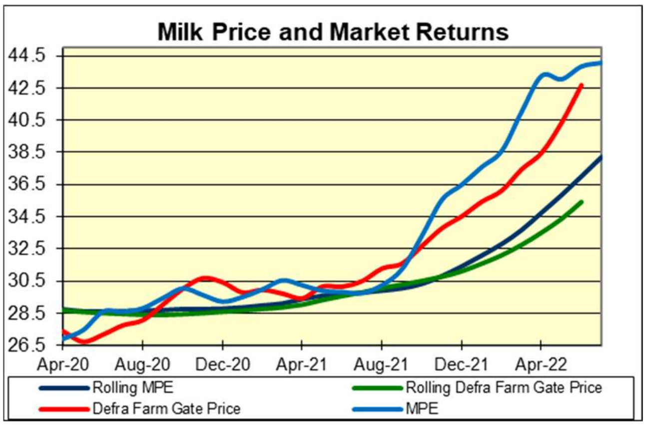
Market Prices

The Market Price Equivalent (MPE) lifts again by 0.2ppl to 44.1 ppl (+0.5%) this month, up 6.5 ppl (17.2%) in the last 6 months and up 14.3ppl (48%) year on year. Several commodities fell this month (butter, SMP, WMP and whey) but with gains made by liquid, cheese and cream ~ making all time highs. The range across the sectors has narrowed to 7.7ppl from SMP/Butter down to Liquid/Cream. The EU weekly commodity price report is indicating stability with very small changes in most commodities, other than whey and cheese which made gains. The stable commodity prices should still see cash flow through to the farmgate for a month or two as money flows through the supply chain.

Farm Gate Prices

The June 2022 farm gate price rose by 2.3ppl to 42.7 ppl, 12.5ppl above June 2021. The rolling Farm Gate price rises to 35.5ppl.

Our latest milk price forecast, based on current prices and the latest market returns, suggests the Defra milk price will be 44.0ppl in July, rising to 45.8pl in August and reaching 47ppl in the autumn.



Production in April was confirmed at 1333 M litres -1.6% (-21 M litres), May was provisionally 1388 M litres, -1.2% (-17 M litres) and June 1276 M litres, -1.7% (22 M litres). Based on the AHDB daily deliveries our July forecast is 1239 M litres (-0.8%), August at 1190 M litres (-0.9%) and September at 1143 M litres (-1.0%). Our forecast for 2022/23 remains at 14.77b litres (-0.9%). Despite remaining warm and dry the western side of the country has seen some rain with the east and south most affected by dry conditions. Grazing has been affected but conserved feed quality looks good. The early harvest has seen grain prices fall aided by the renewed tentative export from Ukraine. Other feed prices are more mixed and subject to US weather and supply logistics.

Sterling has stabilised against the Dollar and gained against the Euro, to £/$1.2166 and £/€1.1919. The consumer price index reached 9.4% in July and is still on course to exceed 10% with higher energy prices expected in the autumn.

Although southern pacific weather is neutral the La Nina effect is expected to return in the late autumn or early winter months. A refreshed UK Government following the leadership election brings the risk of a swathe of legislation and prolonged change. The situation remains 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.