PRESS INFORMATION from

The Dairy Group

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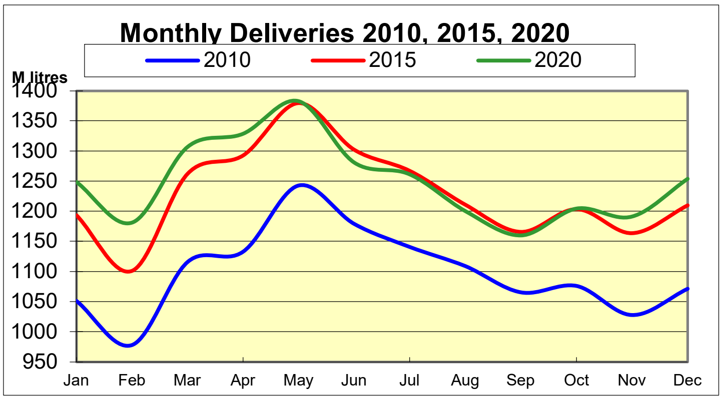
The Market Price Equivalent (MPE) Update March 2021

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

Glanbia's quota imposition shocked the Irish but unfettered expansion is no longer possible

"The sensationalist headline of Glanbia's quota masks a reality of supply management that is common to most dairy contracts in the UK. It does signal the end of Ireland's almost inexhaustible increase in milk supply, an increase that has seen Glanbia's milk intake rise by 70% since 2014." says Nick Holt-Martyn of The Dairy Group. He goes on to say "environmental concerns were always likely to catch up with the expanding Irish dairy industry as this decade progresses, but Glanbia's action seems more linked to lack of processing capacity than anything else.

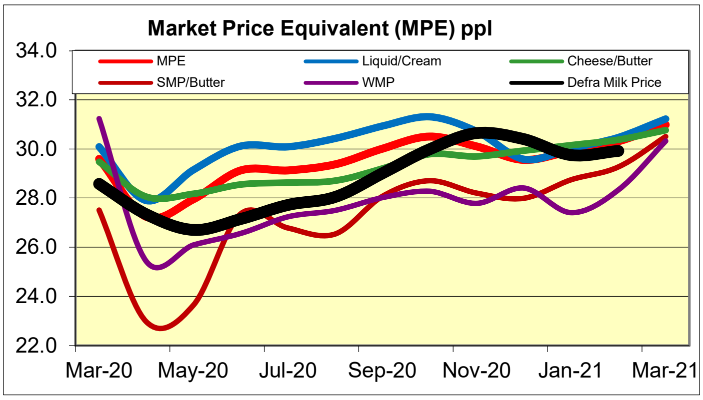


Source: The Dairy Group

The graph above shows how the UK has faired over the last 10 years with our own expansion post quota abolition. In fact it is interesting to note that even now our production from May to September is not yet exceeding 2015 (the year of abolition). Production in 2010 was only 13.19 billion litres, 2015 14.75 billion litres and 2020 at 15.0 billion litres only just exceeded the quota abolition year.

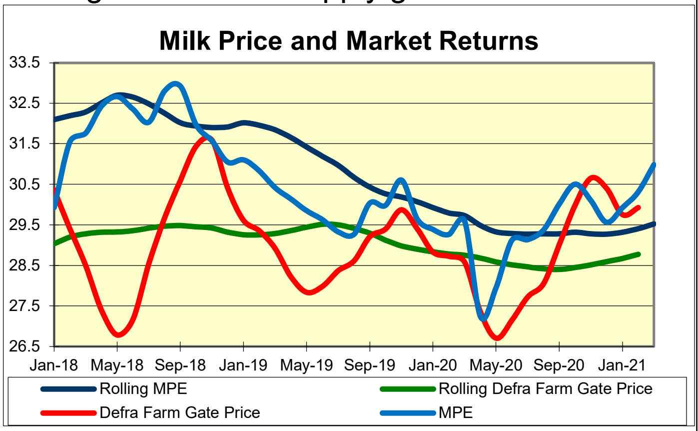
Glanbia's scheme is similar to many in the UK with average historic production used as a baseline from which measurements are made, but not all stick with an incentive for increased supply from December to February. It is very similar to both Arla and Muller schemes that seek to flatten the milk profile. A price reduction of 30% is high by UK standards. However it is marginal on the excess litres and acts as a disincentive. In the UK Saputo by contrast has a B price linked to AMPE (AMPE-2p) so is more driven by market forces, which in 2021 is unlikely to be an issue with March AMPE at 32.5ppl.

The EU appears to be shaping the CAP around climate change which will severely limit the size of the Irish dairy herd with some speculation it may need to contract in order for Ireland to meet its climate change obligations. These changes are likely to impact on the way the Irish dairy model works, but remaining wedded to block calving and intensive grazing. No doubt Teagasc will produce a model system to enable Irish dairy to evolve. For the UK our future agricultural policy looks incompatable with intensive farming in the main, with environmental features being islands or boundaries in an otherwise intensive farmed landscape. Until the UK policy has more 'flesh on its bones' it is hard to forecast how the UK dairy industry will respond. However, it seems likely it will continue its long term trend of fewer, larger herds and higher yielding cows.



Market Prices

The Market Price Equivalent (MPE) is up 0.7ppl to 30.99 ppl (2.2%) this month, up 0.97ppl (3.2%) in the last 6 months and up 1.4ppl (4.7%) year on year. Cream is up 10% and Butter 9% as the range across the sectors narrows to 0.9 ppl from WMP to Liquid/Cream. UK SMP price is 45% (£648/t) above the Intervention price, aided by the further rise in £/€. The market returns are higher but so is supply, with March running at +2.3% as dry conditions allowing cows to be turned out. With April forecast to be colder than average could slow supply growth.



Farm Gate Prices

Strong butterfats lifted the February 2021 farm gate price by 0.2ppl to 29.7 ppl, 1.2ppl above February 2020. The rolling Farm Gate price rises to 28.7ppl, for 3 years in the range 28.4 to 29.5ppl. Our February 21 milk price forecast shows a seasonal decline to 29.4 ppl, with March 21 forecast at 29.5ppl.

Production in January was confirmed at 1253 M litres +2.2% (+27 M litres) and February was provisionally 1148 M litres +1% (+11 M litres). The cool dry weather has limited grass growth through March, but enabled field work and turnout to continue apace. Based on the AHDB daily deliveries our March forecast reaches 1350 M litres (+3.3%), April 1340 M litres (+1.1%) and May 1410 M litres (+1.9%).

Sterling has lifted as trading difficulties become embedded and the roadmap to easing lockdown is announced, up £/€1.175 and £/$1.38, with strong expectations of a summer recovery in the economy on the back of a released lockdown.

Both market returns and milk supply are improving with the latter likely to dampen price movements further until the spring flush has passed. Trading with the EU remains difficult with January figures showing 85% reduction in cheese exports with further regulatory changes due in April and July. A post lockdown bounce in the economy is likely to override damage from these changes.

Feed prices will ease through the summer as farmers look to grazed grass to reduce costs. 1.5ppl milk price rises from Arla and Saputo will add pressure on the rest of the UK processors to follow. Rising farmgate prices will help combat increases in production costs experienced through the winter."

- Ends -

<u>For further information please contact:</u>

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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.