

PRESS INFORMATION from *The Dairy Group*

1st Aug 2021

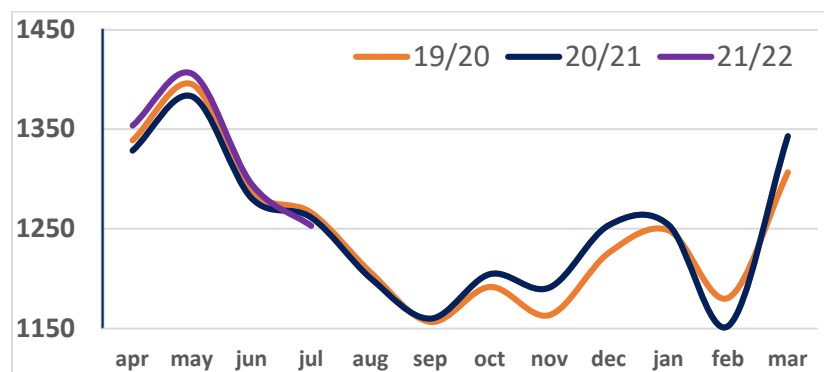
The Market Price Equivalent (MPE) Update July 2021

By Nick Holt-Martyn, The Dairy Group

Brexit and Covid, a Toxic Mix for the Supply Chain!

“The HGV driver shortage is affecting the dairy supply chain with Arla reporting difficulties filling shelves during week beginning 26th July 2021 due to a combination of low driver numbers, the *pingdemic* and the cessation of migration. Arla reported up to 25% of stores couldn't receive a supply of fresh milk mainly due to a shortage of drivers stretching back months despite recruitment through increased pay and conditions” says Nick Holt-Martyn of The Dairy Group. He goes on to say “while the pingdemic can be eased through the use of post ping testing to release the approximately 80% uninfected contacts, fixing migration and the driver shortage is more intractable. The estimated shortage of 100,000 drivers cannot be fixed in the short-term and will lead to inflation in supply chain costs for the foreseeable future.

While transport and distribution remains outside the list of Shortage Occupations the points based migration system does provide for recruitment at a minimum salary. However with Covid restrictions changing on a weekly basis and the recent surge in UK infection rates there is a large disincentive for migrants to take the risk to make up the shortfall.

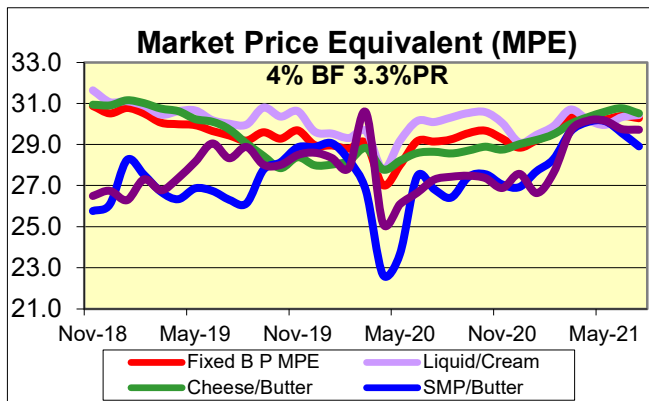


Source: The Dairy Group, Defra

The graph above shows the UK milk supply over the last 3 years, including the forecast for July 2021 (1253 M litres). The distribution problems have coincided with record levels of milk production in both liquid and milk solids with May butterfat a record 58,775t. While supplies have dropped sharply from the May peak they show no great departure from previous years July supply (-0.7%) and can be attributed to highly variable weather including extreme heat.

The progressive lifting of lockdown measures around the EU and UK should lead to a shift in consumption from home to catered with little overall change in total demand. With seemingly ever increasing supply efficient distribution becomes more important. The UK market with 49% of milk utilisation accounted for by fresh products is dependent on an efficient distribution system and there is little room for interruptions let alone deeper rooted distribution issues.

Despite the vagaries of global weather, from which all dairy regions are being affected, global supply is rising at +3.3%. While the post Covid led boom has increased demand this level of supply is likely to lead to price falls at the farmgate in the fullness of time. With the inflation risk high due to the imbalance of supply and demand in the wider economy and the same weather issues affecting animal feed supply, 2022 is looking like a challenging business environment.



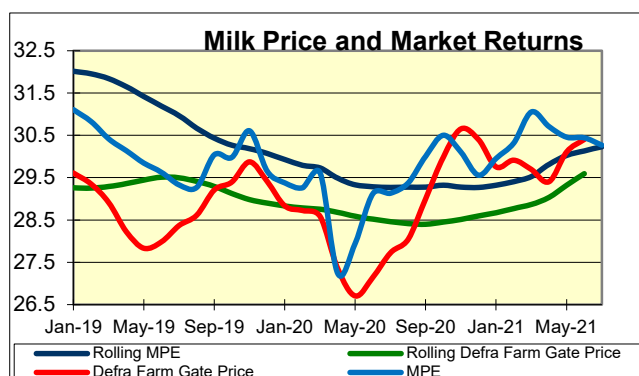
Market Prices

The Market Price Equivalent (MPE) is down to 30.3 ppl (-0.4%) this month, up 1.1ppl (3.7%) in the last 6 months and up 1.2ppl (4.2%) year on year. Cream is up 5.0% but Butter -2.8% as the range across the sectors widens to 1.6 ppl from Cheese/Butter to SMP/Butter due to falls in SMP. Commodity demand is sliding with lower Butter, SMP, WMP and Whey. Cheese remains stuck in the doldrums. If commodities continue to

slide then cheese will be affected which will trigger a response in the farmgate price. The market returns are not reflecting supply with good growing conditions boosting milk output and the Covid restrictions in place around Europe. The extreme heat in mid July has been tempered by cooler damper conditions either side maintaining grass supply.

Farm Gate Prices

June 2021 farm gate price rose by 0.3 ppl to 30.4 ppl, 3.2 ppl above June 2020. The rolling Farm Gate price rises to 29.6 ppl. June milk price was in line with our forecast although milk quality remains high for the time of year. Milk prices look set to remain good until the autumn pricing in September when market reductions may become apparent.



Production in April was confirmed at 1354 M litres +1.9% (+25 M litres) and May was 1406 M litres +1.6% (+23 M litres) and June was provisionally 1295 M litres, +1.1% (+14 M litres). May production is a record peak but supplies have declined sharply through July. Based on the AHDB daily deliveries our July forecast is 1253 M litres (-0.7%), August slips to 1200 M litres (+0.1%) and September to 1160 M litres (-0.2%).

Sterling has remained stable against both the Dollar and the Euro, to £/€1.17 and £/\$1.39. The economy is recovering, but material supply and distribution is restricting growth.

Globally milk supply is rising by 3.3% increasing expectation of a market correction later this year, possibly coinciding with the Southern Hemisphere production peak.”

- Ends -

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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.