

PRESS INFORMATION from *The Dairy Group*

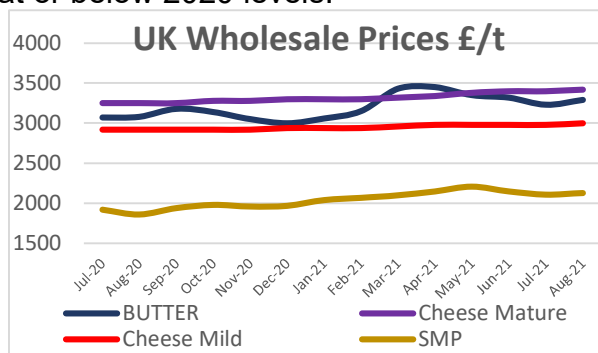
1st Sep 2021

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

Has European Weather Turned Market on its Head?

“The topsy turvy weather across Europe this summer has not only affected milk production, but is now changing the tone in the market from a Spring supply surplus and mid-Summer market declines, to weak supply and a rising market” says Nick Holt-Martyn of The Dairy Group. He goes on to say “through August European markets have been firming as supply faltered in the biggest 3 milk producers, Germany, France and UK, with even Ireland noting a decline in growth for the rest of 2021.

On European markets commodity prices are picking up with Butter around €4,000/t and SMP €2500 which is on a par with AHDB UK Wholesale prices at the month end. Butter and SMP are now 7% and 16% ahead of their 2020 level and likely to progress further in the Autumn if supply stays at or below 2020 levels.



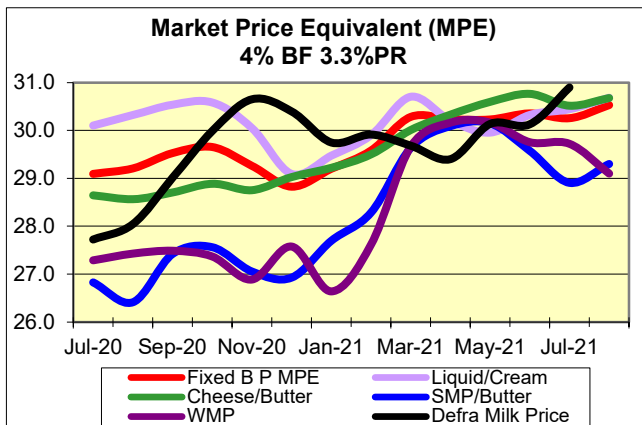
Source: The Dairy Group, AHDB

The graph above shows the UK Wholesale prices over the last 14 months. The standout feature is the steady drift upwards, epitomised by the cheese sector, but matched by the more variable Butter and SMP. Both Butter and SMP had declined from their Spring peaks on the back of a stronger supply and favourable weather. With the change in the weather comes the change in the supply and a corresponding change in markets. While supply remains subdued markets are likely to maintain the progress with further firming of prices.

The Arla September price cut has not been linked to markets returns, but cost pressures and inflation, with stability forecast thereafter. The analysis above suggests that a reversal may be possible in the months ahead.

The UK supply has gone from a record peak in May in milk volumes, butterfat and protein production to quite normal levels in just 2 months. While weather has certainly played its part it may indicate a further shift in the UK calving pattern. Taken together with cost inflation, particularly feed costs through supply and logistics issues, supply looks set to be subdued well into the winter helping to bolster the markets and keep farmgate prices firm to rising.

Inflation and any interest rate response is set to be an issue in the next 2 years as Global Covid recovery takes place. Covid will become an established cause of death like winter flu particularly those with any underlying health conditions, so the World will learn to live with it through vaccination, or the developed world at least. With inflation of both returns and costs farmers are unlikely to feel better off particularly as BPS is eroded. Rising Farmgate prices will mask the underlying challenges to profit margins going forward.



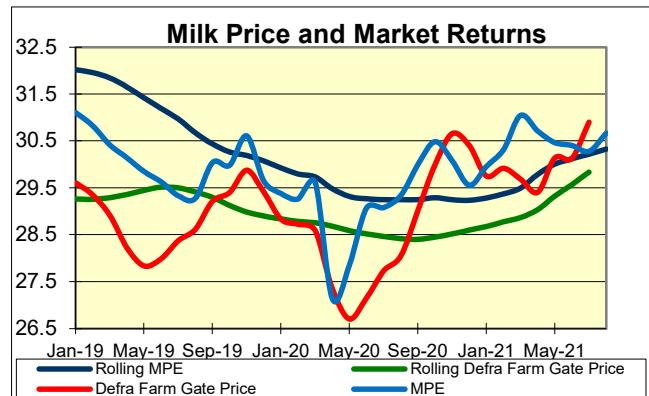
Market Prices

The Market Price Equivalent (MPE) is up to 30.5 ppl (0.9%) this month, up 0.9ppl (3.2%) in the last 6 months and up 1.3ppl (4.5%) year on year. Cream is up 4.0%, but Butter - 2.0%, as the range across the sectors remains at 1.6 ppl from Liquid/Cream and Cheese/Butter to SMP/Butter due to rises in all commodity sectors. Commodity demand has recovered as weather led supply difficulties have held back supply in the key European countries. The market returns are

starting to reflect supply which looks set to remain distinctly average into the autumn. Harvest has been hampered by August rain which is affecting feed supply and price. Higher costs are unlikely to encourage early winter feeding thus holding supply in check.

Farm Gate Prices

July 2021 farm gate price rose by 0.8 ppl to 30.9 ppl, 3.2 ppl above July 2020. The rolling Farm Gate price rises to 29.8 ppl. July milk price was ahead of our forecast although milk quality was similar to 2020 suggesting a firmer market. Milk prices look set to remain stable in the short term and likely to follow the market direction which now looks to be up. Price rises October to December seem likely although inflation and logistics issues may reduce available market returns.



Production in June was confirmed at 1297 M litres +1.3% (+16 M litres) and July was provisionally 1246 M litres, -1.2% (-15 M litres). Based on the AHDB daily deliveries our August forecast is 1195 M litres (-0.4%), September at 1160 M litres (-0.2%) and October 1200 M litres (-0.2%).

Sterling has eased against both the Dollar and the Euro, to £/€1.16 and £/\$1.38. The economy is recovering, but labour and supply/distribution is restricting growth, neither problems have a rapid solution for Government to resolve so look set to continue.

Little information about global supplies due the holiday season, but despite a high start to New Zealand milk year (July +6.6%) variable weather may limit the expected supply growth."

- 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.