

PRESS INFORMATION from *The Dairy Group*

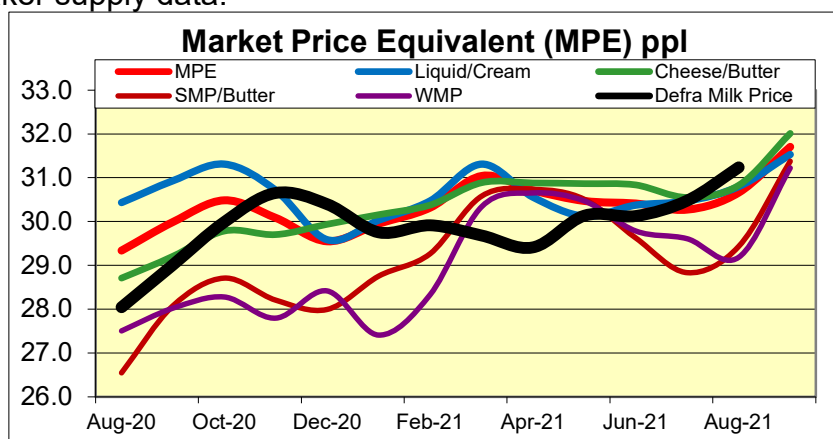
1st Oct 2021

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

Global Supply Weakness Strengthens Markets but....

“The milk supply weakness has deepened with both New Zealand (August -4.8%) and Australia (July -3.2%) reporting poor starts to their new seasons. The US has slipped (July +2%) and the EU has eased to -0.3% on 2020” says Nick Holt-Martyn of The Dairy Group. He goes on to say “on the demand side Chinese imports in 2021 are up +33 to 45% on 2020 with only infant formula showing a decline (-25%). The combination of weak supply and high demand means wholesale markets are rising and it is beginning to reach the UK farmgate.

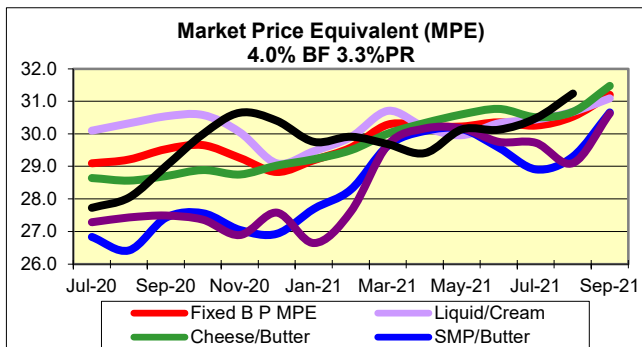
There are some notable milestones being achieved; highest Defra Milk Price since November 2018, highest MPE since October 2018 and the highest ever rolling weighted butterfat level. In summary UK milk quality is the best it's ever been and markets are rising sharply on weaker supply data.



Source: The Dairy Group

The graph above shows the UK Wholesale Price Equivalent and the sector equivalent prices over the last 13 months. These figures are not standardised for butterfat and protein so show actual values. The standout feature is the sharp upturn in the last 2 months across all sectors, not just commodities. The spring slump in commodity prices is consigned to history and market returns are improving rapidly. With seasonally high milk quality over the autumn/winter months returns and milk prices are set to rise significantly.

That's the good news: the bad news is the rampant inflation in farming's inputs which will have an increasingly important effect over the next 12 months. Compared with last year, feed prices this winter are up +20%, fertiliser prices +50% and red diesel +50%. While these will take a bit of time to fully feed into cost of production calculations the effect is obvious. Feed costs alone will add at least 1ppl to the cost of production over the winter, when taken together with transport and fixed cost inflation then cost of production is forecast to increase by at least 10%. The stress being seen in supply chains due to the lack of HGV drivers is impacting farms with cancelled milk collections, delayed feed and fuel deliveries and fears about future deliveries of fertilisers. Couple that with staffing problems and abattoir delays and a winter of discontent beckons the whole agricultural industry. Rising prices are likely to be more than offset by across the board inflation squeezing margins and profitability. A more challenging time has not been seen since the milk price collapse of 2015 and 2016, with little sign of a respite on the horizon.



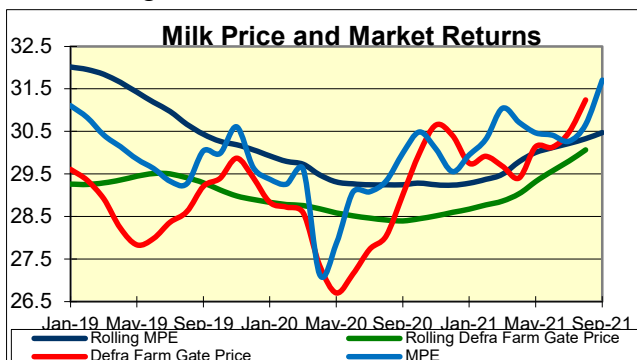
Market Prices

The Market Price Equivalent (MPE) is up to 31.2 ppl (2.2%) this month, up 0.9ppl (3.2%) in the last 6 months and up 1.7ppl (5.7%) year on year. Cream, Butter, SMP and WMP are up 4.4 to 5.6% in the month with cheese up 2.3%. The range across the sectors narrows to 0.9 ppl from Cheese/Butter to WMP due to rises in all sectors, but particularly powders. The easing of Covid

measures together with strong global demand has coincided with weaker supply in the key northern European countries. Wholesale markets are responding to the weaker supply which is likely to be kept in check by higher costs through the winter.

Farm Gate Prices

August 2021 farm gate price rose by 0.7 ppl to 31.2 ppl, 3.2 ppl above August 2020. The rolling Farm Gate price rises to 30.1ppl. August milk price was 0.4ppl ahead of our forecast with slightly higher milk quality suggesting real price increases. Milk price rises are inevitable with a number of companies increasing their November milk price by 1ppl, but more will be needed to compensate for the sharp cost increases.



Production in July was confirmed at 1247 M litres -1.2% (-15 M litres) and August was provisionally 1198 M litres, -0.2% (-3 M litres). Based on the AHDB daily deliveries our September forecast is 1160 M litres (-0.2%), October at 1200 M litres (-0.4%) and November 1180 M litres (-0.9%).

Sterling has eased against both the Dollar and the Euro, to £/€1.16 and £/\$1.35. The economic recovery is causing supply/distribution problems and restricting growth, as seen by the fuel crisis.

Variable weather has heralded the new milk season in New Zealand helping markets to firm and there are weak La Nina signals in the Pacific dampening fears of extreme weather events.”

- 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.