

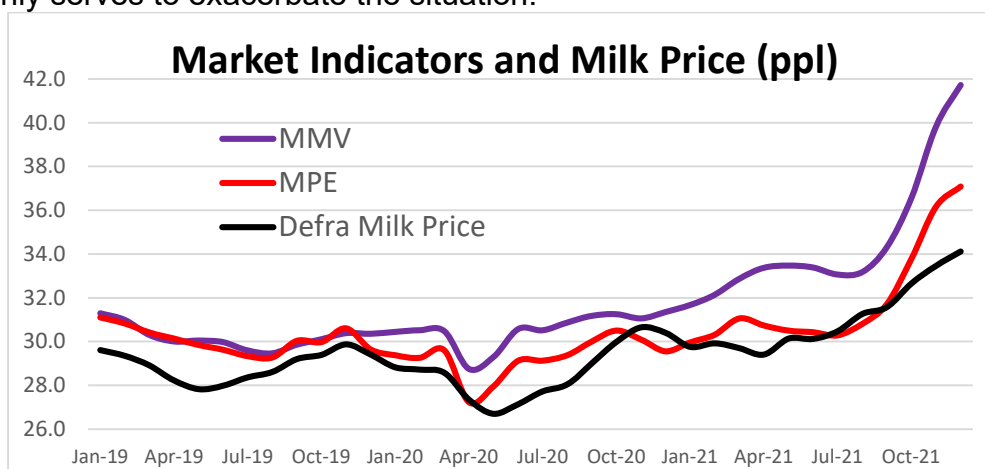
PRESS INFORMATION from *The Dairy Group*

25th January 2022

The Market Price Equivalent (MPE) Report By Nick Holt-Martyn, The Dairy Group

Milk Price Intrinsicly Linked to Market Returns

“The direct link between market returns and the farmgate price has been in evidence for nearly 20 years and is not going to be held back by inflation resistance from the retailers” says Nick Holt-Martyn of The Dairy Group. He goes on to say “Markets are up because milk supply is down, and milk supply will not improve without higher milk prices. Production cost inflation only serves to exacerbate the situation.

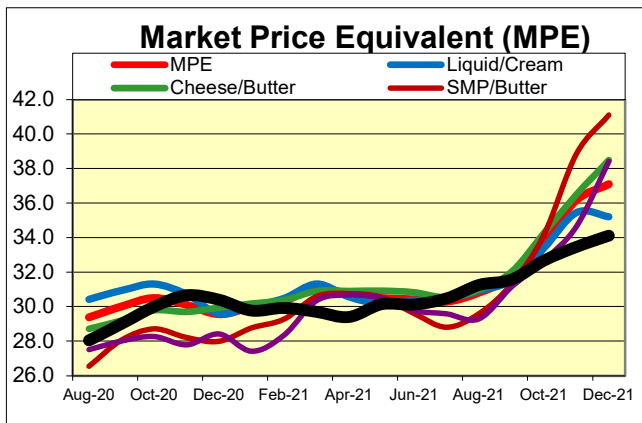


Source: The Dairy Group, Defra and AHDB

The graph above shows the Defra Farm Gate Price and the Market Price Equivalent (MPE) and AHDB's MMV (Milk Market Value) over the last 3 years. There is a close relationship with little variance between either measure of market returns and the Defra Farmgate Price. Over the 3 year period the difference between MPE and the Defra Milk Price is 0.9ppl, but in the last 3 months this has widened to 3ppl. This adds further weight to the argument that before the end of March the Defra Farmgate Price needs to be 37ppl to reflect market returns.

2021 saw the MPE rise 7.5ppl (25.5%), MMV 10.4ppl (33%) and Defra Farmgate Milk Price 3.72ppl (12.2%). MPE takes account of Liquid and Mature Cheddar returns which are slower to react to market forces than the commodity sectors which are better reflected in MMV. The direction of travel is clear and the 2-3 month timelag between the market and the farmgate means the Defra Farmgate price is on track to rise by 3ppl by the end of March.

The effect of oil and gas wholesale price rises are global as is the knock on effect into farming inputs depending on their links to energy markets or the wider inflating economy. The 200% rise in fertiliser prices is likely to cut use by 25-50% with a significant variation between individual producers. There is likely to be a switch to lower fertiliser requiring crops such as maize. The effect on forage and grain production can only mean yields will be lower, but still subject to the vagaries of the weather. This coupled with high feed prices is likely to mean supply will remain subdued and maintain pressure on dairy markets.



Market Prices

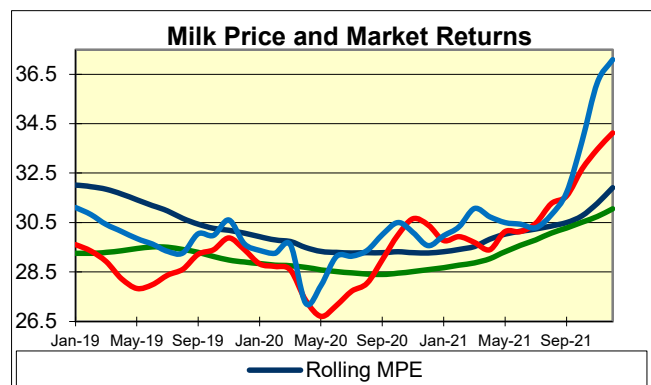
The Market Price Equivalent (MPE) climbs yet again by 0.9ppl to 37.1 ppl (+2.5%) this month, up 6.7ppl (22.2%) in the last 6 months and up 7.5ppl (25.5%) year on year. All products are up from 2.5% for Liquid to 13.7% for Butter. The range across the sectors widens to 5.9 ppl from SMP/Butter down to Liquid/Cream. Weaker supply still remains the dominant factor globally with the EU and New Zealand continually seeing lower volumes. Wholesale markets are

responding to the weaker supply, coupled with supply fears fuelled by higher costs through the winter and beyond. Omicron seems to have been less troublesome than feared and the market is looking to a more normal summer 2022.

Farm Gate Prices

December 2021 farm gate price rose by 0.65ppl to 34.12 ppl, 3.72ppl above December 2020. The rolling Farm Gate price rises to 31ppl. December milk price was 0.5ppl below our forecast but is expected to rise further. Milk quality slipped slightly from its November record levels.

Production in October was confirmed at 1198 M litres -0.5% (-7 M litres), November at 1168 M litres -2% (-24 M litres) and December was provisionally 1225 M litres, -2.3% (-29 M litres). Based on the AHDB daily deliveries our January forecast is 1235 M litres (-1.5%), February at 1134 M litres (-1.3%) and March 1340 M litres (-2%).



Sterling has gained against both the Dollar and the Euro, to £/€1.19 and £/\$1.348. The consumer price index reached 5.4% in December and is expected to go higher as energy price rises take fuller effect. The economic recovery is progressing with UK GDP above pre-Covid levels despite labour shortages across the economy, border problems with exports and the sharply rising inflation.

The La Nina weather effects have continued with wet conditions in both Australia and New Zealand and the expected dry conditions in South America. The expectation is for 2022 to see weather move to more neutral conditions by mid-summer. Neutral weather would normally mean production would also recover to a slowly rising level of output, but with global inflation in farming inputs this seems unlikely. Production may not recover until 2023 if output and input values provide sufficient incentive for milk production.”

- 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.