PRESS INFORMATION from

The Dairy Group

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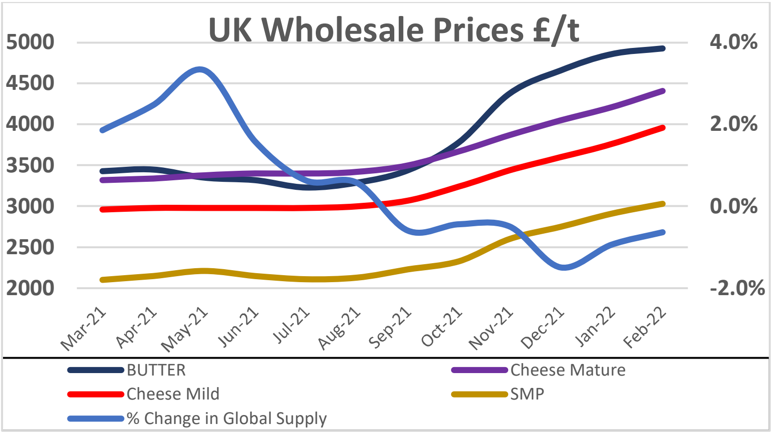
The Market Price Equivalent (MPE)

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

Impact of the Russian invasion of Ukraine

"The shocking Russian invasion of Ukraine will have widespread effects well beyond eastern Europe" says Nick Holt-Martyn of The Dairy Group. He goes on to say "Whatever the immediate outcome of this war it seems certain that Russia and Russian occupied Ukraine will be excluded from global markets, reducing the western world grain supply by 25%! However, if the Chinese continue to trade with Russia it may be that their needs are met thereby reducing the demand from the wider market. Volatility and inflation seem certain.

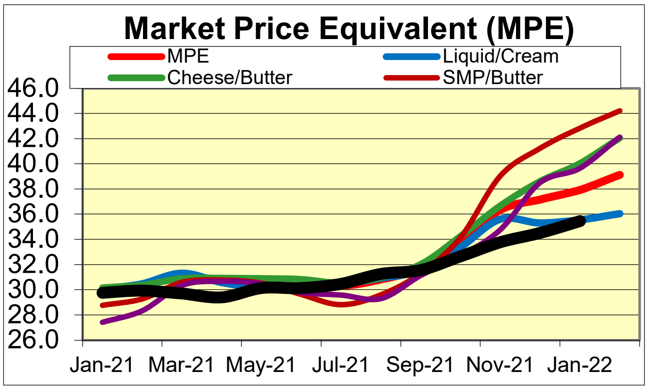
Meanwhile back in the dairy industry wholesale prices continue to rise as milk supply around the world under performs. Over the last 6 months, as milk supply weakened and the normal 1-2% consistent growth turned into sustained reductions, dairy markets have responded.



Source: The Dairy Group and AHDB

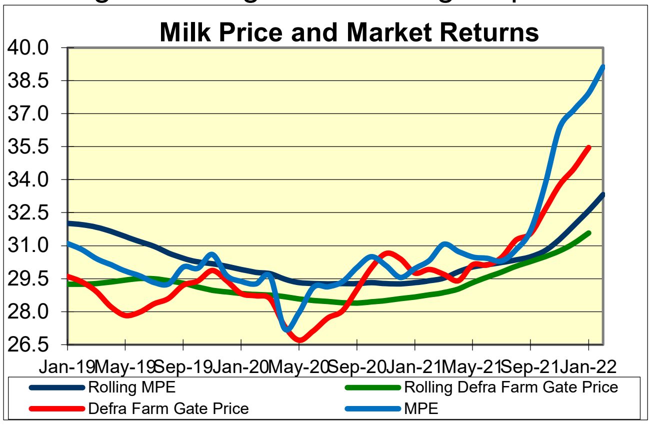
The graph above shows the UK wholesale prices and the percentage change in the year on year daily milk supply of the leading dairy exporting nations. When supply grows, which is the normal state of affairs, wholesale markets are generally flat with barely an inflationary level of growth. This results in the stagnation of the farmgate milk price as was seen up to September 2021. Around this time the decline in supply was first noticed and the initial effects on wholesale prices could be seen, with butter prices rising sharply in October 2021. Since then, as supply has continued to weaken, wholesale prices have continued to climb. Rising markets are feeding through to the farmgate with Arla and Saputo announcing prices around 38 to 39ppl in March and April. The manufacturing processors are leaving others in their wake. The problem is that production costs are rising rapidly with dairy feed prices likely to exceed £300/t through 2022 and fertiliser prices up over 100%. These cost incresaes are likely to limit any rise in supply that might normally be expected with high milk prices.

The change in global circumstances means that for 2022 a farmgate price of 38ppl may not be enough to ensure that farmers can stay in business. Pressure throughout the supply chain means that consumers will have to pay to prevent a further decline in supply. Falling living standards will be a test on consumers and farmers alike. Profitable farming may not be able to deliver the food supply or the environmental goods the public and Government require. The Government's new agricultural policies may fail at their first challenge.



Market Prices

The Market Price Equivalent (MPE) climbs further by 1.0ppl to 39.1 ppl (+2.5%) this month, up 8.3ppl (27%) in the last 6 months and up 8.8ppl (29%) year on year. Products were up except Liquid, from Butter (+1.4%) to WMP (+5.6%). The range across the sectors widens to 7.8ppl from SMP/Butter down to Liquid/Cream. Weaker supply continues to dominate the markets and no correction seems likely until the summer at the earliest. Wholesale markets are still climbing with Cheddar, SMP, Whey and WMP reaching new all-time highs. Liquid prices are acting as a drag on the farmgate price with 43% of farm supply.



Farm Gate Prices

January 2022 farm gate price rose by 1.0ppl to 35.5 ppl, 5.7ppl above January 2021. The rolling Farm Gate price rises to 31.5ppl. January milk price was 0.7ppl below our forecast, but is still expected to rise further with Arla and Saputo's recent large increases. Milk quality slipped again, behind 2021.

Our latest milk price forecast, based on current prices and market returns, suggests the Defra milk price will hit 37.5ppl in March and remain at that level through the summer before rising to 38.5ppl in the autumn.

Production in November was confirmed at 1165 M litres -2.2% (-26 M litres), December at 1220 M litres -2.7% (-34 M litres) and January was provisionally 1233 M litres, -1.7% (-21 M litres). Based on the AHDB daily deliveries our February forecast is 1130 M litres (-1.9%), March at 1320 M litres (-1.5%) and April 1330 M litres (-1.7%). 2021/22 production looks set to finish the year -0.5% at 14.93B litres and our forecast for 2022/23 is 14.92b litres.

Sterling is unchanged against both the Dollar and the Euro, to £/€1.197 and £/$1.342. The consumer price index reached 4.8% in December and is expected to go to 7.5% as energy prices rise 20% since the invasion of Ukraine. Cost of living pressure will offset any gain from a rising GDP limiting dairy product demand. However, as supply remains low commodity prices are set to remain high for the foreseeable future.

The La Nina effect has peaked delivering exceptionally wet conditions in both Australia and New Zealand while South America stays dry. The shift to neutral conditions is expected as 2022 progresses. Summer weather will be a key determinant of milk production coupled with input cost inflation. A recovery in supply shouldn't be expected in the short term."

- 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.