PRESS INFORMATION from

The Dairy Group

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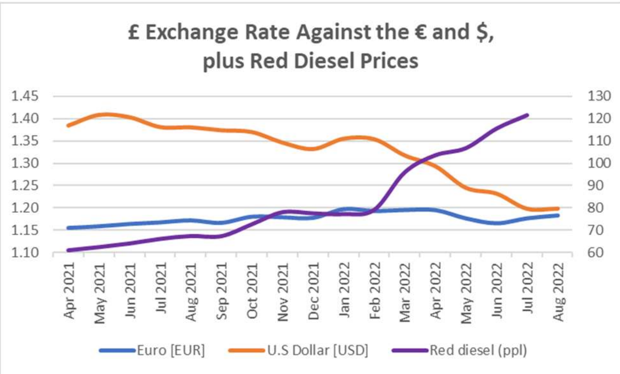
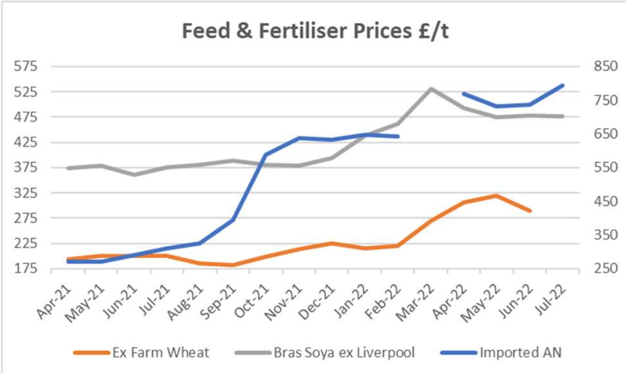
The Market Price Equivalent (MPE)

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

Rising Dollar Compounds Input Price Inflation

"In recent weeks the US Dollar and Euro have gained parity as the Dollar strengthens due to the Ukraine war and US interest rate rises to combat inflation" says Nick Holt-Martyn of The Dairy Group. He goes on to say "the effect on the UK has been to stoke up inflation on dollar priced inputs ~ particularly feed, fertiliser and fuel which underpin milk cost of production. Fertiliser has already been doubled due to the gas price jump in the autumn, but things have deteriorated since February.





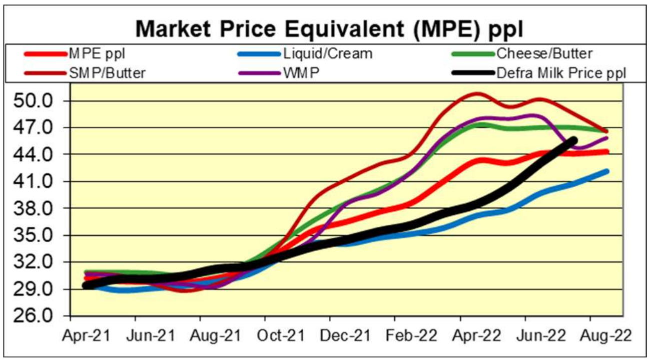
Source: The Dairy Group, AHDB

The graphs above how the Sterling/Dollar exchange rate has deteriorated since February, dropping 11% to August and 15% to September, having been stable around $1.35 for some months it has fallen to $1.15 on 1st September. Commodities traded in Dollars (Energy, Grain and Fertiliser) are correspondingly higher. It has remained much more stable against the Euro confirming the strenth of the Dollar is the issue and not the weakness of Sterling. Red diesel prices have risen throughout the period, but took off with the Ukraine war, increasing by 54% and 100% higher than April 2021.

The Feed and Fertiliser graph shows that wheat had increased through the autumn and stabilised until the Ukraine war, whereas Soya was stable until the New Year before lifting in advance of the Ukraine war. Both have eased from their peaks with an improved supply but remain high nonetheless. Fertiliser prices increased substantially with the autumn jump in gas prices, rising 136% before rising a further 23% with the Ukraine war. Since April 2021 Wheat is up 49%, Soya 28% and Fertiliser 194%.

The conclusion is that the Central Banks were asleep on the job and missed the early signs of inflation, but are responding agresssively with interest rate rises, which when coupled with the Ukraine conflict, are pushing the global economy towards recession. It seems the only cure for inflation is recession. Recession will reduce energy demand which will lower prices, but there will be a lot of pain to be endured before the economy begins to grow again.

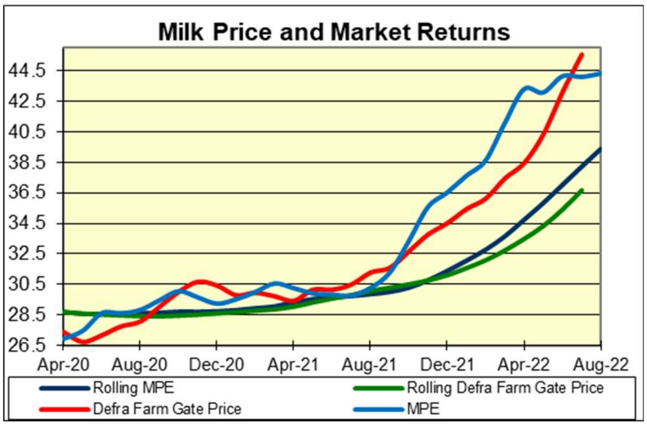
What this means for the dairy industry is that demand will be tempered by higher returns which in turn puts a ceiling on milk prices. Production costs are unlikely to decline much until the supply of feed and fertiliser rises or demand declines, neither seems particularly likely. Higher production costs are becoming permanently embedded, which means higher prices also need to be embedded if supply is to be maintained into the future.



Market Prices

The Market Price Equivalent (MPE) creeps up again by 0.2ppl to 44.3 ppl (+0.5%) this month, up 5.7 ppl (14.7%) in the last 6 months and up 14.0ppl (47%) year on year. All commodities fell this month with Cream, Butter, Cheddar, SMP and Whey dropping, but with gains made with Liquid and WMP. The range across the sectors has narrowed to 4.4ppl from Cheddar/Butter and SMP/Butter down to Liquid/Cream. UK supply slipped again relative to 2021 and is still easing down to the annual supply trough. The EU weekly commodity price report is indicating stability with very small gains in Butter, SMP and Whey, but slips in Cheese and WMP. As the MPE graph above shows markets are stabilising at these new higher levels.

Farm Gate Prices



The July 2022 farm gate price rose by 2.45ppl to 45.6 ppl, 15.1ppl above July 2021. The rolling Farm Gate price rises to 36.8ppl. July milk price was above our forecast and is set to exceed 46ppl in August.

Our latest milk price forecast, based on current prices and the latest market returns, suggests the Defra milk price will be 46.2ppl in August, rising to 47.1pl in September and reaching 48ppl in the autumn.

Production in May was confirmed at 1388 M litres, -1.3% (-18 M litres), June was 1275 M litres, -2% (-26 M litres) and July 1239 M litres, -0.9% (11 M litres). Based on the AHDB daily deliveries our August forecast is 1180 M litres (-1.7%), September at 1140 M litres (-1.5%) and October at 1175 M litres (-1.6%). Our forecast for 2022/23 eases to 14.73B litres (-1.2%). The widespread drought conditions have aided harvest, but severely limited grazing and affecting some maize crops as well. High levels of conserved feed have been fed and fears are rising about stocks for the winter. Recent rain and the weather change into September will produce a late flush of grass. Grain prices have stabilised, but protein prices remain highly volatile and at a high level.

Sterling like most currencies has weakened against the Dollar and against the Euro, to £/$1.16 and £/€1.16. The consumer price index reached 10.1% in August and is now forecast to exceed 13% through the winter.

The triple dip La Nina effect is expected to return in the autumn giving New Zealand very wet weather for their spring and extreme weather elsewhere around the world. With Liz Truss elected as Conservative Leader there are expected to be changes at Defra with a renewed vigour to agriculture policy and trade deals."

- 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.