PRESS INFORMATION from

The Dairy Group

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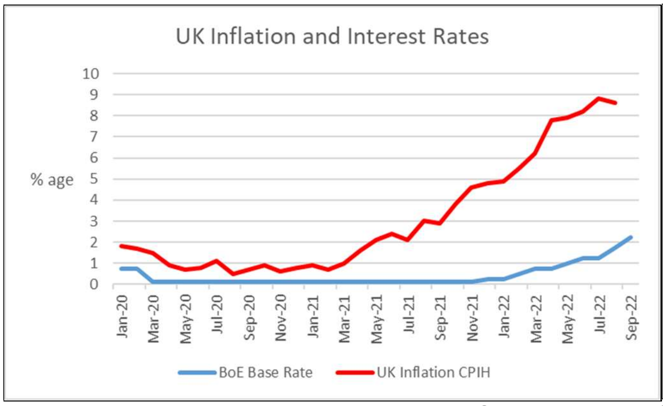
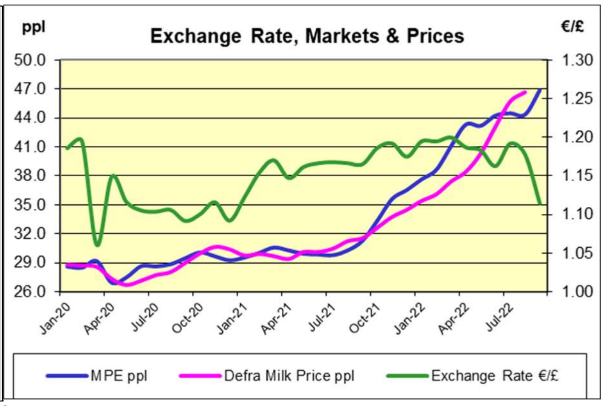
The Market Price Equivalent (MPE)

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

New Monarch, New Prime Minister and New Political Crises!

“Liz Truss has certainly started with a bang, heaping uncertainty onto an already uncertain world” says Nick Holt-Martyn of The Dairy Group. He goes on to say “Sterling had been weakening through September, but plumbed new depths against both the Dollar and the Euro during the mini-budget debacle. Its recovery to its already weakened state doesn’t remove the consequences of a weak currency ~ higher input costs, higher milk prices and raising the prospects of higher interest rates.





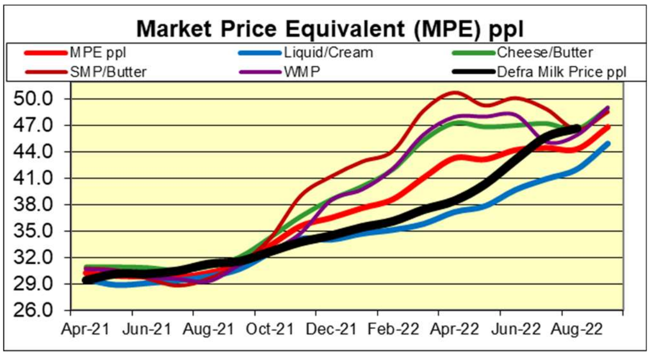
Source: The Dairy Group, AHDB

The graphs above show how the inflation began to rise in the summer of 2021, but that it was December 2021 before the Bank of England increased base rates by which time inflation had reached almost 5%. Since the start of the pandemic Sterling has been languishing beyween €1.10 and €1.20, but for much of the last 12 months in a narrow band around €1.17. As for dairy markets it is their inherent supply and demand that drives the market and not the wider economy, so even inflation didn’t affect the dairy market until its own supply started to decline 12 months ago. The inflation in dairy markets is inbuilt and will not be constrained by rising interest rates other than its affect on demand through the wider economy.

Sterlings weakness against the Dollar does increase input prices and will affect supply through the cost of production. Weakness against the Euro raises export values supporting firmer UK prices despite only 10% of UK milk utilised by powders and cream. September UK wholesale prices are a case in point.

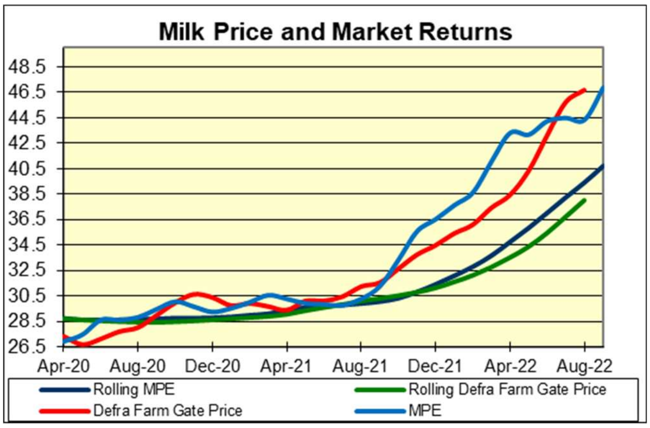
The consensus is that the bank base rate will peak around 4% after a sharp move in November, but that inflation will recede in the new year as 2022’s energy rises unwind. The Government domestic energy strategy is likely to reduce headline inflation. However, business energy costs are not likely to be so lucky in 2023 ~ so inflationary pressure on goods will remain. The cap in energy prices is not a saving as portrayed, just that consumers will see less of a decline in their disposable income. Economic pressure will still be acute for many consumers which will have an affect on demand.

What this means for the dairy industry is that dairy demand will be tempered by the higher prices which in turn puts a ceiling on milk prices. Production costs are unlikely to decline and will be progressively impacting on farmers cashflows. As higher production costs become embedded pressure is on markets to deliver sufficiently high milk prices to deliver the required levels of milk supply. All the signs are that the markets are delivering so far with global milk supply stabilising at current levels. Where next for supply, milk prices and input costs remains to be seen.



Market Prices

The Market Price Equivalent (MPE) jumps by 2.5ppl to 46.8 ppl (+5.4%) this month, up 5.8 ppl (14.0%) in the last 6 months and up 15.6ppl (51%) year on year. All commodities lifted this month with gains of 2 - 10%, aided by Sterling's weakness against the Euro. The range across the sectors has narrowed to 4.0ppl from WMP down to Liquid/Cream. UK supply has showed a strong recovery from the end of the drought with September on parity with 2021. The EU weekly commodity price report remains stable with gains in Whey and Cheese at peak. The MPE graph above shows UK markets are firming aside from the currency gains and starting to coalesce around the 48ppl level.



Farm Gate Prices

The August 2022 farm gate price rose by 1.0ppl to 46.7 ppl, 15.5ppl above July 2021. The rolling Farm Gate price rises to 38.1ppl. August milk price was above our forecast and is set to be close to 48ppl in September.

Our latest milk price forecast, based on current prices and the latest market returns, suggests the Defra milk price will be 47.4ppl in September, rising to 48.5pl in October and reaching **49.9ppl** in November.

Production in June was confirmed at 1270 M litres -2.2% (-18 M litres), July was provisionally 1238 M litres, -1% (-12 M litres) and August 1182 M litres, -1.5% (-18 M litres). Based on the AHDB daily deliveries our September forecast is 1154 M litres (0%), October at 1190 M litres (-0.6%) and November at 1164 M litres (0.1%). Our forecast for 2022/23 recovers slightly to 14.8B litres (-0.7%). The wet September has provided a good recovery from drought as indicated by the milk supply. Concerns remain about stocks of forage for the winter although some will benefit from late silage cuts and forage brassicas. Currency issues have increased feed and fertiliser prices for the winter.

September's closing exchange rates are £/$1.1165 and £/€1.139 although both have improved subsequently. The consumer price index eased to 9.9% in September and is now forecast to remain at similar levels through the winter due to the energy price cap.

The triple dip La Nina effect has started giving New Zealand a poor spring and extreme weather elsewhere around the world. The new Government has promised changes at Defra which as yet are unknown and are awaited with fear and trepidation!"

- 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.