PRESS INFORMATION from

The Dairy Group

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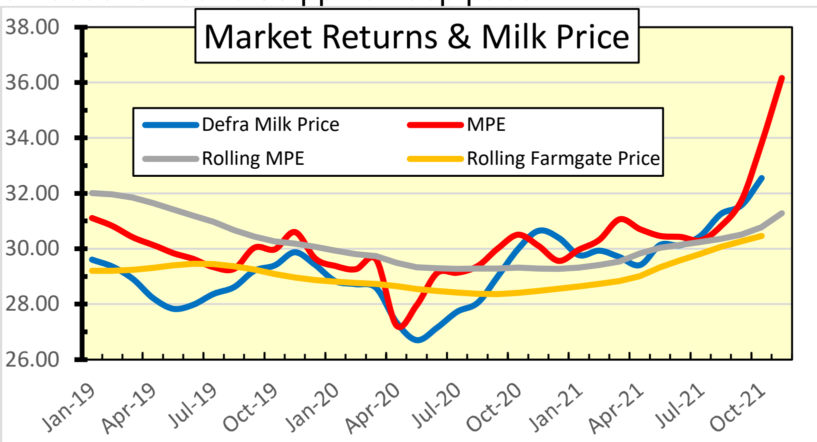
The Market Price Equivalent (MPE) Update November 2021

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

You Ain't Seen Nothing Yet!

"Processors have been increasing prices by headlining amounts in the last 10 days but still lag behind the market" says Nick Holt-Martyn of The Dairy Group. He goes on to say "don't be fooled that this is remotely generous or sympathetic to cost of production inflation, wholesale markets have risen by 17.3% in the last 3 months which means that the Defra farmgate average needs to rise to 36 ppl to keep pace.



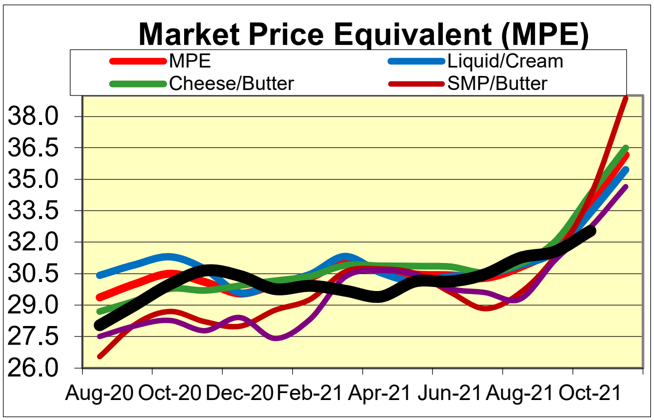
Source: The Dairy Group

The graph above shows the Defra Farm Gate Price and the Market Price Equivalent (MPE) over the last 3 years and the close relationship there is between market returns and farmgate prices. There is a time lag in that dairy companies are now wise enough to only pay out the cash they have already got in, unlike the domestic energy sector which has been decimated. The early post de-regulation dairy market was similarly affected, but those that remain should be wise to that pitfall, cash in before cash out.

One surprise is that the retail prices as reported by AHDB based on data from Kantar Worldpanel are yet to respond, with only liquid prices showing a year on year increase of 3.5%, whilst most other dairy products are down by 0.6 to 1.7%. But as the retailers have said in the past, particulalry during the price crash in 2015, retail prices are not directly linked to wholesale prices, and of course they are big enough to look after themselves and their margin.

As usual the reason behind this sudden jump in markets is that supply and demand is out of sink and rising post lockdown demand is faced with falling supply in most of the major exporting blocks. In September the EU was down -0.6%, New Zealand -4.4% (and -3.3% October) and only the US is positive at 0.2%. Overall the main exporting countries supply was -0.6% in September and is forecast to stay around that level until the year's end.

On the home front supply is also falling below 2020 with November forecast at 1165 M litres, -2.2%, and December -2.5%. Falling supply across Europe will keep wholesale prices up, even if they level off after the Christmas bubble. With the cost of production rising by 11% in the current year and the full effects of fertiliser prices not seen until 2022/23 when we can expect further cost increases. Even if Covid Omicron combines heightened virulence with milder symptoms, as is suggested, the vulnerable will still be at risk although lockdowns seem unlikely. Demand is still certain to outstrip supply in the coming months. The only way is up, unfortunately for both income and costs, but not for profits!

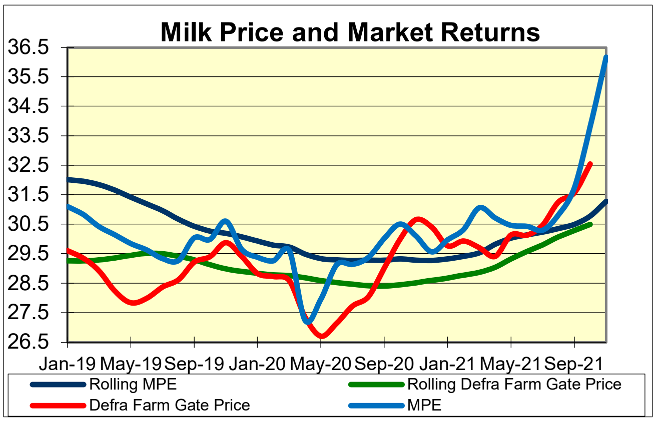


Market Prices

The Market Price Equivalent (MPE) leaps again by 2.4ppl to 36.2 ppl (+6.5%) this month, up 5.7ppl (18.7%) in the last 6 months and up 6.1ppl (20%) year on year. All products are up from 2.5% for Liquid to 13.7% for Butter. The range across the sectors widens to 4.2 ppl from SMP/Butter to WMP. Weaker supply remains the dominant factor with the EU and New Zealand seeing lower volumes. Wholesale markets are responding to the weaker supply, coupled with supply fears fuelled by higher costs through the winter and beyond.

Farm Gate Prices

October 2021 farm gate price rose by 1.0 ppl to 32.6 ppl, 2.6ppl above October 2020. The rolling Farm Gate price rises to 30.5ppl. October milk price was 0.5ppl ahead of our forecast and with market returns rising across the board, prices have much further to go. Butterfats are also at all time highs helping to lift prices.



Production in September was confirmed at 1155 M litres -0.4% (-5 M litres) and October was provisionally 1198 M litres, -0.5% (-7 M litres). Based on the AHDB daily deliveries our November forecast is 1165 M litres (-2.2%), December at 1222 M litres (-2.5%) and January 1230 M litres (-2%).

Sterling has gained against both the Dollar and the Euro, to £/€1.173 and £/$1.3297. The economic recovery is causing labour shortages across the economy and sharply rising inflation.

La Nina effects have taken hold in the Pacific with wet conditions in both Australia and New Zealand and the expected dry conditions in South America. The effects on North America will only become apparent in the new year, but are expected to be drier in the south and wetter/colder in the north. Higher fertiliser prices globally are likely to reduce usage by around 30% which in turn will reduce production of forage and grain. Given high feed prices are already affecting milk supply into 2023, these look set to continue through to 2024."

- 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.