

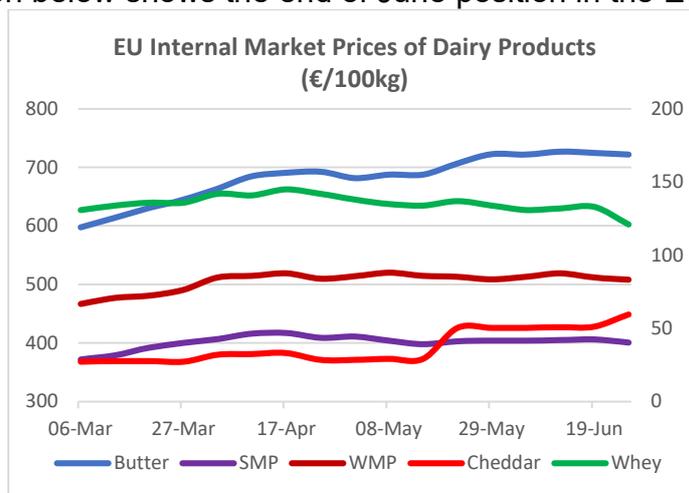
PRESS INFORMATION from *The Dairy Group*

8th July 2022

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

European Markets Stabilise Post Peak Supply

“While farmgate prices have been playing catch up in recent weeks the commodity markets are showing significant stability in most sectors” says Nick Holt-Martyn of The Dairy Group. He goes on to say “cheese aside most sectors are unmoved since April with whey showing some decline. The concern is that whey is often an early indicator of a change in market sentiment. The graph below shows the end of June position in the EU market.



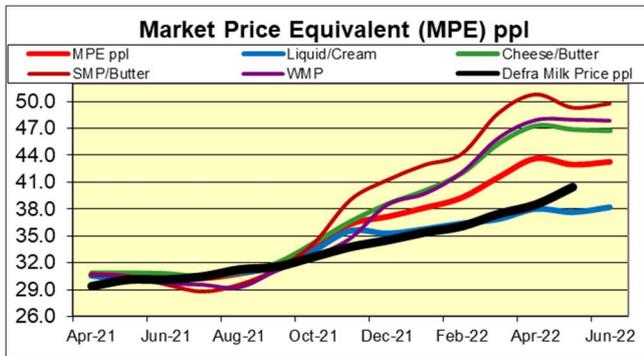
Source: The Dairy Group, EU Milk Market Observatory

Commodity markets are often becalmed through the summer with holidays affecting demand and supply declining through to the autumn trough in September and October. At the same time there are the first indications of supply levels from New Zealand, so markets start to show the direction of travel for the winter. A clear direction usually becomes evident in late summer so for now high wholesale prices look to be set for the summer at least.

In the UK the reduced supply is being exacerbated by more milk being utilised by the cheese sector resulting in supply flowing from liquid, powders and yogurts to cheese. This is manifested in the high spot price currently reported at 55-60ppl. A lot depends on the level of supply through the summer and whether the June -2.2% fall in supply widens in subsequent months. Dry conditions and limited grazing, with farmers reluctant to supplement due to high feed prices, could reduce supply further despite strong farmgate pricing.

With the Arla farmgate price acting as the honest broker with its large EU dimension, all farmers can see what the market can deliver. This places pressure on the whole market to show they can follow Arla's lead, not necessarily to match or better, but to at least demonstrate they can pay the going rate for raw milk. If market returns start to ease this will be reflected in Arla's price as they have no room to flex their processing margins like the independent processors can.

Barring some unexpected event, not much is likely to happen in dairy markets for the next 2 months, but the direction of travel should become clearer. The question is whether dairy markets and input costs can stabilise or will volatility be the order of the day?



Market Prices

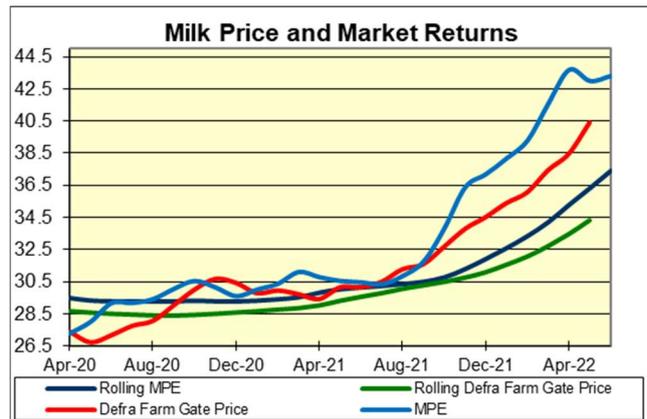
The Market Price Equivalent (MPE) recovers by 0.3ppl to 43.3 ppl (0.7%) this month, up 6.1ppl (16.5%) in the last 6 months and up 12.9ppl (42%) year on year. Apart from whey all other commodities made gains, with cheese and WMP making all time highs. The range across the sectors is unchanged at 11.6ppl from SMP/Butter down to Liquid/Cream. UK supply remains

weak and looks set to remain so through the year. The EU weekly commodity price report is indicating stability with very small changes in most commodities other than whey which fell and cheese which made further gains. Even with stable commodity prices farmgate prices can still rise as the cash flows through the supply chain.

Farm Gate Prices

The May 2022 farm gate price rose by 1.4ppl to 40.4 ppl, 10.3ppl above May 2021. The rolling Farm Gate price rises to 34.4ppl. May milk price was in line with our forecast and set to exceed 43ppl in June.

Our latest milk price forecast, based on current prices and the latest market returns, suggests the Defra average milk price will be 43.3ppl in June, rising to 44.3ppl in July and reaching 46ppl in the autumn.



Production in April was confirmed at 1330 M litres (-1.8% (-24 M litres) and May was provisionally 1390 M litres, -1.1% (-16 M litres). Based on the AHDB daily deliveries our June forecast is 1270 M litres (-2.2%), July at 1240 M litres (-0.7%) and August at 1185 M litres (-1.3%). Our forecast for 2022/23 remains at 14.75b litres (-1.1%). There are a lot of quality forage crops been made so far and current warm weather is favouring maize crops so forage should be good for the winter. Uncertainty over feed prices remains although there are signs of some easing as harvest begins.

Sterling has sunk against the Dollar and eased against the Euro, to £/\$1.2158 and £/€1.1606. The consumer price index reached 9.1% in May and is still expected to exceed 10% despite more stable energy prices.

Although the La Nina effect has receded there are suggestions of a return in the coming months. The effects of heavy rain in the western Pacific and dry conditions in the east are being seen. Turbulence in the UK Government and Russia's blockade and attacks on Ukrainian ports in the Black Sea remain significant issues for grain prices in the autumn. The likelihood of NATO intervention cannot be ruled out adding to the risk of volatility. The situation remains uncertain."

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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.