

PRESS INFORMATION from *The Dairy Group*

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The Market Price Equivalent (MPE) Update April 2021 By Nick Holt-Martyn, The Dairy Group

Arla Set the Pace on Milk Price Increases

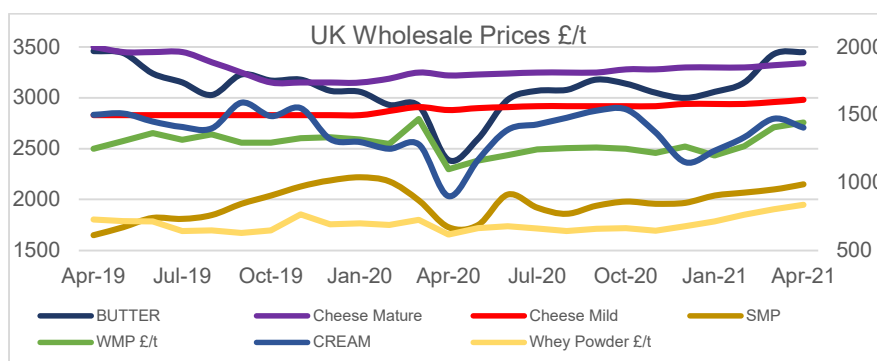
“The recent monthly price increases by Arla have been attention grabbing for many and rewarding for their members, but does it have any effect on other processors if there is limited recruiting of new suppliers.” says Nick Holt-Martyn of The Dairy Group. He goes on to say “it used to be the case that processors’ price movements were like a flock of sheep heading for a hole in the hedge, if one broke the rest would follow very quickly. But with so little recruitment dairy farmers don’t really have an opportunity to choose who gets their milk irrespective of the price received.

	May 20	Jun 20	Jul 20	Aug 20	Sep 20	Oct 20	Nov 20	Dec 20	Jan 20	Feb 20	Mar 20	Apr 20	Total
Arla	-0.9		-0.63			+0.5			-1.08		+0.45	+1.4	-0.46
Muller							+1.0						+1.0
Saputo						+0.5							+0.5
First Milk					+0.52		+0.52		+0.26				+1.3

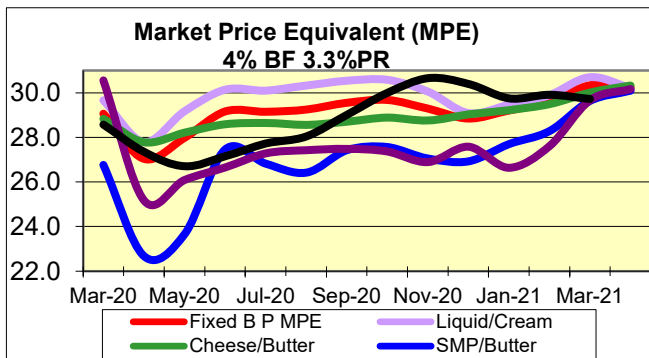
Source: AHDB

The table above shows that Arla are far more dynamic in their pricing than some other companies with 6 price movements through the last 12 months compared to Saputo’s 1. It is easily overlooked that Arla were net price cutters until the May increase just delivered. The strategy is diametrically opposite to Saputo who maintain price stability with minimal changes.

In fact, Saputo’s price increases for May and June matches Arla’s May increase to maintain their lead in the net price changes over the last 15 months, but with the Arla milk price currently ahead of Saputo by 0.8ppl (+13th payment) for 2021/22 based on a national standard milk supply and milk quality profile. The bigger question is the gap it opens up between Arla/Saputo against Muller/First Milk of more than 3ppl.



The graph above shows that cheese is by far the most stable of sectors with very little to ruffle its feathers compared to the commodity sectors which get buffeted by each passing storm. Companies with a high degree of exposure have to adjust their pricing accordingly, so Arla with its pan European aspect as well has more to contend with than most. This may explain why its price is more volatile and how it comes to be so much higher than its similarly exposed purely UK based competitors.



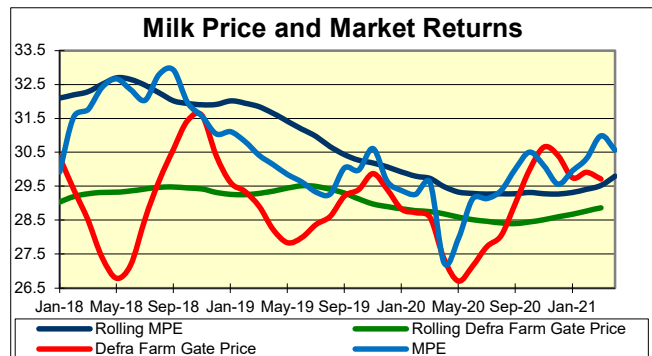
Market Prices

The Market Price Equivalent (MPE) is down 0.4ppl to 30.6 ppl (-1.4%) this month, up 0.1ppl (0.2%) in the last 6 months and up 3.3ppl (12.2%) year on year. Cream is down 5%, but butter is stable as the range across the sectors narrows further to just 0.2 ppl from WMP to Liquid/Cream. UK SMP price remains 45% (£669/t) above the Intervention price. The market returns are

reflecting supply with April easing back to +1.2% as dry, cold conditions limited grass growth taking some heat out of the spring flush. Despite recent rain the weather remains cold so grass supply will only partially recover, delaying the peak and flattening the milk supply curve.

Farm Gate Prices

March 2021 farm gate price fell by 0.2ppl to 29.7 ppl, 1.1ppl above March 2020. The rolling Farm Gate price rises to 28.9ppl and for the past 3 years in the range 28.4 to 29.5ppl. March milk price is in line with our forecast which with the current market prices and recently announced increases raises our latest November 2021 forecast to 30.7ppl.



Production in February was confirmed at 1154 M litres +1.5% (+17 M litres) and March was provisionally 1336 M litres +2.2% (+29 M litres). The continued cool dry weather has limited grass growth and held supply growth back compared to an average spring. Based on the AHDB daily deliveries our April forecast reaches 1345 M litres (+1.2%), May remains at 1410 M litres (+1.9%) and June 1300 M litres (+1.6%).

Sterling has eased despite the improved vaccination figures and the easing of lockdown proceeds, down £/€1.15 and £/\$1.38. There remains strong expectations of a summer recovery in the economy as the roadmap remains on course.

Both market returns and milk supply seem to have been affected by the cold spring and appear to be waiting on improved conditions before establishing a clear direction. Trading with the EU remains difficult and whilst improved remains below what might have been expected. With Covid still a threat in many parts of Europe coupled with the risk of new variants, recovery in the wider global economy may take some time to materialise limiting a recovery to the UK. Globally supply throughout Europe has been affected by the dry conditions and similar conditions are affecting the US plains on which feed supplies are dependent which, coupled with our domestic supply, may limit a reduction in feed costs for next winter.

Globally milk supply is affected by the same conditions raising the prospects of tighter market conditions and upwards pressure on milk prices.”

- Ends -

For further information please contact:

- ❑ **Nick Holt-Martyn**, The Dairy Group (e-mail: nick.holt-martyn@thedairygroup.co.uk)
- ❑ **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.