

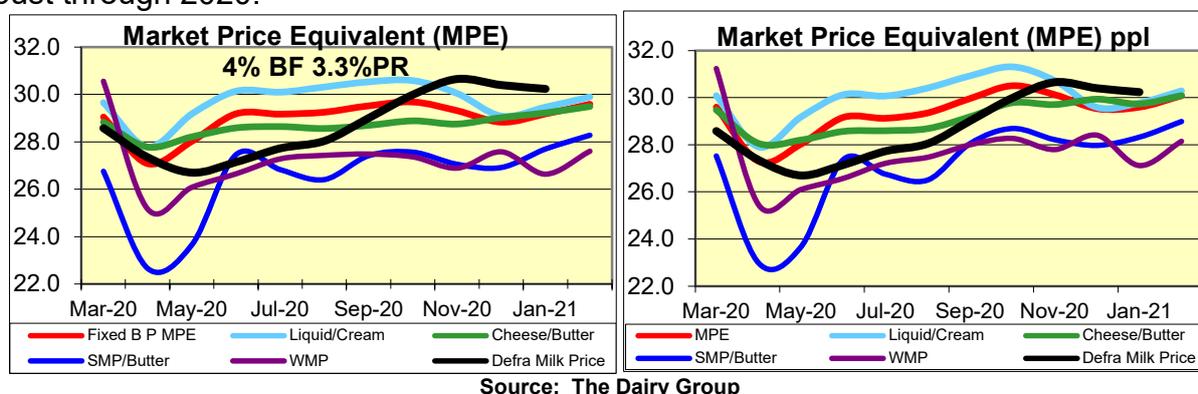
PRESS INFORMATION from *The Dairy Group*

3rd March 2021

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

Increasing market prices should see the farm gate price follow

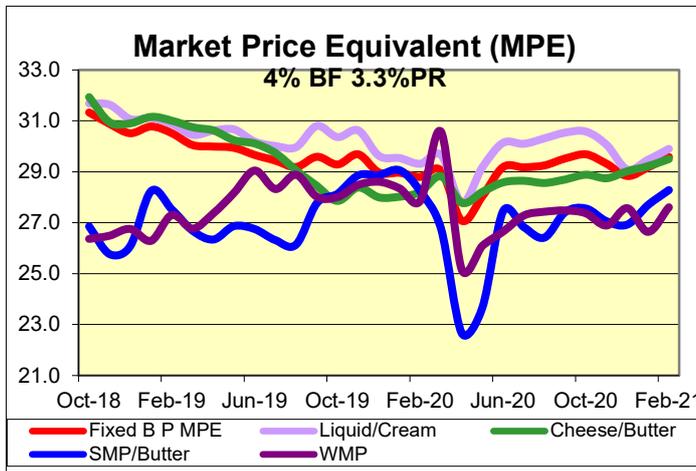
“After 12 months of pandemic and a lengthy Lockdown 3 the market returns are looking upwards into the summer, and where markets go eventually milk prices follow” says Nick Holt-Martyn of The Dairy Group. He goes on to say “global supply, USA aside, is looking muted, particularly the EU just as lockdowns are unwinding and there is undoubted pent-up demand in the hospitality sector in time for the summer season. The post pandemic bounce in the economy should be helpful to the dairy sector even though it has been surprisingly robust through 2020.



The graphs above shows the market returns and Defra farm gate price for the last 12 months. The graph on the left excludes milk quality whereas the graph on the right is with actual milk quality. Both graphs show an improving picture as 2020 progressed. Once the initial reaction to the 1st lockdown was reversed by June/July markets have steadily improved, mostly due to milk quality, but there is general improvement as well. Farm gate prices have risen to a point in January 2021 where the farm gate price is 1.4ppl above January 2020 and 2.5ppl above July 2020. January to March are important indicators because there is little if any seasonality adjustments and milk quality is not affected by turnout. Butterfat levels are close to record levels normally only seen in November.

With wholesale prices rising in the EU, combined with weak EU production, prices are set to improve further as European economies open back up. There is the possibility of a spring flush derailment, but as always until the weather declares it's hand we never know until it is upon us. Processing plant capacity is always an issue if the weather is very favourable which can impact on market prices in the short term at least. Rising global GDP is usually good for dairy markets and all the forecasts are indicating a sharp recovery in GDP.

Cross border logistics remain an issue, particularly Country of Origin challenges where loads are comprised of consignments from different suppliers. It places the responsibility of ensuring correct documentation into many hands increasing the risk of mistakes. The cost side remains a concern with feedstuffs in relatively short supply this year and the risk of inflation as global demand outstrips supply of commodities most affected by Covid. Oil prices have been rising steadily since November and are headed to \$70/barrel, the highest in 2 years. Dairy farmers will need higher milk prices just to stand still in the face of higher feed, fertiliser and fuel prices, especially if general inflation takes off as well. 2021 is looking like a year of inflation on both sides of the equation with the result that no one is any better off at the end of it.



Market Prices

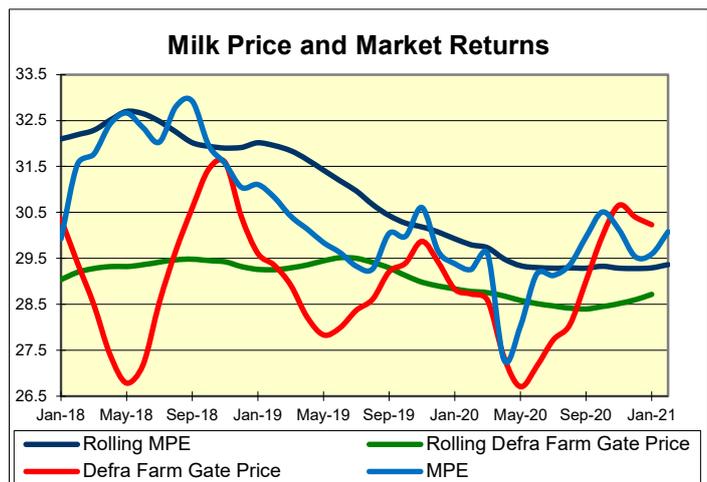
The Market Price Equivalent (MPE) is up 0.4ppl to 29.6 ppl (1.4%) this month, up 0.3ppl (1.1%) in the last 6 months and up 0.8ppl (2.7%) year on year. Cream is up sharply and there are gains in all sectors. The range across the sectors narrows to 2.3 ppl from WMP to Liquid/Cream. UK SMP price is 41% (£598/t) above the Intervention price, aided by the rise in £/€. The market returns are on the up as supply is muted and thoughts are turning to a post lockdown recovery as

vaccinations are rolled out.

Farm Gate Prices

Strong milk quality lifted the January 2021 farm gate price by 1.4ppl to 30.2 ppl above January 2020, -0.2ppl below December 2020. The rolling Farm Gate price rises to 28.7ppl, with the last 3 years in the range 28.4 to 29.5ppl.

Production in December was confirmed at 1253 M litres +2.2% (+27 M litres) and January was provisionally 1258 M litres +0.8% (+10 M litres). The weather continues to chop and change with extreme rainfall replaced by spring sunshine and then cold northerly air streams to slow grass growth. Based on the AHDB daily deliveries our February forecast reaches 1150 M litres (+0.6%), March 1325 M litres (+1.4%) and April 1330 M litres (+0.1%).



Sterling has increased to £/€1.15 and £/\$1.40, with expectations of a summer recovery in the economy.

The short term outlook for milk price has improved markedly due to a combination of stable supply and improving demand. Trading with the EU remains difficult with further regulatory changes due in April and July as the UK gets new legislation in place. A post lockdown bounce in the economy is likely to override damage from these changes.

Farmers will be looking for favourable spring weather to act as a counter to rising production costs enabling more production from grazing and forage through the summer which often leads to a weaker supply. Rising market returns can only help increase pressure on the farm gate price to rise and especially if supply remains muted through the peak spring production period.”

- 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.