PRESS INFORMATION from

The Dairy Group

1st February 2021

The Market Price Equivalent (MPE) Update January 2021

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

Feed Prices Pose Biggest Problem in 2021

"Dairy seems to have got off lightly so far from the burdensome regulation and phytosanitary rules, with a few notable exceptions, compared to other farming sectors trading across the GB-EU border. Northern Ireland is an exception as it sits either betwixt and between or best of both single markets, depending on circumstance, which is creating its own problems" says Nick Holt-Martyn of The Dairy Group. He goes on to say "a far bigger issue that has poleaxed livestock sectors is the massive increase in feed costs and supply issues which are not necessarily Brexit related.

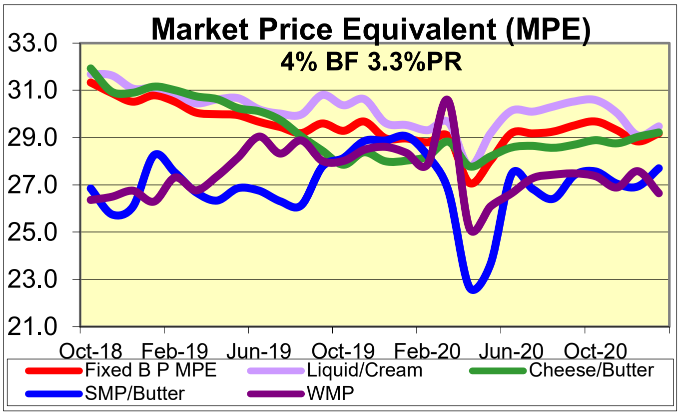
May - Sept 21 Prices £/t	Sept 20	Nov 21	Jan 21	Spot Price Jan 21
Protein feeds:				
Soya hipro	290	348	408	454
Rapeseed	219	229	246	302
Wheat distillers	222	253	NA	NA
Maize distillers	212	235	279	289
Energy feeds:				
Wheat	163	157	209 (old crop) 169.50 (new)	208
Soya hulls	NA	181	175	218
Sugar beet pulp	NA	207	237	227

Source: The Dairy Group

The table above shows the changes in forward prices of the key feeds over the course of the winter so far and the current spot prices as of January 2021. The effect of these changes on farm will depend on the individual business exposure to the market, but it is clear those in buying groups, those who contracted forward in the late summer and cake companies that bought forward sufficient for their needs will have escaped the worst of the volatility. Anyone who buys more hand to mouth will be faced with a massive hike (up to 30%) in their feed prices as the winter progresses with little respite through the summer. As 2021 unfolds then more producers will be facing higher prices as their contracted supplies come to an end.

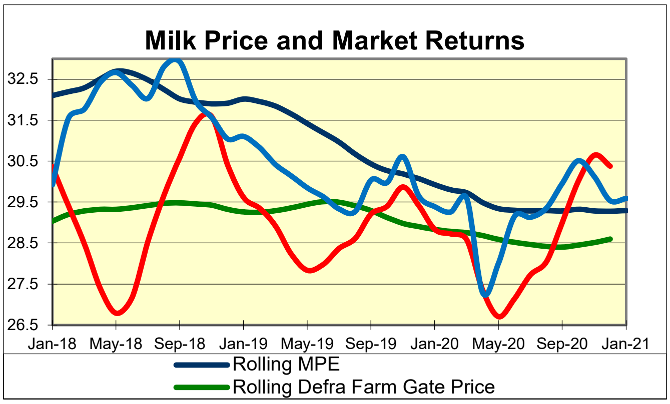
Purchased feed costs account for around 30% of the cost of production so increased feed costs could add a further 2 to 5% on the overall costs of producing milk. Add in the sharp rise in fertiliser prices coming down the line and other cost increases and 2021 could see the cost of production rise by 5 to 7%. This will take the typical headline figure up towards 35ppl.

Meanwhile milk prices finished the year at a rolling figure of 28.6ppl, sliding 0.8ppl over the last 2 years, demonstrating the slow decline in average milk returns since 2017. The current prices are up 1ppl on December 2020, but with Arla's recent 1ppl cut the prognosis does not look bright for 2021. Globally supply is running at +1.5% keeping markets constrained despite rising global GDP. Pressure on margins is set to intensify bringing increased pressure on UK milk supply through the spring and summer. Cost control will be uppermost on farmers minds in 2021.



Market Prices

The post New Year recovery is complete with next to normal trading taking place, helped no doubt by some stock-piling before the change. The Market Price Equivalent (MPE) is up 0.3ppl to 29.2 ppl (1.2%) since December. MPE is up 0.0ppl (0.1%) in the last 6 months and up 0.2ppl (0.7%) year on year. Cream has recovered along with small gains in Butter and SMP, with all other prices stable. The range across the sectors widens to 2.9 ppl from WMP to Liquid/Cream. UK SMP price is 35% (£526/t) above the Intervention price. The market returns remain basically stable overall with small rises taking place as new year trade begins and firms get used to trading across the new GB border.



Farm Gate Prices

The December 2020 farm gate price fell 0.2ppl to 30.4 ppl due to seasonal easing of milk quality, +1.0ppl above December 2019. The rolling Farm Gate price rises to just 28.6ppl, indicating how low the summer prices are in comparison, a 4ppl seasonal spread. Our January 2021 milk price forecast slips back to 29.2 ppl and then eases to current March 21 forecast of 28.5ppl.

Production in November was confirmed at 1189 M litres +2.2% (+25 M litres) and December is provisionally 1251 M litres +2.0% (+24 M litres). The winter weather continues to be very wet with widespread flooding, snow and frosts. Based on the AHDB daily deliveries our January forecast struggles to 1255 M litres (+0.5%), February 1260 M litres (+2.0%) and March 1330 M litres (+1.7%).

Sterling has lifted despite trading difficulties and more positive vaccine news to £/€1.13 and £/$1.37, Lockdown 3 and trading issues with GB/EU border are having less impact than rising markets and commodity prices.

The short term outlook for milk prices are looking muted although forecasts of a rising global GDP should be helpful, but GB's trading position with new systems and relationships may cause some insulation. The recent spat with the EU over vaccine supply indicates an EU fear that the UK will be seeking a competitive advantage when dealing with new trade deals and global operators. This may make the EU less willing to look favourably on reducing the non-tariff barriers evident on the GB/EU border. Rising production costs will increase calls for rising domestic prices, but ultimately farmers are likely to look to produce more from grazing and forage through the summer which often leads to a weaker supply. The weaker supply then sharpens markets and increases the likelihood of price rises later in the year."

- Ends -

<u>For further information please contact:</u>

- **Nick Holt-Martyn,** The Dairy Group (01823 444488/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.