



## DMK Group launches fixed price model

Price hedging for milk volumes from farmers offers planning security

**Bremen, 21 September 2020. After running a pilot project to hedge milk prices, Germany's largest dairy cooperative is now introducing a 'fixed price' price hedging model for its members. From November, farmers will be able to secure part of their milk volumes at fixed prices, therefore receiving extra planning security for their farms. The DMK Group is currently providing an initial overview of the framework conditions for the new fixed price model.**

The volatility of raw milk prices in Europe has increased significantly over the past decade, and market developments are much more difficult to predict. This development in the milk market creates liquidity risks for farmers, who need to minimise risk, be able to plan better and secure liquidity on the farm. The options for price hedging when markets are volatile have so far been limited for milk as a raw material.

Against this background, DMK eG launched a pilot project with 26 companies back in mid-2019 to put the price protection model through its paces in a real-world setting. "Our test operations have enabled us to gain valuable experience and to design the system to be as easy to use as possible," emphasises Dr Klaus A. Hein, Managing Director of Deutsches Milchkontor eG. "With this positive feedback we can take the next step and open up the system to interested farmers within DMK eG." DMK farmers can register for the 'fixed price' from the end of September.

The DMK 'fixed price' model can be explained in five steps. First, based on the market values for milk, the DMK Group calculates fixed prices for 12 months. The farmer can then decide whether and how much to offer at the fixed price that is currently applicable. A maximum of 30 percent of the average monthly milk volume can be covered. DMK will then secure the fixed-price offer in the context of commodity future sales, to the extent possible. The farmer supplies their milk and receives the fixed price for their confirmed volume with the milk bill. At the same time, DMK dissolves the hedging transactions.

### Relief for farmers

Trading milk products on commodity futures exchanges is still new and can be expanded. That's why the DMK Group worked closely with established experts and the stock exchange to get secure prices for cooperative members. In this case, the farmer does not have to trade independently on the stock exchange. Instead, the DMK Group takes care of securing fixed prices, which then replace the DMK base price for the corresponding volume. "The system is meant to relieve farmers and reduce liquidity risks. That's why fixed price hedging is set up in such a way that there is no liquidity stress after hedging takes place, compared to the farmer directly trading on the stock exchange. We have created a simple and transparent hedging model with which the farmer receives a fixed price," explains Thomas Stürtz, himself a farmer and Chairman of the Board of the cooperative. "During the pilot phase, we also found that the trading sessions gave farmers a better insight into how the markets develop. The flexibility and decision-making independence was also well-received."



## About the DMK Group

With around 7,700 employees at more than 20 locations in Germany, the Netherlands and other international hubs, Germany's largest dairy cooperative processes milk into food products of the highest quality. The product portfolio ranges from cheese, dairy products and ingredients to baby food, ice cream and whey products. Brands such as MILRAM, Oldenburger, Uniekaas, Alete and Humana have earned the trust of consumers at home and abroad, making the company an established player in its home markets and selected target markets around the globe. As one of the largest suppliers to the German food retail industry with a total revenue of 5.8 billion euros, the DMK Group is one of Europe's leading dairy companies.

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