

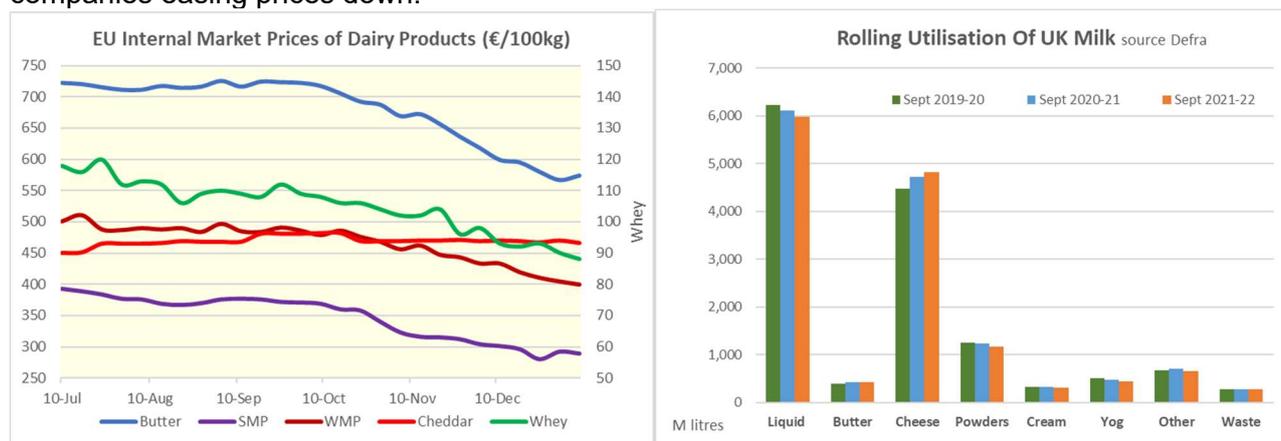
PRESS INFORMATION from *The Dairy Group*

12th January 2023

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

Farm Gate Prices Begin to Ease

“The Defra Farm Gate price for November has not been updated but is expected to reach 51ppl, with the Rolling Price increasing to 42.5ppl.” says Nick Holt-Martyn of The Dairy Group. He goes on to say “January is forecast to see a decline of around 1 to 2ppl with Arla, Muller and many dairy companies easing prices down.



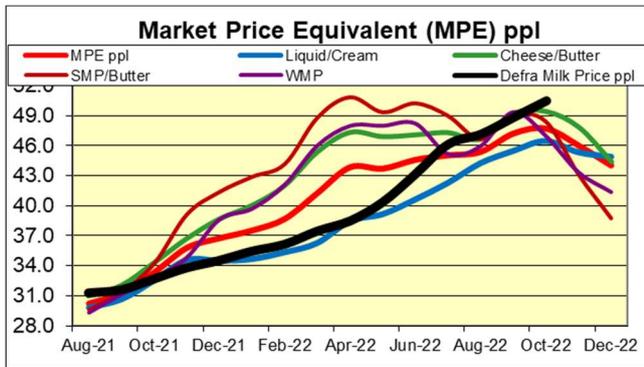
Source: The Dairy Group, European Commission

The graph above shows the EU Commodity prices over the last 6 months up to 8th January 2023. Throughout this period there have been declines in Whey, SMP and WMP as price resistance in the protein market took hold. The Butter side held on through to October, but has since dropped by 21%. Cheese, as is often the case, has provided stability, peaking in October and easing by just 3.3% thereafter. The EU commodity prices set the tone and background to the UK market.

The bar-chart shows the utilisation of milk in the UK indicating the dominance of liquid and cheese (80%) over the commodity sectors. With wholesale cheese prices holding up and liquid still at its retail peak price of 72.5ppl, there should be a limit to the pace of decline at the farm gate depending on which sector the processor is exposed to. The UK market should be resistant to significant price falls provided liquid and cheese returns hold up based on the current market position. Domestic milk supply and weather going into the Spring will be key to the summer market conditions and the farm gate price later in the year.

The flip side of the coin to supply is the cost of production and the economic impact of falling farm gate prices. Inflation in the wider economy will progressively impact dairy fixed costs particularly labour and services while the reduction in oil will eventually lower the cost of production. Feed and fertiliser costs have been most impacted by inflation that pre-dated the inflation in the wider economy. While fertiliser costs appear stable, albeit very high, they should benefit eventually from reduced energy prices. Feed costs are more mixed with cereals reducing, while protein prices continue to edge up. Protein straights are around 15% higher than before the Ukraine war and very sensitive to weather in the Americas.

The general consensus is that the Cost of Production in 2022/23 is up 20-25% on the 36ppl seen in 2021/22 to around 45ppl and it is difficult to see much downside in 2023/24 unless feed costs show a marked reduction. The Milk:Feed Ratio is set to fall from 1.7 this winter to around 1.25 this Spring which could help keep a lid on milk production. Milk supply through the Spring and Summer will be the main driver for farm gate prices in 2023/24. Globally supply is improving slowly so softening markets seems inevitable. As always the weather will have the greatest impact but with La Nina's impact waning “normalising market conditions” would seem to be the most likely outcome.



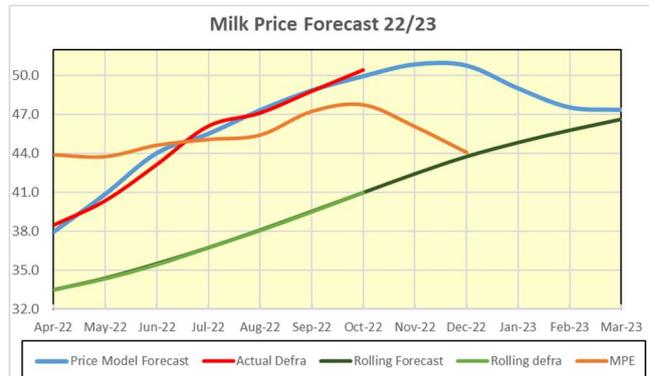
Market Prices

The Market Price Equivalent (MPE) reduces again by 2.0ppl to 44.0 ppl (-4.5%) this month, down 0.6 ppl (-1.3%) in the last 6 months, but up 7.3ppl (19.8%) year on year. There were sharp reductions in manufacturing milk this month with falls of 3-15%, with Cream and Butter dragging the market down. Only liquid was still rising (+3.6%). The range across the sectors has

widened to 6.2ppl from Liquid/Cream down to SMP/Butter. UK supply has continued its strong production with November +3.2% and December (despite a weather dip in the snow) +1.5% on 2021. EU weekly commodity price report eases again with all commodities down 4-7.9% on the month, with cheddar at -0.9%. The MPE graph above shows UK markets have all turned down with core sectors (Liquid and Cheese) at 44-45ppl.

Farm Gate Prices

In the absence of updated Farm Gate Prices we have to revert to our model which suggests November and December will be close to 51.0ppl. This is likely to be the peak of the Farm Gate price coming 3 months after the peak in wholesale butter and cheese prices. Liquid prices remain at their retail peak helping to support the market.



Our latest milk price forecast, based on current prices and the latest market returns, suggests the Defra farm gate price will ease to 49.0 in January and 47.5ppl in February. March is likely to see a further fall, but with Cheese and Liquid prices holding up these should be limited.

Production in November was provisionally at 1199 M litres, +3.2% (37M litres). Based on the AHDB daily deliveries our December forecast is 1236 M litres (+1.5%), January at 1250 M litres (+1.3%) and February at 1140 M litres (+1.2%). Our forecast for 2022/23 has eased to 14.94B litres (+0.2%). The mild wet winter has gathered pace after the cold start with widespread flooding and waterlogging in the dairy areas. A significant improvement in the weather will be required to deliver an early spring.

December's closing exchange rates were £/\$1.2100 and £/€1.1231 and have firmed against the dollar, but remained weak against the Euro since the New Year. The consumer price index eased to 10.7% in November and is now forecast to ease further as 2023 progresses due to falls in energy costs.

New Zealand's weather has improved but production remains down by 1.7%. Globally production is rising slowly by around 0.5% and looks set to maintain that level until the northern hemisphere spring flush."

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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.