

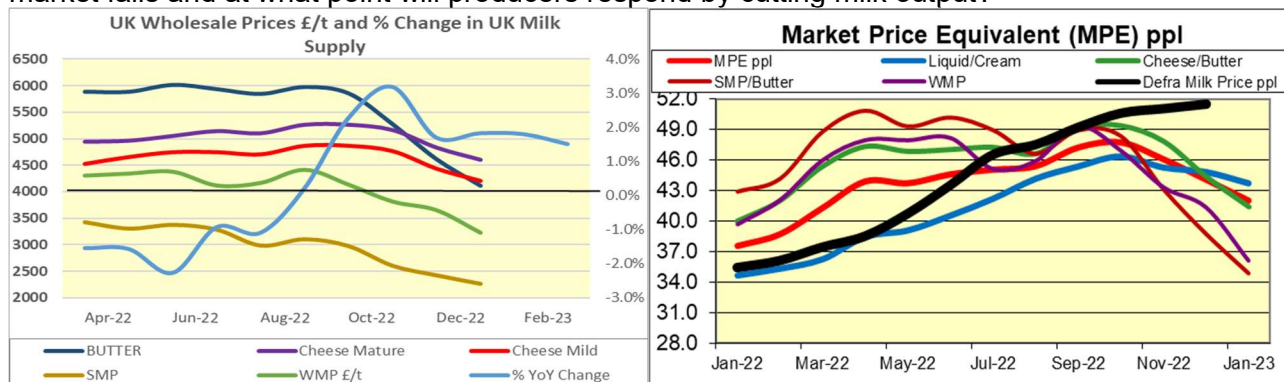
PRESS INFORMATION from *The Dairy Group*

31st January 2023

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

Milk Price Meltdown or Managed Decline?

“Since the Defra Farm Gate milk price peaked in December at 51.5ppl it has been dropping fast in 2023 with Arla cutting 3.5ppl in January/February” says Nick Holt-Martyn of The Dairy Group. He goes on to say “most if not all processors are doing the same as their market returns slide. The questions are will the decline in milk price follow the decline in wholesale returns or pre-empt the market falls and at what point will producers respond by cutting milk output?”



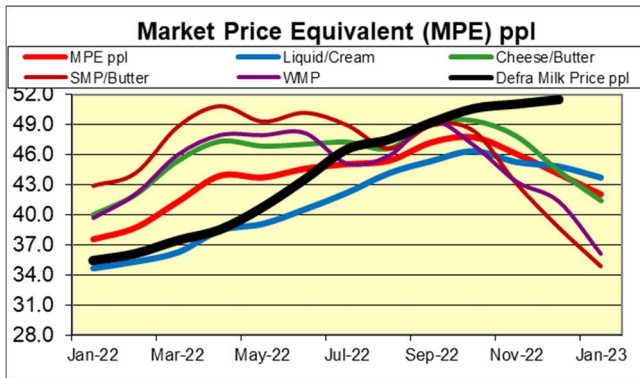
Source: The Dairy Group, European Commission

The graph on the left shows the wholesale prices against the percentage change in UK supply for the current milk year. This shows that SMP has been declining for most of that time indicating creeping weakness in the protein side, whereas butter was stable and only dropping from October, albeit sharply. Since October/November all markets have been in decline. The liquid side of the market has experienced the retail price continuing to rise through to December even when the spot market was already low. The graph on the right shows market returns by sector against the Defra Farm Gate price which shows how the market returns have dropped away to the low 40's ppl meaning the sharp price correction became inevitable.

Most dairy processors have cut their price to producers through the first three months of 2023, ranging from 3ppl to 10ppl. The size of the cut is dependent on the product mix, strength of their brands and balance of their milk supply self-sufficiency. With powders returning around 35ppl compared to liquid, cheese and their surplus cream/butter around 42ppl, the wholesale price equivalent can be expected to slide further.

The key to the market establishing some stability will be supply which is currently running at +2% over last year. With dry conditions looking set for February and low forage stocks an early turnout is on the cards which won't help contain the supply side. On the other hand record prices are being achieved for cull cows and there is the expectation of a number of herd dispersals as farmers quit the industry. Supply needs to fall to below last year's levels across the EU if the decline in market returns is to be arrested. Without stable market returns there can be no stability at the farm gate.

With the cost of production around 45ppl and little evidence of any downside in 2023 so far, falling milk prices will quickly erode profit margins towards negative territory. Feed costs will need to show a marked reduction by the summer to prevent the Milk:Feed Ratio falling 30%, close to 1.0. Straights prices are 25% higher on the year and up around 15% since the start of the Ukraine war nullifying the subsequent reduction in cereal prices. The worsening economic conditions will hasten a correction in supply that is likely to come from a sharp reduction in the national herd, a cold late spring and early summer drought would be helpful. At this distance it is impossible to say what the economic conditions will be like through the autumn but it is unlikely to be favourable for milk production. Farmers will need to find solutions within their own businesses ~ tighter cost control, smart buying and exceeding their contract specifications on quality. Tough times ahead.



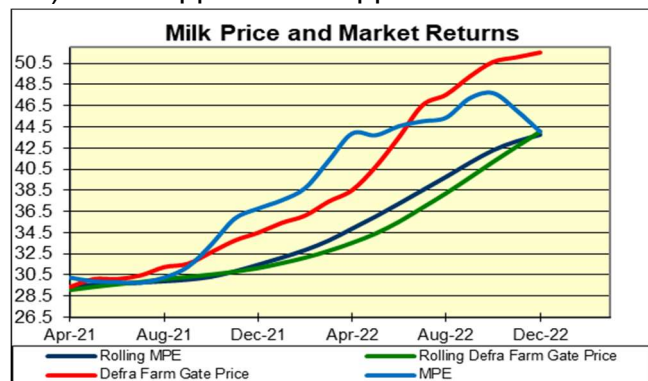
Market Prices

The Market Price Equivalent (MPE) slides again by 2.0ppl to 42.0 ppl (-4.8%) this month, down 3.0 ppl (-6.6%) in the last 6 months, but up 4.5ppl (11.9%) year on year. There were sharp reductions in Cream and Butter (12-17%) but smaller declines in Cheese and powders (5-13%) dragging the market down. The weakness in Cream and Butter is affecting all sectors and the gap has widened to 8.9ppl from Liquid/Cream down

to SMP/Butter. UK supply has continued its strong production with December +1.7% and January +1.8% on 2021. The EU weekly commodity price report shows all commodities down 1.3 to 12.5% on the month, with cheddar down just 1.3%. The EU commodities have fallen a long way since peak with whey down 45%, butter and powders down 30-38% but cheddar only 4%. The MPE graph above shows UK commodities have crashed down to 35ppl while the core sectors (Liquid and Cheese) have slipped to 42.5ppl.

Farm Gate Prices

Farm Gate Prices have been updated with December at a record 51.5ppl, up 0.9% on November, and 49% year on year. Milk quality is also at record levels for butterfat and close to record on protein which means solids availability is up 3.5% in December 2022. Liquid prices continue to 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 49ppl in January, 47ppl in February and 44ppl in March. The prognosis for April-June is uncertain and dependent on what happens to Liquid and Cheese prices in the next 2 months. At the moment prices look set to remain at or above 40ppl.

Production in November was confirmed at 1200 M litres, +3.2% (37M litres). December is provisionally at 1239 M litres, +1.7% (+21 M litres) and based on the AHDB daily deliveries our January forecast is 1256 M litres (+1.8%), February at 1150 M litres (+1.8%) and March at 1330 M litres (+1.5%). The forecast for 2022/23 has lifted to 14.965B litres (+0.4%). The wet weather has switched to dry, grey days with average temperatures, so cows are likely to be turned out early taking advantage of the overwintered grass to ease dwindling forage stocks. January's closing exchange rates are £/\$1.2308 and £/€1.1332 and have firmed further against the dollar, but remained weak against the euro since the New Year. The consumer price index eased again to 10.5% in December and further falls are expected as 2023 progresses due to falls in energy costs. New Zealand's weather has had some variable weather including drought and floods but production remains down by 0.5% but improving. Globally production is rising by around 1% and looks set to maintain that level until the northern hemisphere spring flush."

- Ends -

For further information please contact:

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- 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.