

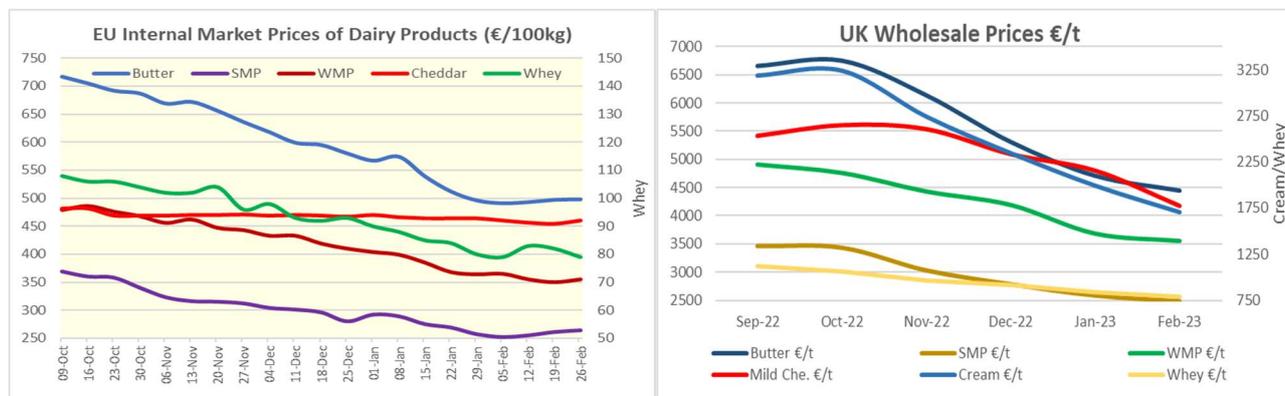
PRESS INFORMATION from *The Dairy Group*

3rd March 2023

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

Farm Gate prices Dropping Faster Than The Markets

“The latest round of price cuts for March and April have ranged from 1.5ppl to 4ppl as processors chase the wholesale markets down” says Nick Holt-Martyn of The Dairy Group. He goes on to say “the concern is that UK Wholesale prices have been declining since the October peak and are now starting to stabilise at the lower level. The evidence from the EU is even clearer for commodities and cheese. With retail prices yet to register significant reductions the falling farm gate price leaves more margin in the supply chain.



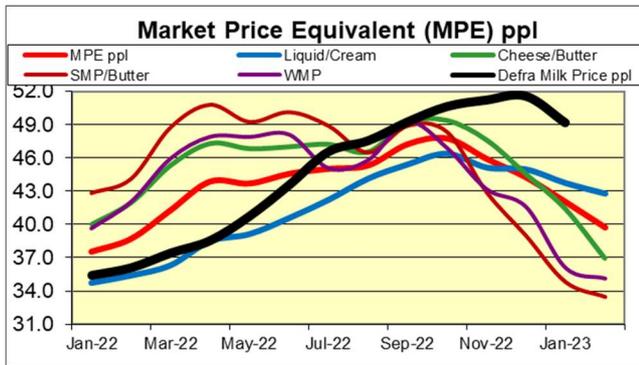
Source: AHDB, The Dairy Group, European Commission

The graphs above are both in Euros to remove exchange rate variances. The graph on the left shows the EU wholesale prices since the 9th October 2022. The prices for Butter, SMP and WMP have fallen 31-37% since peak, but in the last month are between -2.5% to +2.7%. EU Cheddar is down just 5% from peak and just 0.9% in the last month. By contrast the UK Wholesale prices have fallen by 31-39% for Butter, SMP and WMP, but Cream is down 50% and Mild Cheddar 26% from peak. There are early signs of stability in UK markets with Butter and powder prices down 3-5% in the last month whereas Mild Cheddar has slipped 12% and Cream 14%.

The reason for the difference between EU and UK cheese might be the supply which in the UK is running around +2% compared to the EU at +1%. Over the course of the last 6 months UK supply has average +2.3% compared to the EU which is likely to see +1.3%. It has to be remembered that the previous year UK Oct-Mar supply fell 1.9% compared to the EU 0.4%. UK supply is by no means high, with total solids just 0.6% above the January 2021 figures.

January Farm Gate price fell 5% to 49.2ppl as expected with further falls to be seen through to April as contract prices feed into the National figure. By April the Farm Gate Price is likely to have fallen by 20% from the December peak to around 41ppl, whereas market returns are down 17% since the October peak. Arla’s manufacturing standard price has fallen 7.03ppl, 13.5% across this quarter.

Input prices are falling, particularly fertiliser which is back significantly for late season use and into 2024, and oil prices which are down to 2021 levels. Feed prices remain mixed with cereals falling, whereas proteins remain high, but there are expectations of lower feed prices through the summer and next winter. For the spring however farmers will be faced with a legacy of high input costs while milk prices fall 15-20%. Coupled with this is the cold dry spring which while allowing turnout means regrowth will be very slow and un-favourable for milk production. Cold weather is forecast to extend into mid-March and the dry conditions are giving concerns for feed and forage supplies later in the year. 2023 is going to be a difficult year as the transition back to more normal input and output price levels is unlikely to be synchronised or orderly. All businesses are going to come under pressure at sometime in the next 12 months if not already.



Market Prices

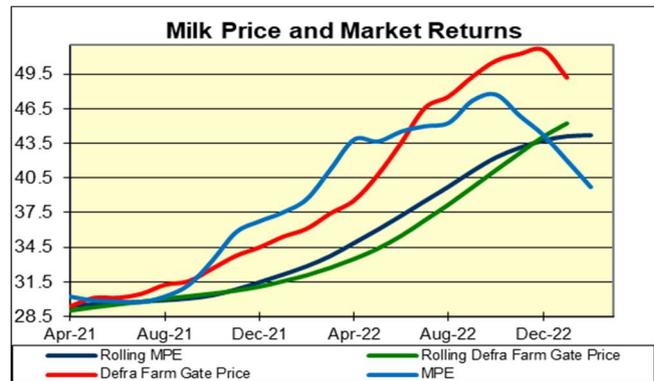
The Market Price Equivalent (MPE) continues to ease by 2.3ppl to 39.7 ppl (-5.7%) this month, down 5.6 ppl (-12.3%) in the last 6 months, but still up 1.0ppl (2.7%) year on year. This month there were sharp reductions in Cream and Cheddar (12-14%), but smaller declines in Butter and SMP (3-5%) dragging the market down. AHDB are reporting that the liquid retail prices reached

a new peak in January and show no signs of easing, unlike Cheddar which slips 1.8%. UK supply has continued its strong production with January +2.0% and February +2.5% on 2021. The EU weekly commodity price report shows stability in February with a distinct upturn at the month end. The UK commodities have fallen a similar distance to EU except cheddar down 22% compared to only 5% in the EU. The MPE graph above shows UK commodities sectors are stabilising around 34-35ppl with Cheese around 37ppl while liquid remains around 42ppl.

Farm Gate Prices

Farm Gate Prices have eased in January to 49.2ppl, down 2.4ppl (4.9%) on December, and +39% year on year. Milk quality remained high but following a normal seasonal pattern.

Our latest milk price forecast, based on current prices and the latest market returns, suggests the Defra farm gate price will reduce to 47.0 in February, 43.5ppl in March and 41ppl in April. The prognosis for April-June remains uncertain with new seasonality arrangements being implemented which will see marginal litres priced around 30ppl. Much depends on what happens to Liquid and Cheese prices in the next 2 months and milk supply, but at the moment prices now look likely to fall below 40ppl.



Production in December was confirmed at 1238 M litres, +1.7% (20 M litres). January is provisionally at 1257 M litres, +2.0% (+24 M litres) and based on the AHDB daily deliveries our February forecast is 1157 M litres (+2.5%), March at 1340 M litres (+2.3%) and April at 1360 M litres (+2%). The forecast for 2022/23 has lifted to 14.984B litres (+0.5%) and an early forecast for 2023/24 is at 15.1B litres (+0.7%). The cold, mostly dry weather is set to continue deep into March with snow in some areas limiting spring growth. Cows are likely to be turned out taking advantage of the overwintered grass to ease dwindling forage stocks, however low grass growth may limit milk production later in the Spring.

February's closing exchange rates are £/\$1.2032 and £/€1.1375 and have weakened against the dollar, but recovered from a weak opening against the euro. The consumer price index continues to ease to 10.1% in January and is expected to fall through 2023 due to significant reductions in energy costs. New Zealand's weather remains variable but production has recovered to +1.2% in January. Globally production continues to improve by around 1% and looks set to maintain that level until the northern hemisphere spring flush."

- Ends -

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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.