

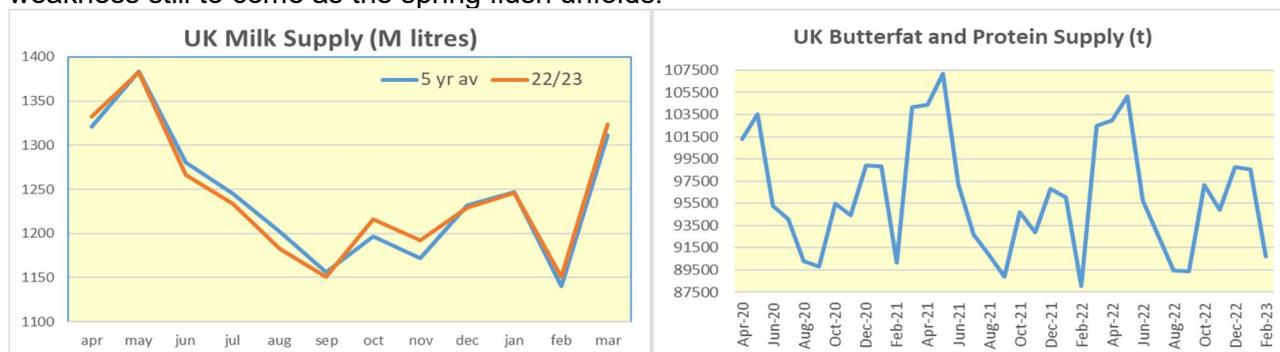
PRESS INFORMATION from *The Dairy Group*

3rd April 2023

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

Despite Milk Price Volatility UK Milk Supply Has Remained Balanced

“The most recent round of price cuts for April and May have ranged from 2.5ppl to 5.3ppl as processors follow the wholesale market drop since the autumn” says Nick Holt-Martyn of The Dairy Group. He goes on to say “markets have stabilised both in the UK and EU and the February Defra Farm Gate price fell just 1.1ppl suggesting the headline figures on farm are yet to hit the Defra price stats. The stabilising of commodity markets in March could be an early Easter effect with further weakness still to come as the spring flush unfolds.



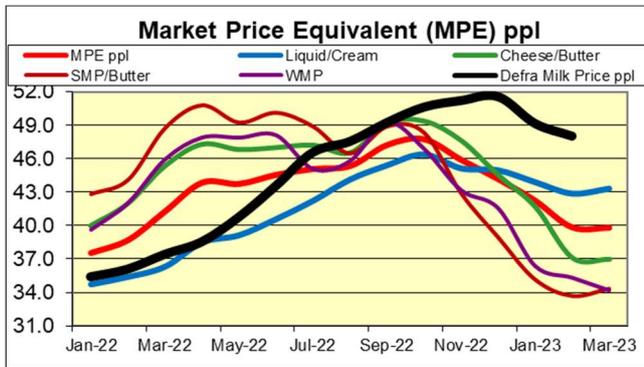
Source: Defra Statistics, The Dairy Group

The graphs above shows the UK Wholesale Milk Supply for the 2022/23 production year against the 5 year average (2017-2022) and the production of Butterfat and Protein since April 2020. The striking thing is how close milk supply has been to the 5 year average. Looking back through the data shows that supply has generally lurched from small deficit to small surplus. The individual seasons might look more extreme as they are set against a previous season's deficit or excess. Winter 2022/23 is a case in point, year on year supply October to March 2023 supply was up 111 M litres, but that needs to be set against the previous year deficit of 142 M litres. 2022/23 as a whole was only 20 M litres above the 5 year average, but it was a game of two halves, down 39 M litres April to September and up 59 M litres October to March. The 2022/23 milk year looks set to finish 4 M litres below 2021/22.

The production of butterfat and protein tells the same story with September 2022 to February 2023 production rising 12,000t year on year, but up only 1800t on the previous year. The reality is that milk supply has been incredibly stable despite the vagaries of the weather over the years and more recently the volatility of the markets. It is important that the supply chain doesn't lose sight of the importance and reliability of supply at a time when food security is higher up the political agenda.

Although the February Farm Gate price fell just 2% to 48.1ppl, much less than expected, falls are likely to accelerate over the coming months as repeated price cuts take effect. Arla can be seen as the bellwether of the dairy market and it's manufacturing standard price has fallen 12.33ppl, 24.1% from January to April and worryingly has accelerated in April. With high legacy production costs on farm, margins are coming under pressure as we start the new milk year, not helped by a slow spring limiting grazing opportunities in March.

The war in Ukraine has become attritional with no high profile spring offensive from either side to unsettle markets. The grain exports have continued with occasional rumours causing price spikes but the general position is of falling cereal prices. The protein side is more affected by weather in the Americas, but has softened more recently, whereas oil has leaped at the recent news of an OPEC supply cut. The cost of production is set to ease in 2023, but is unlikely to keep pace with the decline in milk price and fixed costs will still be subject to the inflation in the wider economy. The beef price remains high so the expectation is that there is very little incentive for milk supply to rise and a slow down is more likely subject to the vagaries of the weather.



Market Prices

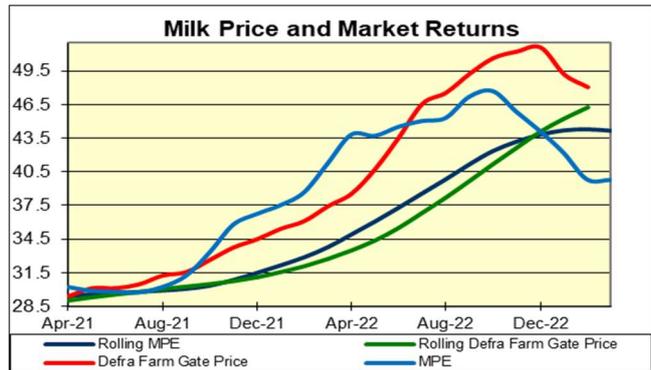
The Market Price Equivalent (MPE) stalls in March at 39.82 ppl (-0.1%), down 7.4 ppl (-15.7%) in the last 6 months and now down 1.5ppl (3.6%) year on year. This month there were rises in Cream, Butter and SMP (1.3% to 6.3%), but smaller declines in Mild Cheddar and WMP (0.3% to 2.9%) leaving the market level. Liquid retail prices maintained their peak in February and show

no signs of easing. UK supply remained strong with February +2.0%, but March slowed to +1.1% on 2022. EU weekly commodity price report shows some softening in late March after some stability suggesting some weakness is likely after Easter. The UK commodities are following the same track as the EU with market returns down 30 to 40% from peak. The MPE graph above shows UK commodities sectors have stabilised around 34ppl with Cheese around 37ppl while liquid remains around 42ppl.

Farm Gate Prices

Farm Gate Prices have eased in February to 48.1ppl, down 1.1ppl (-2%) on January, but +33% year on year. Milk quality remains high and is following the normal seasonal pattern.

Our latest milk price forecast, based on current prices and the latest market returns, suggests the Defra farm gate price will ease to 44.5 in March, 41.0ppl in April and May at 40.6ppl. The 2023 milk price remains uncertain as new seasonality arrangements price marginal litres at or below AMPE which currently stands at 34.6ppl. Much depends on what happens to Liquid retail prices in the next 3 months and milk supply through the spring flush but at the moment prices now look to be holding around 40ppl. The long term view is unchanged with prices around 35-38ppl likely.



Production in January was confirmed at 1246 M litres, +1.1% (13 M litres). February is provisionally at 1151 M litres, +2.0% (+22 M litres) and based on the AHDB daily deliveries our March forecast is 1324 M litres (+1.1%), April at 1338 M litres (+0.4%) and May at 1390 M litres (+0.5%). The forecast for 2022/23 has lifted to 14.907B litres and an early forecast for 2023/24 is at 14.94B litres (+0.2%). March turned into a very cool, wet month. However April is looking more spring like, for now! Cows will be turned out very quickly now and the steady start to spring suggests grazing will be of the highest quality promoting higher milk outputs.

March's closing exchange rates are £/\$1.2344 and £/€1.1353 with Sterling having firmed against both Dollar and Euro. The consumer price index rose to 10.4% in February although it is expected to fall through 2023 due to reductions in energy costs and eventually food."

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For further information please contact:

- ❑ **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.