

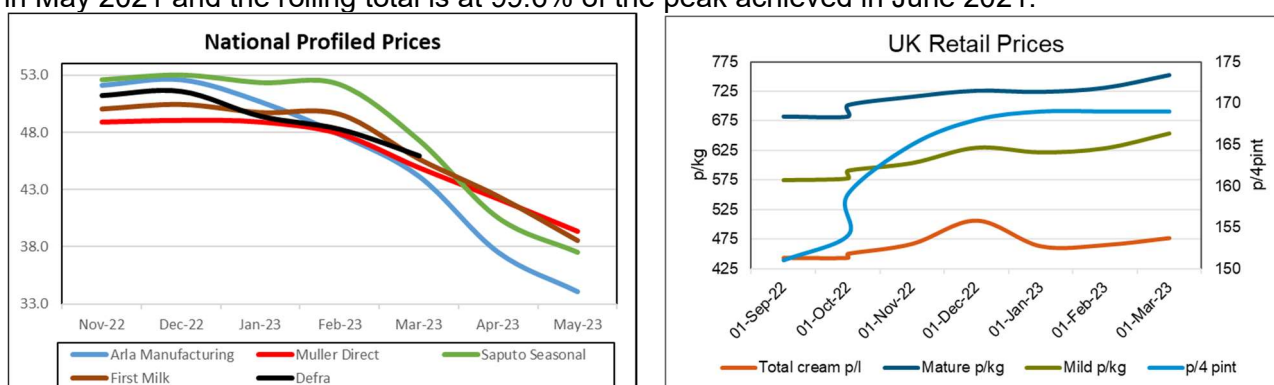
# PRESS INFORMATION from *The Dairy Group*

5<sup>th</sup> May 2023

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

### Retailers benefiting from lower farmgate prices

“The market hiatus in March was indeed an aberration” says Nick Holt-Martyn of The Dairy Group. He goes on to say “as soon as Easter was over significant falls have been seen across Europe. Meanwhile, despite the cuts in the farm gate milk price occurring each month since January, the Defra March milk price was 46.0ppl, down just 5% on February and down 9.2% from peak. The only explanation is that milk quality and the supply of butterfat and protein is getting close to the peak levels seen in May 2021. March butterfat & protein production was at 97.5% of the peak achieved in May 2021 and the rolling total is at 99.6% of the peak achieved in June 2021.



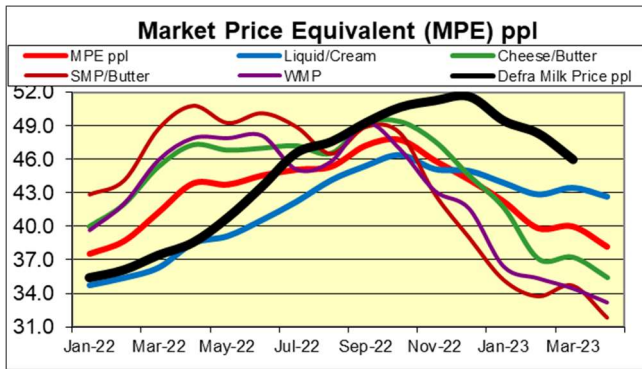
Source: Defra Statistics, The Dairy Group, AHDB

The graphs above shows the change in defra farm gate price and the four indicator prices used in our price forecast alongside the latest AHDB report on retail prices based on data from Kantar and Milk and More. The striking thing is how the graphs appear to be travelling in opposite diections! As has been well documented the farmgate price has been in freefall since the start of the year with Arla's May 2023 price 29% below their December peak, which indicates what has been happening to their market returns from across the European market and across all sectors. The UK retail figures show a different pattern, the 4 pint price was stable throughout the last quarter, both mild and mature cheddar was higher in March than December and cream staged a pre-Easter rally. The conclusion must be that despite retailers claims of consumer resistance to higher prices they have made a limited response to falling wholesale markets by cutting retail prices. Retailers, not for the first time, stand accused of feathering their own nests at the expense of both primary producers and consumers.

Milk supply is often mentioned as a causal factor in falling markets, but despite globally milk rising by 1% here in the UK supply over the last 2 months is up by just 0.6% above the 5 year average. To confound the issue the GDT has been stable to rising in the last month. On balance milk supply is stable with the spring flush just ahead and markets are down significantly, the time is ripe for some market stability if demand improves from lower retail prices.

The cost of production will be a mixed bag on most farms with some high legacy costs that are yet to play out and some better priced new materials that are feeding in. Add to that the prospect of feed prices falling again after harvest along with lower fertiliser and energy prices and next winter might be more favourable for milk production than this summer. The big unknown is where milk prices will settle down. The future markets are indicating mid-thirties which is likely to occur within a couple of months.

Falling milk prices and a strong beef price provides very little incentive for milk supply to rise and any weather events are likely to reduce supply. While 2023 will undoubtedly be a challenge the prospects for 2024, albeit at this distance look better and only time will tell.



### Market Prices

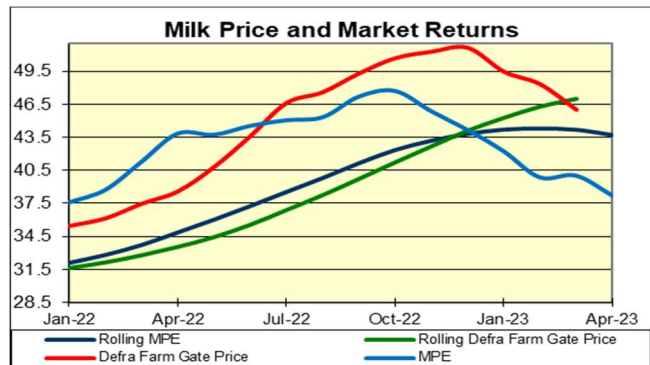
The Market Price Equivalent (MPE) falls again in April by 1.8ppl to 38.2 ppl (-4.8%), down 9.6 ppl (-20%) in the last 6 months and now down 5.7ppl (-12.9%) year on year. This month there were falls across the board in Cream, Butter and SMP (3 to 9%) but smaller declines in Mild Cheddar and WMP (2 to 3%) leaving the market weaker. Liquid retail prices began to fall in specific retailers

but have not yet appeared in the retail price survey. UK supply softened with March at +0.8% and April at +0.3% on 2022. The EU weekly commodity price report shows prices sliding after Easter as expected. 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 commodity sectors have fallen to around 32-34ppl with Cheese around 36ppl while liquid remains resolute around 42ppl.

### Farm Gate Prices

Farm Gate Prices have eased in March to 46.0ppl, down 2.3ppl (-5%) on February, but still +28% 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 41.7 in April, 39.8ppl in May and June at 38.9ppl. 2023 milk prices will remain uncertain as new seasonality arrangements price marginal litres at or below AMPE which has dropped to 31.8ppl, for example Saputo's B litre price drops to 29.8ppl in May. Much depends on what happens to Liquid retail prices in the next 3 months and milk supply through the spring flush but prices have now mostly dropped below 40ppl.



Production in February was confirmed at 1151 M litres, +2.0% (23 M litres). March is provisionally at 1320 M litres, +0.8% (+10 M litres) and based on the AHDB daily deliveries our April forecast is 1336 M litres (+0.3%), May at 1388 M litres (+0.4%) and June at 1280 M litres (+1.1%). The 2022/23 finished at 14.904B litres (+0.0%) and the early forecast for 2023/24 is at 14.93B litres (+0.2%). April proved to be another cool, wet month and May is looking more spring like, although rain is forecast for much of the month! Cows are now out and grass quality is good coupled with typical growth rates, soil moisture levels suggest good growth through to June.

April's closing exchange rates are £/\$1.2557 and £/€1.1401 with Sterling having firmed against the Dollar but more stable with the Euro. The consumer price index fell to 10.1% in March and the expectations of falls through 2023 still persist despite the lack of evidence."

- Ends -

### 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](http://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.