

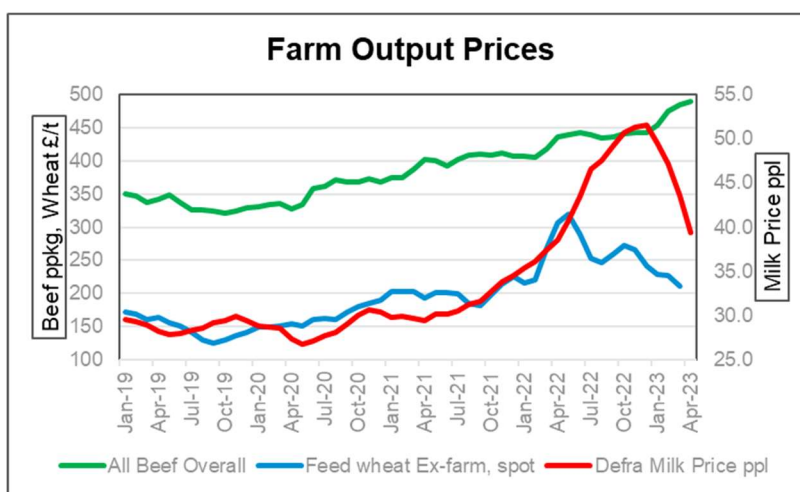
PRESS INFORMATION from *The Dairy Group*

5th June 2023

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

Farmgate Price Inflation Switches to Deflation!

“With the large down-grade of the Defra Farmgate Price in February (-0.9ppl) and March (-2.4ppl) deflation will almost certainly be evident when May’s figure is released later in June” says Nick Holt-Martyn of The Dairy Group. He goes on to say “April is provisionally 39.4ppl, just 0.9ppl (+2.2%) up on April 2022. The UK milk production peak passed 2 days earlier than 2022 at an almost identical level and milk is now running at or just below 2022. With dry weather continuing milk is likely to slip behind 2022 due to deteriorating grass supply, falling milk prices and high legacy feed costs.



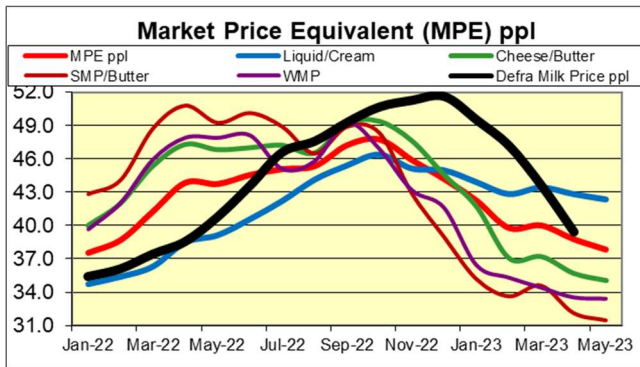
Source: The Dairy Group, AHDB

The graph above shows the change in farm output prices since January 2019. While beef prices remain buoyant and at an all time high the same can not be said for milk and cereals. Milk is back to prices last seen in spring 2022 and cereals have fared worse with prices back to the harvest 2021 level. With high legacy input prices for fertiliser and feeds, margins are under considerable pressure particularly with prices still falling. With oil and gas prices back to the summer 2021 level there is the prospect for lower input costs going into harvest 2024. The Government suggestion of a price cap for consumers is ignorant of reality where output values have fallen to 2021 levels, but lower prices have barely reached consumers. The supply chain is enjoying significant increases in margin by paying producers less while maintaining the retail prices supporting the headline 19% food inflation, but it is unclear who is benefiting – processors or retailer?

The main driver of milk price is milk supply, but the evidence of any surplus is hard to find. UK milk production is back close to 0% with April confirmed at +0.3% while May is provisionally -0.3%. The EU was down sharply in March (-2.3%) although up in Ireland, Netherlands and Germany so is likely to be around 0% through the spring flush. Globally supply is flatlining with the main blocks showing below 1% growth. Alongside stable supply, markets are also looking stable with EU prices firming in the last month with the exception of cheddar which fell, possibly due to the supply increase in Ireland.

Each farm will have its own unique cost of production depending how well they have managed the sourcing of their major inputs in recent months, but our estimate for 2022/23 is around 45ppl falling to around 40ppl in 2023/24. Against a current milk price estimate for 2023/24 of 38ppl before non-milk income there is likely to be a fall in profit on most farms.

With a looming drought, falling milk prices and falling input prices it is hard to gauge how the industry is faring, but its safe to say there are no shortage of challenges on farm at the moment.



Market Prices

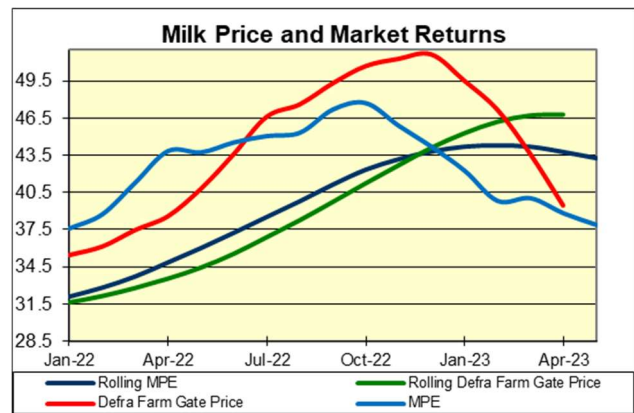
The Market Price Equivalent (MPE) falls again in May by 0.9ppl to 37.9 ppl (-2.5%), down 8.0 ppl (-17.0%) in the last 6 months and now down 5.9ppl (13.5 %) year on year. This month there was stability in all sectors, but the seasonal decline in quality left the returns weaker. Liquid retail prices are yet to report since April and the utilisation for liquid milk in recent months has been up on 2022

so we expect an upward revision next month. UK supply softened further with April at +0.3% and May at -0.3% on 2022. The EU weekly commodity price report shows stable prices although Cheddar suffered a large price correction at the end of May. The UK commodities are following a similar track to the EU, with market returns down 25 to 47% from peak, liquid milk still at peak is the exception. The MPE graph above shows the UK commodity sectors have fallen to around 31-33ppl with Cheese around 35ppl while liquid remains stuck around 42ppl.

Farm Gate Prices

Farm Gate Prices have been adjusted down in March to 43.6ppl, down 3.57ppl (-7.6%) on February and April at 39.4ppl, down 4.15ppl (10.5%). Milk quality remains high, but is following the normal seasonal decline.

Our latest milk price forecast, based on current prices and the latest market returns, suggests the Defra farm gate price will ease to 38.0ppl in May, 38.0ppl in June and July at 37.8ppl. With AMPE looking likely to stabilise around 32.0ppl, B litres will be around 30.0ppl.



Production in March was confirmed at 1322 M litres, +0.8% (10 M litres). April is provisionally at 1337 M litres, +0.3% (+4 M litres) and based on the AHDB daily deliveries our May forecast is 1378 M litres (-0.3%), June at 1271 M litres (+0.3%) and July at 1238 M litres (+0.3%). The 2022/23 year finished at 14.908B litres (+0.0%) and the early forecast for 2023/24 is at 14.86B litres (-0.3%). May started out as another cool, wet month but turned on its head with very little rain for 3 weeks. June has carried on where May left off and there is very little rain in the forecast ahead. Many farms will need to replenish forage stocks used up in the extended winter which could become more difficult in these drought conditions.

May's closing exchange rates are £/\$1.2446 and £/€1.1639 with Sterling down against the Dollar, but rising against the Euro. The consumer price index fell to 8.7% in April renewing expectations of falls through 2023 particularly as wholesale energy prices are back to summer 2021 levels when the energy crisis first appeared."

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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.