

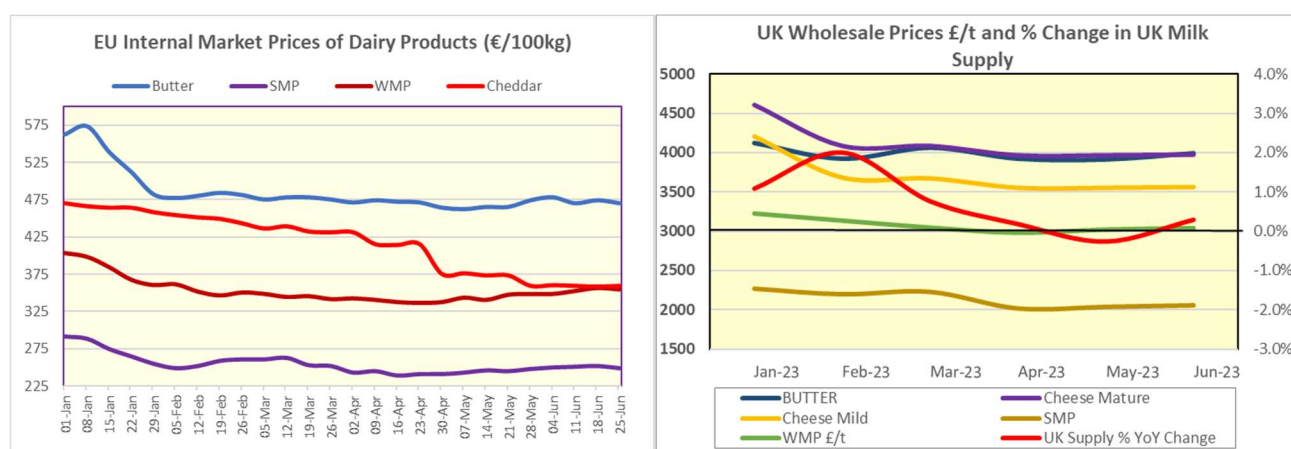
PRESS INFORMATION from *The Dairy Group*

1st July 2023

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

Market Stability Finally Reaches the Farm Gate.

“Last week’s milk price news was surprisingly good with no change for Arla in July and useful increases for Barber (+0.75p) and Saputo (+0.5p) in August” says Nick Holt-Martyn of The Dairy Group. He goes on to say “EU commodity prices have been mostly stable since Easter with only Cheddar continuing to decline while UK markets have shown small gains since the end of April. With such stability in the market returns it was only a question of when stability would reach the farm gate, the pleasant surprise is the increase in the cheese sector for August.



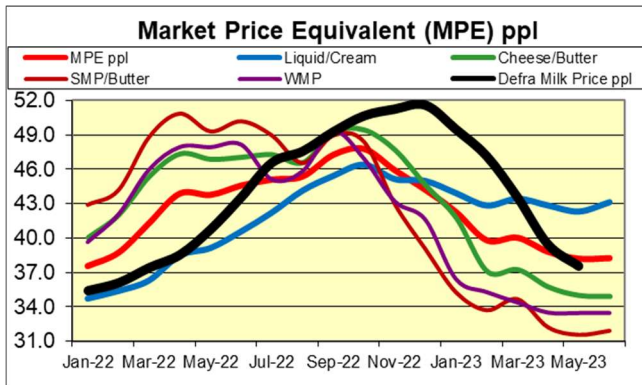
Source: The Dairy Group, AHDB

The graphs above shows the commodity prices in the EU and UK in 2023. What stands out is the stability in returns from March onwards, aside from the post Easter correction in EU cheddar prices, there has been very little movement in either direction. Since the end of April EU milk powders are up 4%, butter unchanged and cheddar -13%, while in the UK Cream is up 7% and all other sectors up between 0-2%. In the face of such stability with AMPE around 32ppl the farm gate price was always going to stabilise around 35ppl depending on the sector involved. For the rest of the summer at least prices look set to remain stable.

The stability in market returns is matched by the stable supply position throughout the EU and on the global market. Through February to April the EU has seen milk decline by 0.4% while the UK saw a 1% growth rate, but the UK supply has stalled to just 0.1% from April to June. With the warm dry summer continuing into July there seems little prospect of an improvement in milk supply until the end of the summer.

Farm input prices have also declined with feed prices for the autumn likely to be 20% below last winter, subject to the state of the Ukraine war. Currently the milk price to feed price ration is very low which is likely to limit supplementary feeding if forage conditions decline further due to drought. The prospect for the winter with milk prices significantly below 2022 level is for the Milk:Feed ratio to improve slightly as lower feed prices increasingly impact on the cost of production, but it is unlikely to be sufficient to encourage an increased milk supply.

Stability seems to be the watch word on milk prices, milk supply and the cost of production. The concern will be that after 2 years of high inflation in the wider economy fixed cost inflation will have become embedded and highly unlikely to retreat even if inflation falls below the Bank of England target in the near future. The average cost of production that jumped 30% in the last 2 years is likely to only ease by 10-15% in the next year so profitability in dairy farming is set to remain challenging.



Market Prices

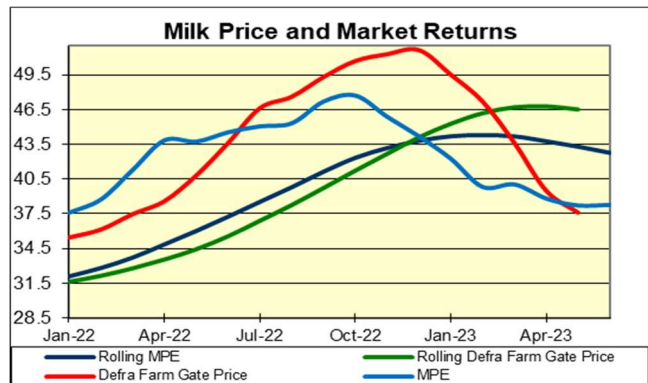
The Market Price Equivalent (MPE) lifts in June by 0.05ppl to 38.25 ppl (0.1%), down 6.0 ppl (-13.5%) in the last 6 months and down 6.3ppl (14.2 %) year on year. Liquid retail prices are still yet to report since April and with the rise in utilisation for liquid milk we still expect a downward revision next month. UK supply remains soft with April at +0.2%, May at -0.3% and June +0.3%, compared to 2022. The EU weekly

commodity price report remains stable although whey is significantly weaker. The UK commodities rose slightly suggesting a change in market tone. The MPE graph above shows UK sectors have levelled off at 32-35ppl while liquid remains unchanged around 42ppl awaiting the data update.

Farm Gate Prices

Farm Gate Prices are down in May to 37.6ppl, down 1.9ppl (-5.0%) on April and down 13.7ppl (26.7%) in the last 6 months. The farm gate price has dropped below the MPE for the first time since July 2022 suggesting a more stable outlook. Milk quality remains high, but 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 stabilise to 37.5ppl in June, 37.3ppl in July and August at 37.7ppl. With AMPE looking stable around 32-33ppl, B litres will be around 30-31ppl and the long-term view has improved slightly with prices around 35-38ppl likely next winter.



Production in April was confirmed at 1335 M litres, +0.2% (2 M litres), May was provisionally at 1379 M litres, -0.3% (-4 M litres) and based on the AHDB daily deliveries our June forecast is 1270 M litres (0.2%), July at 1238 M litres (+0.3%) and August at 1183 M litres (+0.1%). The early forecast for 2023/24 remains at 14.86B litres (-0.3%). June carried on where May finished with a hot, dry month and July has carried on much the same with very little rain in the forecast ahead. Grazing has been rescued by the limited rainfall in late June but is only a few dry days away from giving up again.

June's closing exchange rates are £/\$1.2585 and £/€1.1628 with Sterling showing slight gains against both currencies. The consumer price index was 8.7% in May which led the Bank of England to raise bank base rate to 5%.

Expectations of a strong El Nino event in the pacific are rising together with more extreme weather around the globe. The effect on food supply particularly grains and protein feeds is hard to forecast other than to increase the risk of volatility in the medium term."

- Ends -

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.