

# PRESS INFORMATION from *The Dairy Group*

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

### Will Rocketing Farmgate Milk Prices be Enough to Support Supply?

“There have been some eye-watering milk price rises this Spring sending prices firmly into the 40ppl bracket” says Nick Holt-Martyn of The Dairy Group. He goes on to say “which under normal circumstances would have heralded a sharp rise in output. However, despite a benign April, UK milk supply is running -2.3% below 2021 which is setting the tone for the summer, if not the whole milk year. Although 2021/2022 milk year has finished down just 90 M litres (-0.6%) on 2020/21, the last 5 months averaged -2% each month, a trend that has been carried forward into 2022/2023. This is common globally where the milk supply from the major exporting countries has been declining by around 1% each month since September 2021. As we all know market prices are the balance of supply and demand. A sharp reduction in supply triggers a price reaction until demand is dimmed by the price inflation. There are some signs that prices may be levelling out, but that may be only temporary as we pass through the Northern hemisphere spring flush.

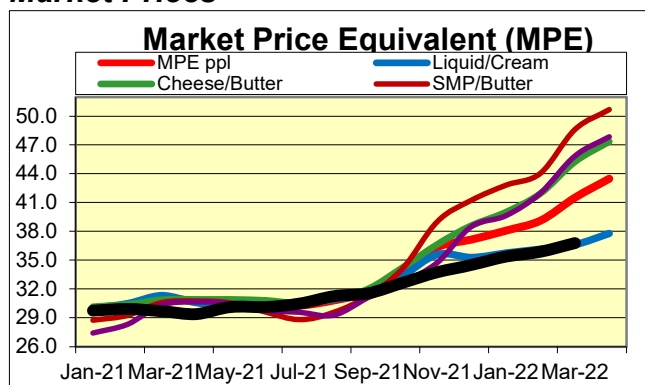
The table below shows our updated estimate of the Cost of Production for the 2022/23 year.

Source: The Dairy Group

The Dairy Group Cost of Production Projection (ppl)		
	2022/23	Year on Year Change
Milk price	41.9	27%
Total Output	45.6	25%
Total Variable Costs	24.7	24%
Total Overhead Costs	17.9	8%
Profit after Unpaid Labour	0.4	
Total Costs	45.2	21%
Non Dairy Income	2.7	-7%

Even in the last month there have been further rises in feed costs such that wheat after harvest is expected to be 50% higher than September 2021 (around £280/t) and protein feeds 35% higher (e.g. Soya £480/t). Dairy cakes are likely to be between £350-400/t. Against this background of widespread and rapid input and output inflation is the fourth consecutive fall (and the largest) in the Global Dairy Trade fortnightly auction of dairy commodities. This is despite New Zealand seeing a -2.6% decline in output over the last 12 months, all of which has occurred through the last 8 months. Fortunately the GDT has little direct influence over the European dairy market, but it is around 10% below the UK SMP price which will create some uncertainty of the sustainability of the current market returns. This adds further weight to the idea that market returns may be reaching a peak level. The increased flow of money through farmers accounts makes it very difficult to be certain that the balance between income and expenditure is tilted in favour of profit. Budgets produced quite recently are rendered out-dated in very short time due to rampant inflation on both sides of the equation. This is new territory for market indicators, farmgate prices, feed prices and cost of production which are all at record levels. Over time things will find a balance that ensures businesses can be viable, but there can be casualties until that balance is found. It is a crumb of comfort that these are global issues and not isolated to the UK, which suggests that balance can be found provided the links in the supply chain remain honest with each other. In life Consumers and Tax Payers pay for everything and often they are the same people!

## Market Prices



The Market Price Equivalent (MPE) rises by 2.0ppl to 43.5 ppl (+4.6%) this month, up 9.7ppl (29%) in the last 6 months and up 12.8ppl (42%) year on year. Products were up across the board, from Cream (+10.8%) to SMP (+2.8%). The range across the sectors widens to 12.9ppl from SMP/Butter down to Liquid/Cream. Supply remains weak around the world which is dominating markets and a correction seems less likely this year. EU weekly commodity prices

report mixed results recently, but that may be due to Easter holiday disruption. Retailers' resistance to inflation is commendable provided it's their margins and not those of their suppliers that are being squeezed. So far consumer price rises have been patchy.

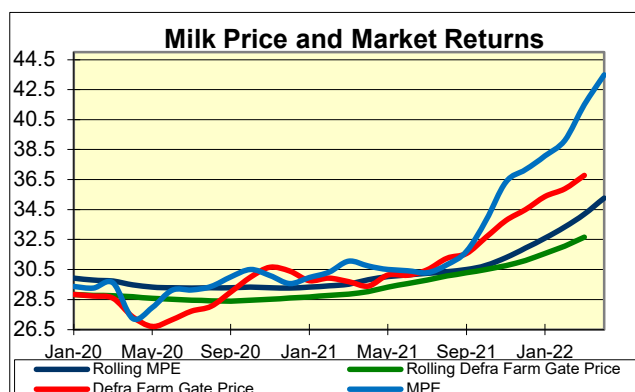
## Farm Gate Prices

The March 2022 farm gate price rose by 0.9ppl to 36.8 ppl, 7.1ppl above March 2021. The rolling Farm Gate price rises to 32.6ppl.

Our latest milk price forecast, based on current prices and market returns, suggests the Defra milk price could be 37.6ppl in April, rising to 40.5ppl in May and reaching 43.5ppl in the autumn.

Production in February was confirmed at

1127 M litres -2.0% (-23 M litres) and March was provisionally 1313 M litres, -2.0% (-27 M litres). Based on the AHDB daily deliveries our April forecast is 1325 M litres (-2.2%), May at 1378 M litres (-2.0%) and June 1275 M litres (-1.9%). 2021/22 production finished the year -0.6% at 14.92 B litres and our forecast for 2022/23 is 14.75 B litres (-1.0%). 2022/23 milk supply will depend on the quantity and quality of forage and farmer's reaction to both milk price and input inflation.



Sterling eased down against the Dollar but stayed firm against the Euro, to £/\$1.257 and £/€1.192. The consumer price index reached 7.0% in March and is expected to go to 9% as energy price rises take effect in the Spring and Autumn.

The La Nina conditions are lingering on and are likely to affect the Northern Hemisphere growing season, particularly North America where the summer is expected to be hotter and drier. An above average Atlantic storm season is forecast which could affect European weather in the 2<sup>nd</sup> half of the year. A recovery in supply is a distant prospect, but markets are expected to at least stabilise through the summer despite product supply remaining tight."

- Ends -

## For further information please contact:

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- ❑ **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.