

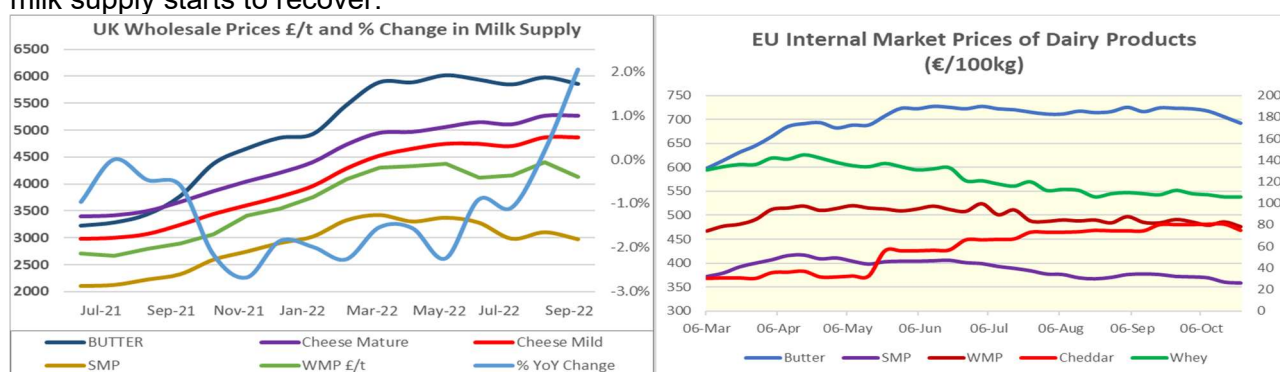
PRESS INFORMATION from *The Dairy Group*

1st November 2022

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

New Prime Minister but Same Old Dairy Market

“With Rishi Sunak successfully resetting interest rates back to August levels the problem of inflation remains” says Nick Holt-Martyn of The Dairy Group. He goes on to say “The dairy market has responded to weak milk supply around the world with rapid inflation in dairy commodities as markets naturally do whether its gas, wheat or dairy product. The necessary adjustment in either supply or demand, or both, causes markets to deflate to maintain a balance. Gas prices have fallen, wheat prices after harvest and now dairy commodity returns in the northern hemisphere have eased as milk supply starts to recover.



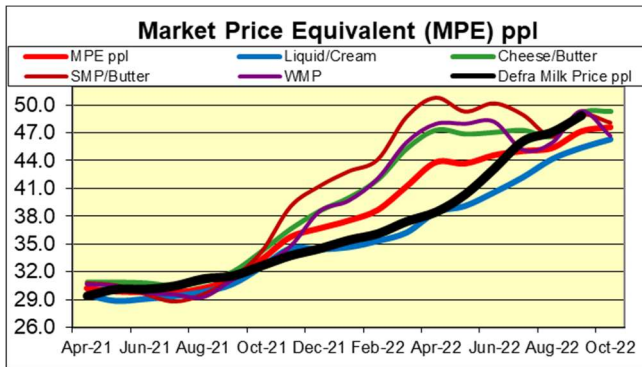
Source: The Dairy Group, AHDB, European Commission

The graphs above show how the UK market has responded to the weak supply with significant market gains over the winter and spring. While Butter has remained stable through the summer, SMP has been in decline since March. Cheese returns have firmed throughout, whereas WMP has been mixed. With milk supply recovering sharply since the drought ended there are signs that all market returns have begun to ease. EU dairy markets have been relatively flat through the summer with SMP and Whey easing since April. WMP has been easing since July and has now been joined by Butter and Cheddar in the last report. If the recent sharp recovery in UK milk supply is reflected in northern Europe then commodity prices can only soften.

The effect of falling commodity prices on the farmgate is well known although the speed it transmits through the supply chain is more variable and not certain. While rising milk solids in the autumn will keep the defra farmgate rising through to November our Fixed Butterfat and Protein MPE has eased for the first time in 18 months. Whilst there is no immediate risk to the farmgate price, particularly with Arla's November price increase, if supply is maintained above 2021/22 levels through the winter markets will continue to ease. Through this change in market direction Arla will remain the bellwether or honest broker reflecting how wholesale prices have transmitted through to the farmgate.

While the direction in output values are relatively predictable the same cannot be said for input costs which are less predictable due to so many factors in play. If Ukraine is prevented from exporting grain how will feed prices react? The continuing La Nina is bringing wet conditions to Australia and New Zealand, but drier conditions to the Americas - how will grain and protein markets react? Weakening milk returns but high cost of production and a margin squeeze will send milk supply into reverse and prices will have to respond accordingly.

Production costs will be volatile, but are unlikely to decline across the board and will impact farmers cashflows in an unpredictable way. Accessing markets frequently with short contracts will reduce the risk of being trapped with legacy prices. The challenge for farmers as always is to focus on things within their control, produce sufficient quality forage, maintain high attention to detail with herd health and welfare and maintain good communications with family and staff alike.”



Market Prices

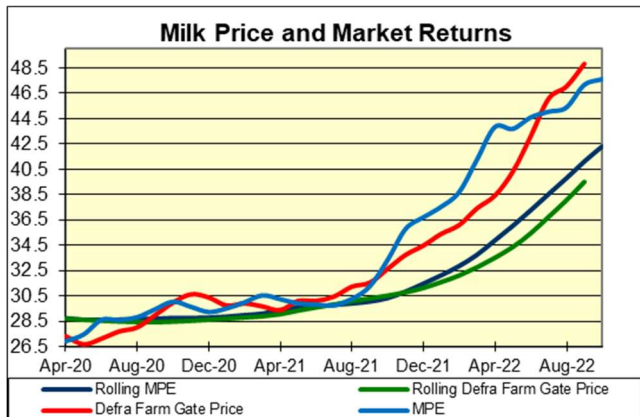
The Market Price Equivalent (MPE) climbs by 0.45ppl to 47.65 ppl (+0.9%) this month, up 3.8 ppl (8.6%) in the last 6 months and up 14.3ppl (46%) year on year. All commodities eased this month with falls of 2-7%, in part by Sterling's recovery against the Euro. The range across the sectors has narrowed further to 3.0ppl from Cheese/Butter down to Liquid/Cream. UK supply has continued its

strong recovery from the drought with October +2% on 2021. EU weekly commodity price report easing with only continental cheese at peak. The MPE graph above shows UK markets are levelling off around the 48ppl level.

Farm Gate Prices

The September 2022 farm gate price rose by 1.8ppl to 48.9 ppl, 17.3ppl above August 2021. The rolling Farm Gate price rises to 39.5ppl. September milk price was above our forecast and is set to be close to 50.0ppl in October.

Our latest milk price forecast, based on current prices and the latest market returns, suggests the Defra milk price will be 49.5ppl in October, rising to 50.3ppl in November and reaching 50.2 in December.



Production in July was confirmed at 1238 M litres -0.9% (-11 M litres), August was provisionally 1188 M litres, -1.1% (-13 M litres) and September 1157 M litres, +0.2% (2 M litres). Based on the AHDB daily deliveries our October forecast is 1220 M litres (+2%), November at 1193 M litres (+2.6%) and December at 1254 M litres (+3.0%). Our forecast for 2022/23 has lifted to 15.0B litres (+0.6%). The mild wet autumn continues to provide a recovery in forage stocks and milk supply. Concerns about stocks of forage for the winter have eased slightly. Improved stability in currency markets is welcome, but feed and fertiliser prices remain volatile for 2023.

October's closing exchange rates are £/\$1.1467 and £/€1.1599 and are relatively stable as they await further interest rate rises and the Autumn financial statement. The consumer price index increased to 10.1% in September and is now forecast to remain at similar levels through to 2023.

New Zealand continues to have a poor spring with production down 3%, although globally production is stable. The new Prime Minister has made more changes at Defra which maintains the uncertainty over ELMs and support payments in general."

- 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.