

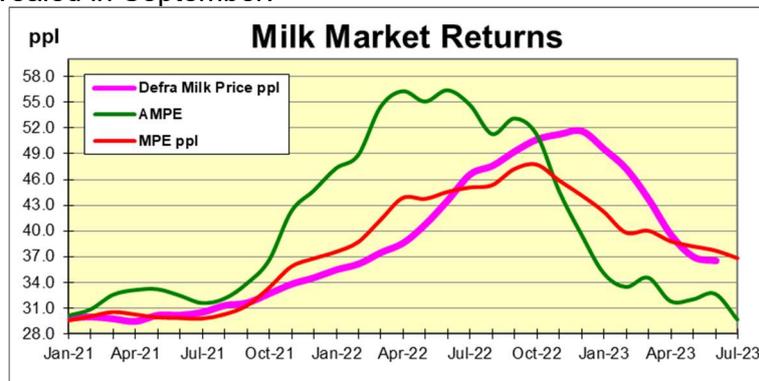
PRESS INFORMATION from *The Dairy Group*

14th August 2023

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

Commodities Lead the Market Down.

“While the farmgate price has stabilised around 36ppl milk powders (SMP, WMP and Whey) have weakened in the last month to levels not seen since 2020” says Nick Holt-Martyn of The Dairy Group. He goes on to say “supermarket aligned contracts are holding up and cheese returns have stabilised leaving the weakness in the commodity markets. This doesn’t necessarily translate through to the farmgate unless this weakness is sustained. For the moment European markets are in holiday mode and more will be revealed in September.



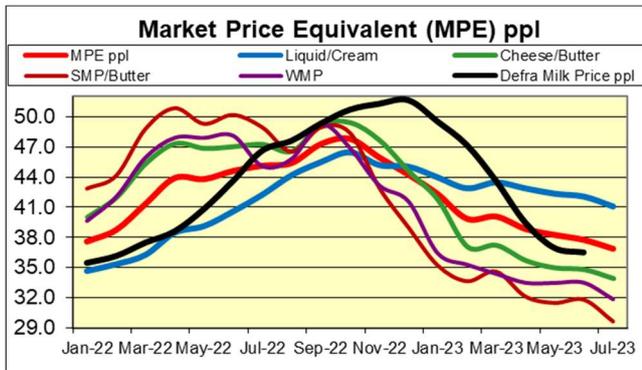
Source: The Dairy Group, AHDB

The graphs above shows the relationship between AMPE (Butter and SMP), MPE (whole market indicator) and Defra Farmgate price (farmgate reality). Essentially AMPE is an indicator of the direction of travel and broad level of milk prices without suggesting where they will actually end up. AMPE tends to be an early indicator compared to MPE which includes a significant Liquid milk and Cheddar element as a counter weight. Commodities are back to 2020 levels whereas cheeses are in 2021 territory and liquid is firmly left in 2022 pricing, producing the current mid-thirties price level. The significance of AMPE is amplified as it is used as the basis for pricing secondary or B litres in several milk contracts.

Globally milk supply growth is positive between +0.5 to 1% which is line with long term trends for stable markets subject to global GDP trends. 2021 saw a rapid recovery in GDP which partially followed through to 2022. However 2023 has seen a decline in growth towards the previous trend levels. Further ahead (5 years) declines are expected as demographic factors hold global growth to 2 to 3%.

Farm input costs have been a mixed bag through summer 2023 with high legacy costs mixed with improving forward costs depending on the state of the feed and energy markets, both of which react to global issues like the Ukraine War, extreme weather around the globe and Saudi Arabia’s intervention in crude oil supply. Variable input costs are likely to be lower over the next 6 months in general than previously with periods of event driven volatility. The same cannot be said of fixed costs which are more exposed to the inflation in the wider economy and as such these costs will not reduce even if the rate of increase slows as the Bank of England intend. Therefore the cost of production is irrevocably higher than pre-pandemic and the familiar benchmarks of 4 years ago no longer apply.

The overall prognosis is that the UK dairy market is more affected by external factors than any uniquely domestic issue. The European dairy market is the biggest driver of the UK market and provided the UK economy behaves in a similar way dairy farmers can expect to be affected much the same. With costs remaining high the outlook for 2023/24 is for low profitability, with only the top 25% expected to make a surplus.



Market Prices

The Market Price Equivalent (MPE) fell in July by 0.88ppl to 36.8 ppl (-2.4%), down 5.4 ppl (-12.9%) in the last 6 months and down 8.25ppl (18.3 %) year on year. Liquid retail prices are still yet to report since April and with the rise in utilisation for liquid milk we expect a significant downward trend when updated. UK supply rose with the improved grazing conditions in July, but was confirmed

flat through April to June, with April at +0.0%, May at 0.1%, June 0.0% and July forecast at +1.0%. EU weekly commodity prices slipped in July after post-Easter stability with sharp reductions in SMP, WMP and Whey. Butter and Cheddar weakened by 1.7% and 0.3% respectively. The UK commodities fell in line as indicated in the MPE graph above. UK sectors have fallen towards 30-34ppl while liquid eases slightly to 41ppl while awaiting the data update.

Farm Gate Prices

Farm Gate Prices are down in June to 36.5ppl, down 0.44ppl (-1.2%) on May and down 15.1ppl (29.3%) in the last 6 months. The farm gate price is tracking the decline in MPE suggesting a directly market related price. Milk quality remains high with Butterfat and Protein production 0.2% higher than June 2022.



Our latest milk price forecast, based on current prices and the latest market returns, suggests the Defra farm gate price will remain stable around 36.6 in July, 37.1ppl in August and September at 37.6ppl. With AMPE dropping to 29.7ppl, B litres will be around 27-28ppl in August diminishing the long-term view to 34-37ppl next winter.

Production in April was confirmed at 1333 M litres, +0.0% (0 M litres), May was at 1384 M litres, 0.1% (1 M litres), June was 1267 M litres (0.0%) and based on the AHDB daily deliveries our July forecast is 1247 M litres (+1.0%) and August at 1194 M litres (+0.9%). The early forecast for 2023/24 improves to 14.9 B litres (0.0%). The weather has turned on its head with a July washout that has continued into August with similar conditions in the forecast ahead. Grazing has seen a second flush following the end of the drought repairing any deficits in forage supply.

July's closing exchange rates were £/\$1.2833 and £/€1.1669 with Sterling losing early monthly gains at the close. The consumer price index was 7.9% in June which led the Bank of England to raise bank base rate to 5.25%. Pacific weather patterns are developing towards a strong El Nino event, but the weather is currently favourable in both the Americas and Australasia. The effect on markets has seen grain markets weaken despite the Ukraine war while protein prices are lower than autumn 2022."

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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.