

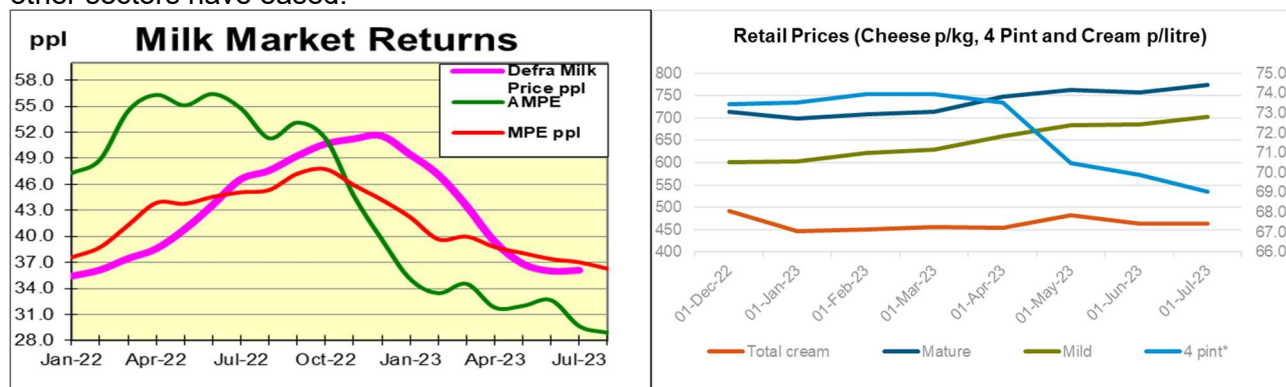
PRESS INFORMATION from *The Dairy Group*

4th September 2023

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

Dairy Retail Prices Lag Behind the Fall in Farm Gate Prices

“In April we highlighted how retail prices were yet to respond to the falling prices at the farmgate and we reported how cheese and cream prices had risen right up to Easter” says Nick Holt-Martyn of The Dairy Group. He goes on to say “one might have expected 4 months on with the farm gate price lower than any time in the last 18 months that consumers might be seeing some dairy deflation in the prices paid at the checkout. Such evidence is proving very elusive in the cheese sector while other sectors have eased.



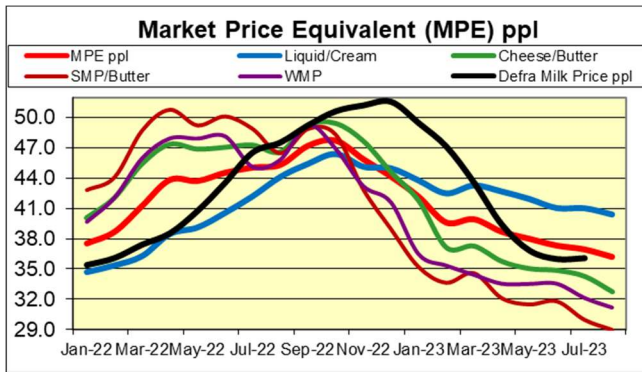
Source: The Dairy Group, AHDB

The graph on the left shows the familiar AMPE (Butter and SMP), MPE (whole market indicator) and Defra Farmgate price (farmgate reality) alongside the graph on the right which shows the latest survey of retail prices. The AMPE curve shows commodities are back to 2020 levels and indicates the direction of travel for added value products in the medium term. The farmgate price shows a clear and understandable relationship to returns from the market. The same cannot be said of retail prices which show a more mixed relationship with wholesale market returns. The liquid and cream curves do show some reduction with liquid falling by 6.7% since March. However, cheese prices are shown to be still rising in July, whereas the farmgate price has fallen by 27% since January 2023. While profiteering is a perjorative term it seems that retailers have increased their margins while milk prices have been falling, with lower wholesale costs not being fully passed on to consumers. The evidence of falling wholesale returns is in abundance across Europe with farmer's Co-ops and private dairy companies equally affected. What should be welcome relief from food price inflation has not yet fully materialised.

The recent NFU intentions survey is an important indicator of the mood amongst UK dairy farmers. While some increase in retirements after the rapid price fall could be expected, the level of despondency should be a concern to all. The increasing investment demands in greater manure containment together with nature enhancing farming methods will be a challenge with a backdrop of declining profitability.

Globally milk supply growth has slipped to around 0% due to adverse weather around the world in June and is likely to stay subdued due to declining returns. Rising oil prices are holding up inflation encouraging rises in interest rates and stifling growth. Globally GDP appears to be lacklustre so little impetus can be expected to dairy demand in the short term.

Overall the UK dairy market is affected by supply chain issues that are preventing a fair return from a subdued wholesale dairy market. Cost of production is remaining high so the outlook for 2023/24 is for low farmer profitability. The high demand for re-investment in modern dairy facilities together with the reurn of marginal land to some form of rewilding is adding pressure on to businesses that have seen their cashflow significantly reduced. It should be no wonder that some are voting with their feet.



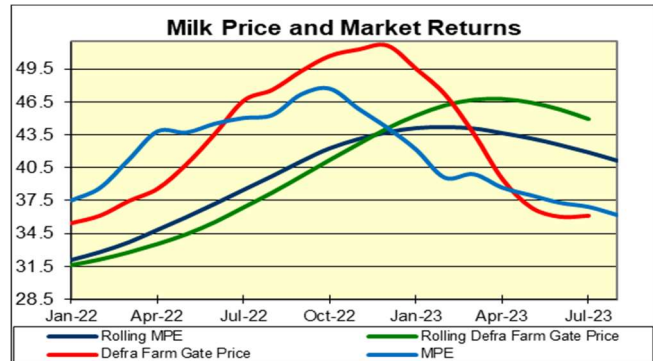
Market Prices

The Market Price Equivalent (MPE) fell in July by 0.74ppl to 36.2 ppl (-2.0%), down 3.4 ppl (-8.6%) in the last 6 months and down 9.11ppl (-20.1%) year on year. Liquid retail prices have fallen by 6.7% since their Feb/March peak. UK supply rose 1.1% with the improved grazing conditions in July and is forecast to be +0.8% in August. EU weekly commodity prices slipped in August

following early summer stability with sharp reductions in Butter, WMP and Whey. SMP and Cheddar were still weak declining -1.3% and -0.3% respectively. The UK commodities fell in line as indicated in the MPE graph above. SMP/Butter has dropped to 29ppl while liquid eases slightly to 40.4ppl demonstrating the range in returns from the market.

Farm Gate Prices

Farm Gate Prices were revised down in June to 36.0ppl, down 0.9ppl (-2.4%) on May, but up slightly in July to 36.2ppl (+0.2%). The farm gate price continues to track the decline in MPE suggesting a directly market related price. Milk quality remains high with Butterfat and Protein production 2.4% higher than July 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 36.8 in August, 37.6ppl in September and at 38.1ppl in October, with the rise due to seasonal pricing. With AMPE dropping to 28.9ppl, B litres will be around 26-27ppl in August where implemented.

Production in May was confirmed at 1388 M litres, +0.1% (1 M litres), June was at 1274 M litres, 0.0% (0 M litres), July was 1247 M litres (+1.1%) and based on the AHDB daily deliveries our August forecast is 1292 M litres (+0.8%) and September at 1155 M litres (+0.3%). The forecast for 2023/24 is unchanged at 14.9 B litres (0.0%). The weather has changed again after two very wet months and a protracted cereal harvest with better conditions set to prevail through September. Grazing has seen a massive second flush following the drought ensuring good forage supply for the winter ahead.

August's closing exchange rates were £/\$1.267 and £/€1.1685 with Sterling losing against the Dollar, but gaining against the Euro. The consumer price index was 6.4% in July 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 with effects expected around the world. The weather is now less favourable in both the Americas and Australasia although grain markets have weakened with the northern hemisphere harvest. The effects of the Ukraine war seem transitory with spikes followed by periods of weakness, while protein prices are being driven by weather in the Americas and its effect on yields. Feed prices are likely to be at an 18 month low for the winter ahead."

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For further information please contact:

- ❑ **Nick Holt-Martyn**, The Dairy Group (01823 444488/e-mail: nick.holt-martyn@thedairygroup.co.uk)
- ❑ **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.