

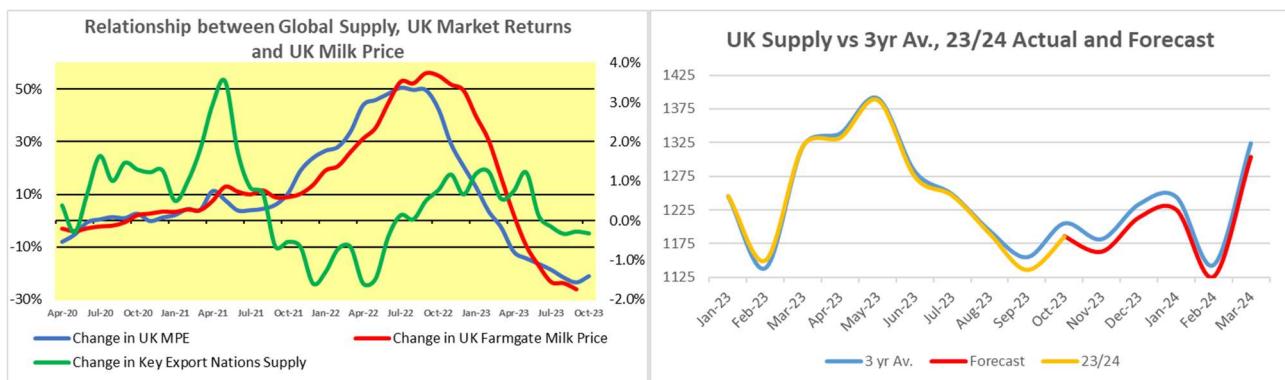
PRESS INFORMATION from *The Dairy Group*

2nd November 2023

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

Milk price set to increase as supply weakens

"The clear link between milk supply and market returns are a clear representation of the law of supply" says Nick Holt-Martyn of The Dairy Group. He goes on to say "for the last 20 years commodity markets have reacted to the level of supply to drive the farmgate price. The current situation is no different with the collapse of the farmgate price during 2023 and the usual mix of challenging weather, both at home and around the world, and global supply has gone into reverse. Markets have recognised this and are responding with price increases (AMPE +20% in October 2023). The only question now is when will this increase reach the farmgate?



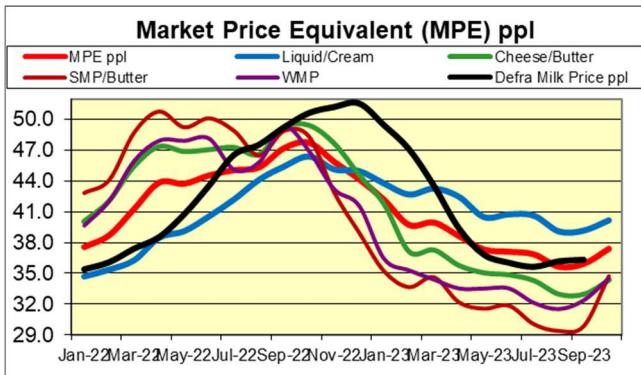
Source: The Dairy Group, Defra Statistics & AHDB

The graph on the left shows the percentage change in the milk supply of the key export nations (New Zealand, EU and USA plus the UK) against the change in the UK Milk Price Equivalent (UKMPE) and Farmgate Price. The supply has been between +1.5% and -1.5% for the last 2 years and the UKMPE and Farmgate Price have responded to low global supply driven by commodity markets. At times of strong supply markets go into reverse and the farmgate price falls. Currently supply is in a period of contraction and markets have begun to respond. The graph on the right shows the UK supply position is in a similar place with the stable supply through the winter, spring and summer has rapidly given way to a contraction in October. The 2.5% decline in October looks set to be replicated in future months.

The left-hand graph also shows the time lag between market returns (UKMPE) and the Farmgate price. The UKMPE peaked in October 2022 and the Farmgate price peaked two months later in December 2022. So, all else being equal, the farmgate price should begin to change direction in December 2023. The seasonality in milk prices due to milk quality and seasonal payments means the milk price has been stuck between 36.1ppl and 36.9ppl since May 2023. Our forecast is for a seasonal move to 37ppl through to November 2023 before moving up to 38ppl from December 2023.

In the major dairy export areas (EU, USA & NZ) milk production is currently in decline or close to it, with the USA (-0.8%), New Zealand (-0.25%) and flat in the EU (+0.1%). This situation looks set to continue for a while, coupled with the UK seeing a sharp reduction, should keep the upward pressure on milk price as indicated by the futures markets.

The strengthening El Nino is set to be the weather driver for 2024 with wide reaching effects on the Southern Hemisphere commodity production, together with knock on effects into the Northern Hemisphere. The wet conditions in the UK look set to continue for a 5th month although there is the promise of a drier interlude mid November. The challenges on farm affecting milk production are variable forage quality and quantity coupled with a milk price below the cost of production ~ not the best ingredients for a profitable winter! Higher milk prices in 2024 will be needed to bring farms back towards profit and some kind of sustainable future for milk production.



in October with sharp increases in Butter (+6.9%), SMP (10.3%) and Whey (+14.3%), while Cheddar remains in the doldrums (0%). The UK commodities moved in line as indicated in the MPE graph above with Cheese/Butter benefitting from the 10% increase in UK Butter price. The range across the sectors drops to 5.9ppl with a 14% rise in SMP/Butter.

Farm Gate Prices

Farm Gate Price was provisionally up to 36.4ppl (+0.4%) for September. The farm gate price continues to track the MPE at around 36ppl. Milk quality remains seasonably high which is supporting milk prices.

Our latest milk price forecast, based on current prices and the latest market returns, suggests the Defra farm gate price will seasonally rise to 37.0ppl in October, 37.6ppl in November and at 38.6ppl in December, due to rising commodity markets. With AMPE jumping to 34.5ppl, B litres will be around 32.5ppl in November if implemented.

Production in August was confirmed at 1190 M litres (+0.6%), provisionally for September at 1137 M litres (-1.3%) and based on the AHDB daily deliveries forecast for October at 1186 M litres (-2.5%). Our forecast for November is 1163 M litres (-2.5%) and December 1214 M litres (-1.2%). The forecast for 2023/24 falls to 14.78 B litres (-0.8%). The incessant wet spell continues hastening the onset of winter. The forecast for November is for a wet month but more settled mid-month. Grazing quality has declined rapidly with most stock being housed with Storm Ciara following quickly behind Storm Babet.

October's closing exchange rates were £/\$1.22 and £/€1.1485 with Sterling falling against the Euro but stable against the dollar. The consumer price index remained at 6.7% in September which has led the Bank of England to hold bank base rate to 5.25%. Pacific weather patterns are showing a strong El Nino event with effects beginning to be seen. The grain markets have become immune to the Russia/Ukraine conflict, but were jolted by the attack on Israel in early October, since when grain prices have subsided. Oil prices have returned to their pre-Middle East conflict levels, while Soya Bean Meal has climbed 13.4% through the month."

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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.

Market Prices

The Market Price Equivalent (MPE) rose sharply in October by 1.47ppl to 37.4ppl (3.9%), down 1.24 ppl (-3.2%) in the last 6 months and down 10.4ppl (-21.7%) year on year. Liquid retail prices have stabilised at 65.5ppl, down 3.2% on the year and 10.9% in the last 6 months. UK supply dropped sharply in October (-2.5%) as the grazing conditions deteriorated during a very wet month. EU weekly commodity prices jumped

