

PRESS INFORMATION from *The Dairy Group*

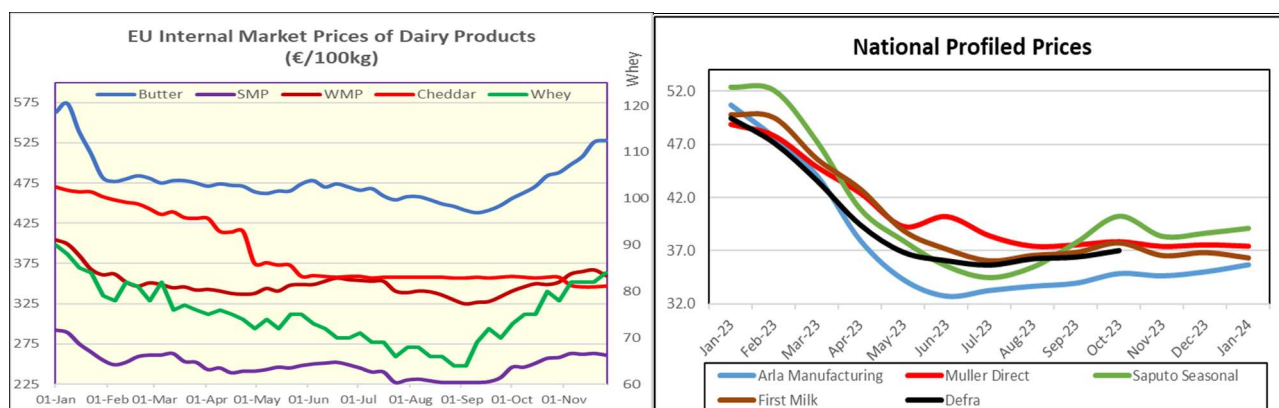
4th December 2023

The Market Price Equivalent (MPE)

By Nick Holt-Martyn, The Dairy Group

Milk price turns the corner

“As expected, some milk prices have started to rise with Arla leading the way in December and others following in January” says Nick Holt-Martyn of The Dairy Group. He goes on to say “UK supply is tracking around -3% on 2022 with France -4.8% and Germany flat. The EU27 is slipping by around 1% overall stimulating the rises in the EU commodity prices.



Source: The Dairy Group, Defra Statistics & AHDB

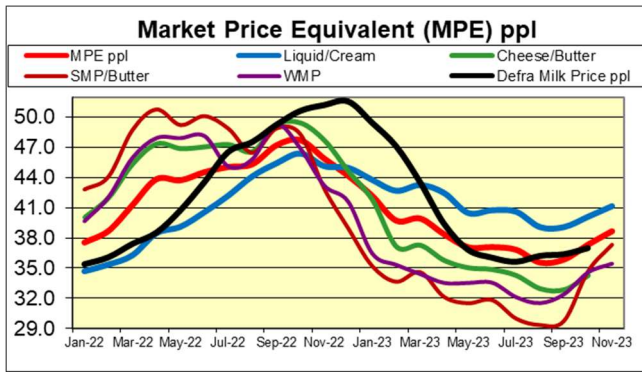
The graph on the left shows the EU commodity prices through 2023 indicating the sharp rises since September particularly in Butter and Whey, although Cheddar has remained in the doldrums. The graph on the right shows some key indicator UK milk contracts based on the UK supply pattern and milk quality. This shows that while all prices are following the same trajectory Arla has fared the worst but responded the quickest, due to its EU dimension and commodity exposure. The rise since the summer is solely due to rising milk quality and seasonal pricing which affects some producers. With commodity prices in the EU rising for the last 3 months expectations are that prices will continue to rise. However a note of caution, EU prices have been static for the last 2 weeks and are often subdued through the Christmas period which may have started a month early.

The shortfall in supply is clear so with inflation falling behind the rates of increase in weekly earnings demand is expected to be maintained. This all points to further increases in the farm gate price with those most exposed to the commodities seeing the greatest increase. The poor performance from Cheddar in the EU market is a concern, but with Irish milk production at -1.9% in September and slipping further behind 2022, overall cheddar supply will be increasingly constrained. 2024 looks to be a better year with prices and although not yet reflected at the farm gate, the MPE price model is above 41ppl from January 2024.

Globally milk production is weak, but not falling significantly behind and the expectation is that it will remain subdued until the spring. With the major export nations running at around -0.6% prices are likely to firm without reaching the heights of 2022. Milk prices slightly above the cost of production will be welcome and probably lead to the small improvement in supply, hopefully stabilising markets.

The spectre of El Nino looms large on the horizon as it is expected to last through to mid-summer 2024 with any weather effects likely to last beyond the summer. El Nino effects could be sufficient to destabilise milk supply and consequently market stability. The wet conditions in the UK are forecast to continue for a 6th month despite the recent cold dry snap. The challenges on farm relating to forage quality and cost of supplementation are likely to continue with little expected to cause milk production on farm to improve.

The cost of production in 2024 is likely to worsen with stable variable costs and inflation driven fixed costs at best, so milk price increases will be welcome and need to be sustained for supply to stabilise.



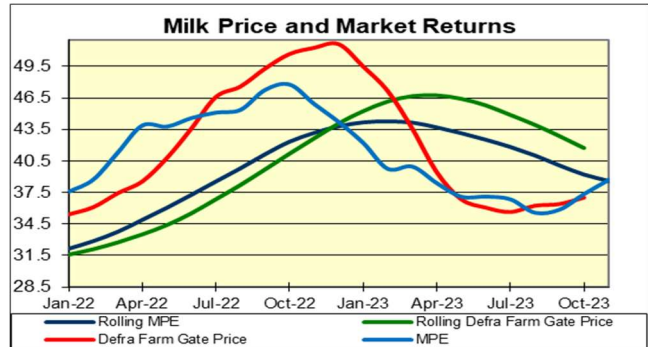
Market Prices

The Market Price Equivalent (MPE) rose again in November by 1.33ppl to 38.7ppl (3.4%), up 1.6 ppl (4.3%) in the last 6 months and down 7.2ppl (-15.2%) year on year. Liquid retail prices remain stable at 65.5ppl, down 6.3% on the year and down 7.0% in the last 6 months. UK supply dropped sharply in November (-3.1%) as the forage quality proved challenging during yet another very

wet month. EU weekly commodity prices lifted again in November with sharp increases in Butter (+8.2%), SMP (1.2%) and Whey (+7.7%), while Cheddar slipped further behind (-3.1%). The UK commodities moved in line as indicated in the MPE graph above with with Cream and Butter driving the market (up 16% and 13% respectively). The range across the sectors eased to 5.4ppl.

Farm Gate Prices

Farm Gate Price was provisionally up to 37.0ppl (+1.6%) for October. The farm gate price continues to track the MPE which has moved above 38ppl. Milk quality remains seasonably high with the UK recording a record level of milk protein of 3.51% in October.



Our latest milk price forecast, based on current prices and the latest market returns, suggests the Defra farm gate price will seasonally rise to 37.2ppl in November, 38.5ppl in December and 39.3ppl in January, although record milk quality could lift prices further. With AMPE jumping again to 37.7ppl, B litres will be around 35.7ppl in December where implemented, but more importantly pushing up core prices as well.

Production in September was confirmed at 1139 M litres (-1.1%), provisionally for October at 1189 M litres (-2.2%) and based on the AHDB daily deliveries forecast for November at 1156 M litres (-3.1%). Our forecast for December is 1206 M litres (-1.8%) and January 1217 M litres (-2.3%). The forecast for 2023/24 falls to 14.75 B litres (-1.0%). The incessant wet spell continues hastening the onset of winter. The weather forecast is for a continuation of the wet weather with another cold spell possible at the month end.

October's closing exchange rates were £/\$1.263 and £/€1.1596 with Sterling rising against the Euro and the Dollar. The consumer price index dropped to 4.6% in October which means a hold to bank base rate of 5.25%. Pacific weather patterns are showing a strong El Nino event is likely extending well into 2024, but as yet weather effects are mixed. The grain, soya and oil markets have had a mixed month with Wheat up 6.5%, Soymeal down 7.2% and Oil down 8.8%. The Wheat market is reflecting the uncertainty regarding El Nino and the oil prices are back to levels last seen in July 2023."

- Ends -

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.