

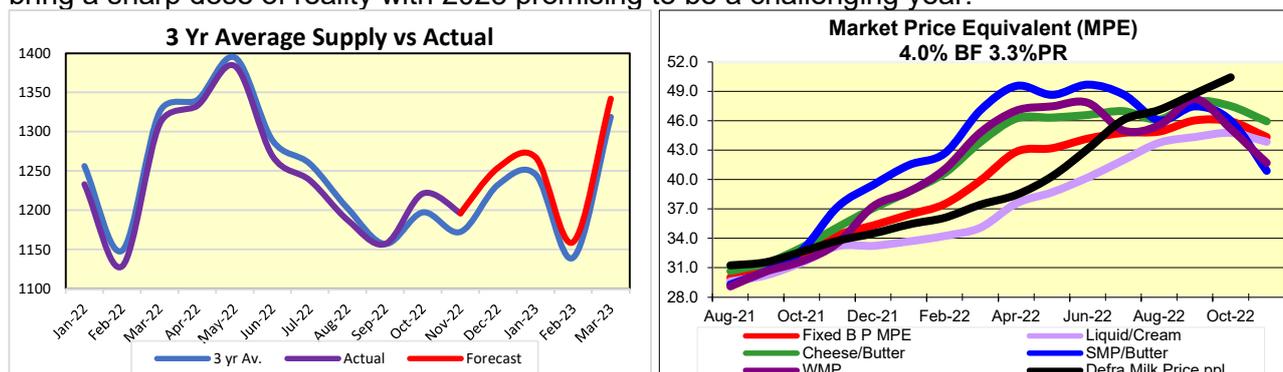
# PRESS INFORMATION from *The Dairy Group*

2<sup>nd</sup> December 2022

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

### Farm Gate Price Tops 50ppl but the Commodity Market is Chilling by the Day!

“The Defra Farm Gate price topped 50ppl and the 12 month rolling price topped 40ppl for the first time in October” says Nick Holt-Martyn of The Dairy Group. He goes on to say “With dairy companies holding their nerve these prices are likely to remain through November and December. November is likely to exceed 51ppl with record levels of milk solids. But as so often happens, the New Year will bring a sharp dose of reality with 2023 promising to be a challenging year.



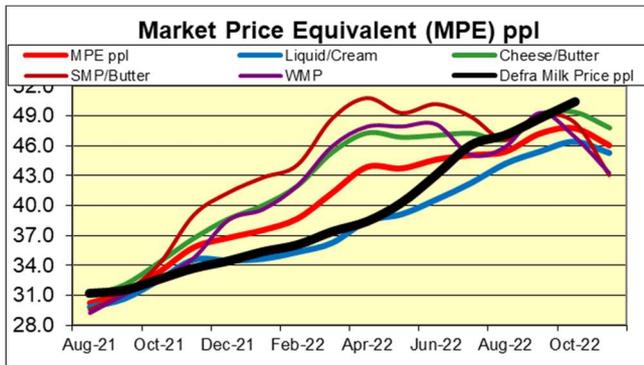
Source: The Dairy Group, AHDB, European Commission

The left-hand graph shows how the UK milk supply has taken off once the autumn rains arrived and herds were forced into winter feeding. The high milk prices encouraged farmers to feed their cows well resulting in high milk production and record levels of milk quality. The forecast is for milk supply to come back to the 3 year average over the winter to finish the milk year around 60M litres ahead of 2021-22. The right-hand graph shows the UK market returns based on a standard litre, stripping out the seasonal change in milk quality. This graph shows how the commodities together with cheese prices pulled the market up in the spring with SMP and WMP easing for most of the summer. Now the improving supply has caused Cream and Butter to drop sharply pulling the Liquid and Cheese sectors back towards the commodities. With improved supply all round the northern hemisphere the direction of travel for market returns is clear with the effects being felt in 2023.

From our accounts database the cost of production for the year end March 2022 has averaged 36.8ppl, up from 34.2ppl a year earlier. Inputs have continued to rise through most of this year particularly fertiliser, electricity, feed and fuel. Each business will have its own experience with input cost inflation depending on the quantity of legacy stocks available, the ability to time purchasing at strategic times, coordination with other farmers through buying groups and scale of purchasing. Without knowing for certain where costs have risen to, we do know that fixed costs are probably more under pressure than some of the variable costs like cereals which eased at harvest and seems to be staying fairly stable. While oil prices have eased the red diesel cost, electricity prices however have continued to climb. For most the cost of production will be around 45-47ppl which with milk prices set to average 51ppl in Q4 2022 before easing in Q1 2023 means the economics are, for the moment at least, favourable.

With a concentrate price of £380/t the Milk:Feed Ratio is 1.34, much improved on the 1.15-1.25 experienced through 2020 and 2021. This will tighten up when the the milk price falls as feed and other key costs will be on legacy 2022 prices. This reduction is likely to temper milk supply through the spring and summer.

Production costs are unlikely to decline across the board. Fixed cost inflation tends to stick unlike the commodity market driven variable costs. There is no change to the challenge for farmers ~ 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

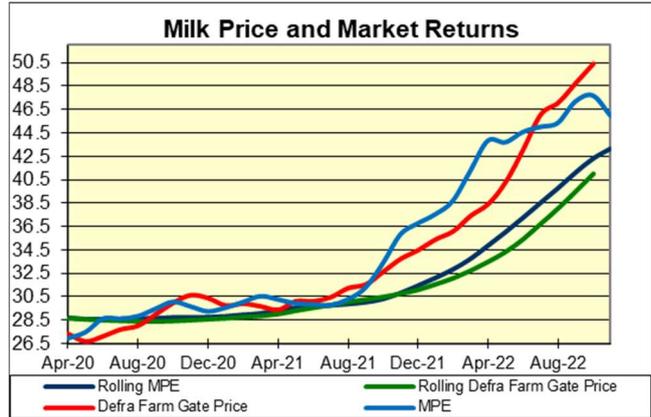
The Market Price Equivalent (MPE) slips by 1.7ppl to 46.0 ppl (-3.7%) this month, up 2.3 ppl (5.3%) in the last 6 months and up 10.2ppl (28.5%) year on year. There were sharp reductions in commodities this month with falls of 2-19%, with Cream, Butter and SMP leading the way. The range across the sectors has widened to 5.0ppl from Cheese/Butter down to SMP/Butter. UK

supply has continued its strong production with November +2.9% on 2021. The EU weekly commodity price report eases further with Butter down sharply. The MPE graph above shows UK markets have all turned down with core sectors (Liquid and Cheese) ranging from 45-47ppl.

### Farm Gate Prices

The October 2022 farm gate price rose by 1.64ppl to 50.44ppl, 17.78ppl above October 2021. The rolling Farm Gate price rises to 40.95ppl. October milk price was 0.5ppl above our forecast and is set to be close to 51.0ppl in November.

Our latest milk price forecast, based on current prices and the latest market returns, suggests the Defra milk price will be 50.9ppl in November, rising to 50.8ppl in December and easing to 49.2 in January.



Production in September was confirmed at 1157 M litres, +0.2% (2M litres) and October provisionally 1222 M litres, +2.2% (26M litres). Based on the AHDB daily deliveries our November forecast is 1196 M litres (+2.9%), December at 1255 M litres (+3.0%) and January at 1265 M litres (+2.8%). Our forecast for 2022/23 has lifted to 15.01B litres (+0.7%). The mild wet autumn has changed into a cold start to winter which will have little effect on milk supply. Both milk prices and input costs look set to be volatile for 2023.

November's closing exchange rates are £/\$1.2073 and £/€1.158 and have firmed since the Autumn financial statement and better inflation figures in the USA. The consumer price index climbed to 11.1% in October and is now forecast to remain at similar levels into 2023.

Despite New Zealand's poor spring with production down 3%, globally production is rising slowly by <1% and looks set to continue to grow. Defra still maintains the uncertainty over ELMs, but BPS payments are being made on time."

- Ends -

### For further information please contact:

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- **Visit [www.thedairygroup.co.uk](http://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.