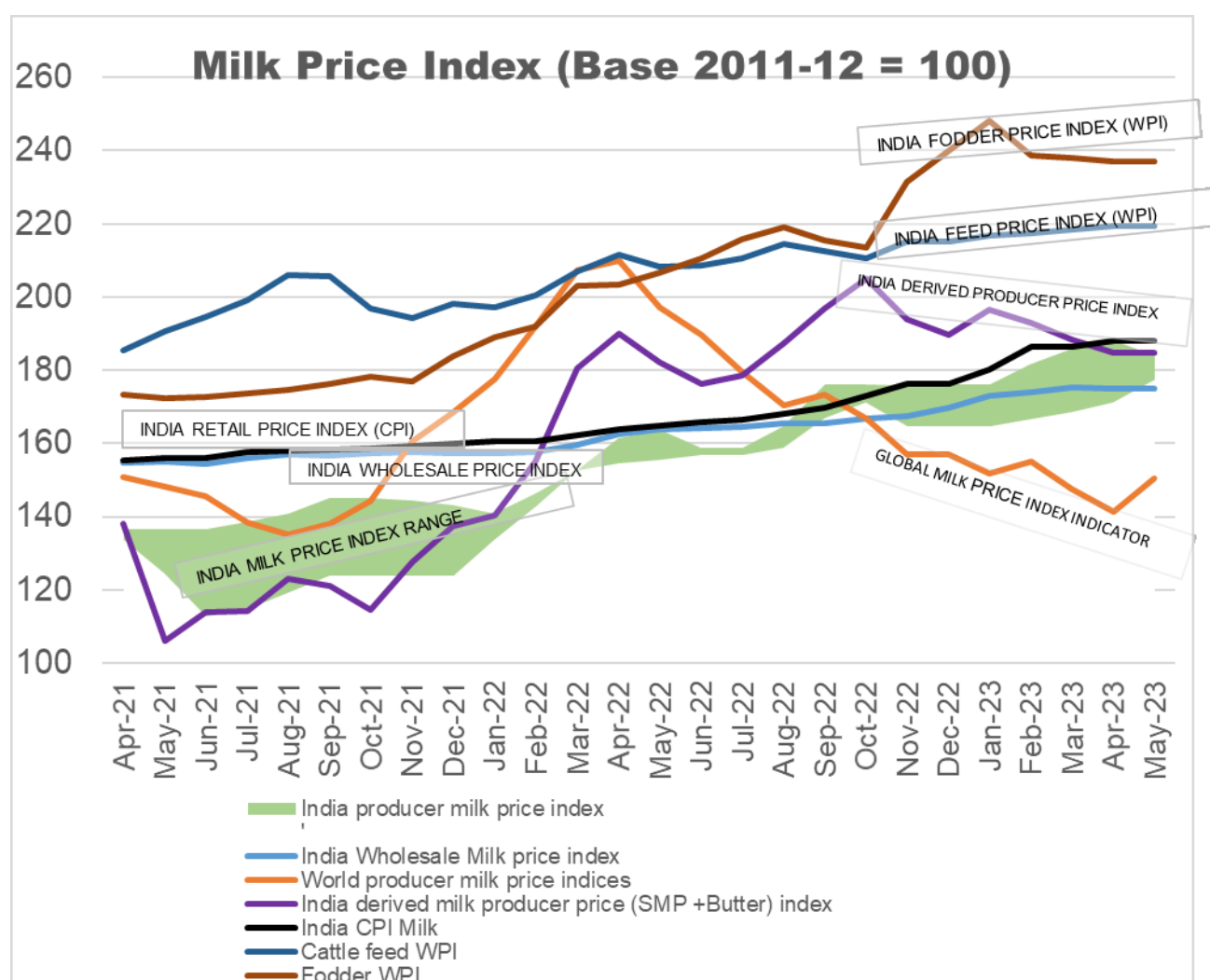


Global milk prices in an upward trend towards Indian price levels: May 2023 FOGS GLOBAL (FG) report

Dairy prices in India has been on an inflationary spree in 2022-23. But the catch has been on the rise in dairy commodity prices in times when global dairy prices were trending downwards since April 2022. The rise in milk prices has been driven by rise in the fodder and feed prices to a great extent and partly to the supply constrained by LSD and covid after effects. The positive aspect of the price rise has been to the milk producers in India who have got a better share of the margin in this period. Global prices have an end number of factors that determine its volatility. What interests India is if and whether farmers are getting their due share at the end of the day.

Figure 1. The Fogs Global Dairy and Feed Price indices 2021-23



KEY HIGHLIGHTS

- ✚ The **FG India producer milk price index**© has increased by 4 % at 180.6 in May 2023 over last month. The new year 2023-24 price indices started with a 13% hike over previous year. Overall, the year 2023 milk producer price indices is up by over 17 % over previous year.
- ✚ The **FG India derived producer price index**© at 184.7 points followed global trends to decrease by -4% in last 3 months cumulative. The year 2023-24 started with a 1% low of the commodity based index based on the NCDFI over previous year. At this level of commodity prices, dairy farmers in India are receiving optimal milk prices presently. Derived price indices are still higher by 12% since Jan 2023 over previous year primarily driven by lower stocks of powder and butter.

Table 1: FG Milk and Feed price indices trends India vs Global in May 2023

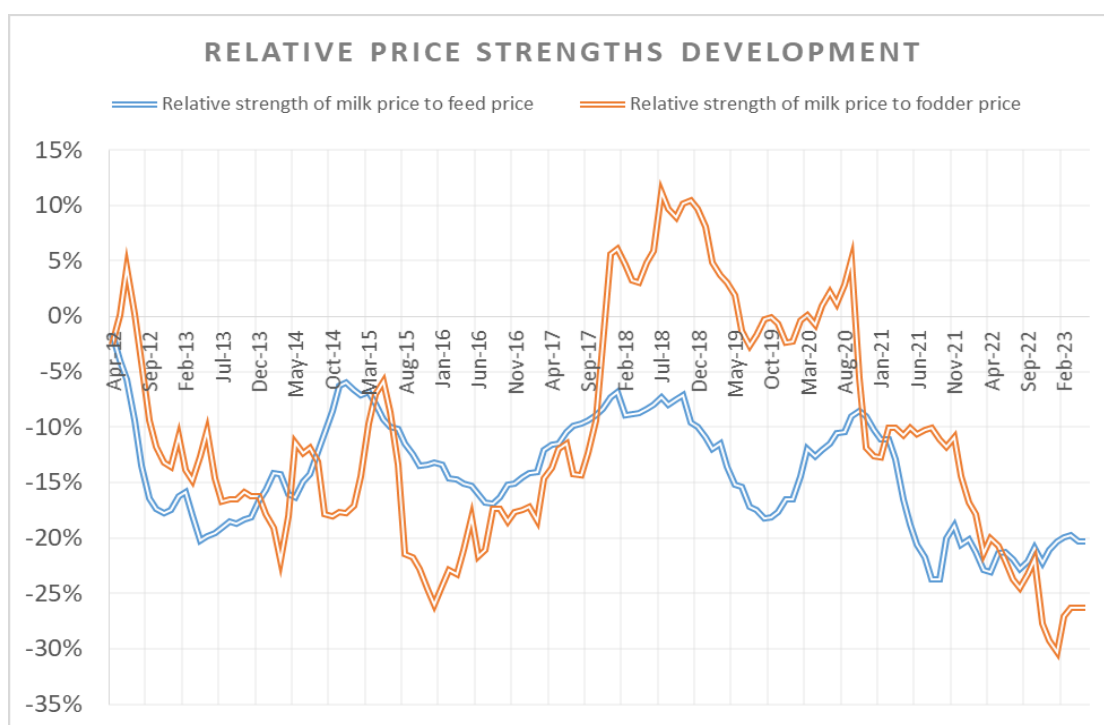
Index	FG Indices- May 2023	1-month% (May 23)	3-month% (Mar 23-May 23)	YTD% (Apr 23-)	1-Year% (Jan-May 23)
FG Producer	180.6	4%	4%	13%	17%
FG Derived	184.7	-4.3%	-4%	-1%	12%
FG Wholesale	174.9	0.5%	2%	7%	9%
FG Consumer	188.2	1.0%	4%	14%	14%
FG Global	150.5	6.6%	-5%	-28%	-24%
FG Feed	219.4	0.9%	1%	5%	7%
FG Fodder	237.2	-0.7%	-2%	16%	21%

- ✚ The **FG India whole sale milk price index**© has increased to 174.9 basis points up by 2% in last 3 months and 9% in the calendar year 2023 over previous year.
- ✚ The **FG India consumer milk price index**© at 188.2 basis points has risen by over 4% in last 3 months and begin by 14% hike in the year 2023-24 over previous year. Inflationary tendencies in retail prices of milk continues due to supply concerns especially of fat component and likely to continue till the flush season starts in early October 2023.
- ✚ The **FG global milk price index**© indicator© at 150.5 basis points increased by 6.6% in May 2023 over previous month. On the global level milk prices are expected to recover and bounce back to levels above 150 basis points after crossing the long-term average in April (for 1 month). Global milk production growth is still positive which is driven by the base year effect and on the other side also due to favorable dairy margins. While national farm-gate milk prices are still okayish, farm margins are not terrible and they are also not really profitable at the moment. The declines in milk prices are still outpacing the declines in feed costs and that's why milk production growth is cooling down. Until national milk prices are dropping (which is expected to be seen in the upcoming months as we are looking at weakening demand), milk production is not expected to grow like previous years. Global milk price indices are lower by 24% in the year 2023 over previous year.
- ✚ **The FG Feed wholesale price index** © at 219.4 basis points has increased by 1% in last 3 months and 7% in the year 2023 over previous year. However, there could be wide differences in the cattle feed and its ingredient prices due to its seasonality.

✚ **The FG Fodder wholesale price index** @ at 237.2 basis points in May 2023 has decreased by 2% in last 3 months provisionally. This is likely to increase in coming months as unseasonal rains has damaged the fodder quality and raised prices. The year 2023-24 started with a higher price index by 16% over previous year. Hence, concerns for farmers remains regarding its impact on the costs of production and margins.

The feed and fodder markets have shown a relatively higher inflationary trends since the base year 2011-12 than the dairy markets in India. The relative price strengths of the wholesale milk to wholesale feed and fodder markets in terms of its development over time is shown in the figure 2 below. The relative price strengths refers to the percentage change in the FG milk to feed price indices over the base price index of 100.

Figure 2. The relative strengths of the Indian dairy to the feed market price indices in 2012-23



As can be seen in the chart above, the dairy markets have mostly been weaker over the feed markets in terms of the price developments. In the latter years since covid-19, the dairy markets have weakened much more than previous years relative to the feed markets. This leaves us to some basic questions:

1. Is dairy markets sustained by its productivity and efficiency developments ?
2. Is feed sector more remunerative than the dairy markets?
3. Is there a fundamental supply crisis in the feed markets that is expanding since 2012?
4. Fodder markets have shown much higher instability than feed markets. Is it time that the fodder industry be more regulated and disrupted?
5. Is subsidizing the dairy producer prices by 20-30% by various state governments already in place or proposed justified vis-a-vis the relatively higher strengths by 20-30% in feed price indices?

Looking forward to your comments and feedback in these issues.

Note: Method used: The milk price index is developed with the base year as 2011-12 considering the year having similar national and global milk producer prices and to keep in tandem with the government published data referenced to this year. FOGS GLOBAL NETWORK brings a monthly preview of the dairy prices development. Since milk price in India has a wide range, we have developed a producer milk price index using the monthly weighted SMP and Butter prices from NCDFI.

Source: Global milk price indicator, IFCN Dairy research network, India data from Ministry of Commerce and Industry ,GOI, NCDFI and internal surveys of producer prices at dairy cooperatives. May 2023 values are based on estimates and reliable data sources like clal.it, dairynews7x7

The derived milk producer price index for India is based on the wholesale SMP and butter prices for the national markets and backward calculation for its processing, marketing and inflation considered.

The CPI for milk and milk product is taken from ceicdata.com for time series April 2011-Sept 2022 and latest from published reports and news media on retail milk prices of major stakeholders.

Disclaimer: The opinions and facts are solely based on the analysis of available data sources by the FOGS GLOBAL NETWORK and don't in any way represent any particular section of society views therein or warrant any policy decisions based on these facts.

