



MPO POINTER 6/7 October 2021

MASSIVE INCREASES IN INPUT PRICES HAVE DRASTICALLY RAISED THE PRODUCTION COSTS OF UNPROCESSED MILK

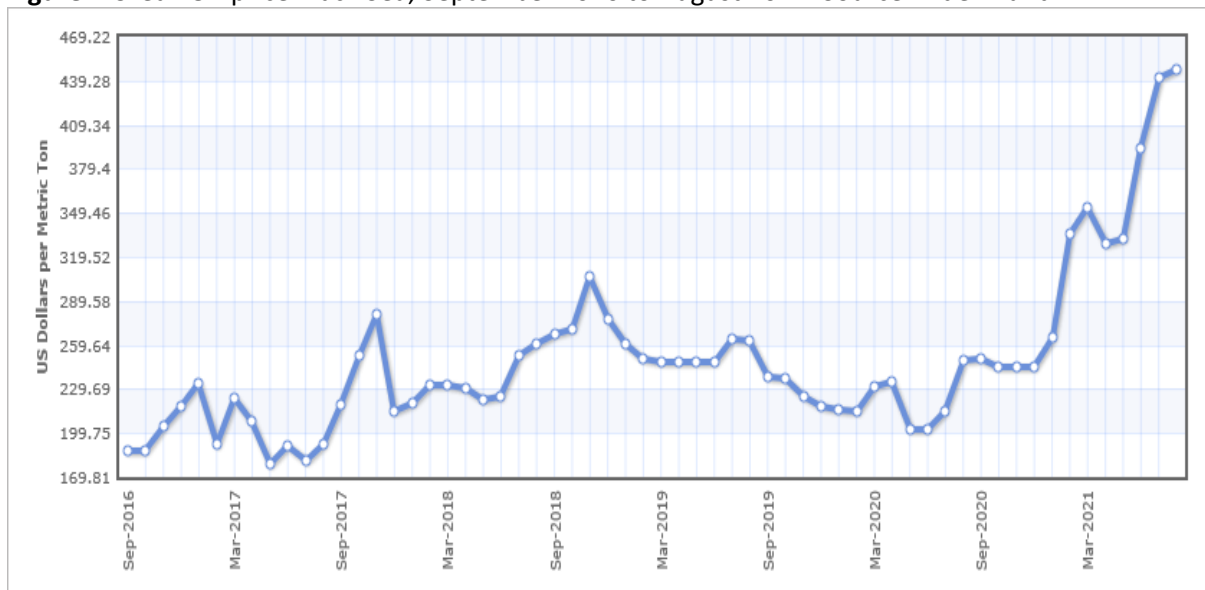
Urea and superphosphate prices

In August 2020 the price was US\$249,50 (R4 298,88) per tonne and 12 months later, in August 2021, the price rose to US\$446,88 (R6 600,40) per tonne. This is an increase of 79% in US\$ terms and 53,5% in ZAR terms.

In September 2021 the price again shot up drastically to US\$623 (R9 313) per tonne, which represents an increase of **116,6%** in ZAR terms in comparison with the September 2020 price.

The latest price delivered on a farm in KwaZulu-Natal, was R10 245 per tonne.

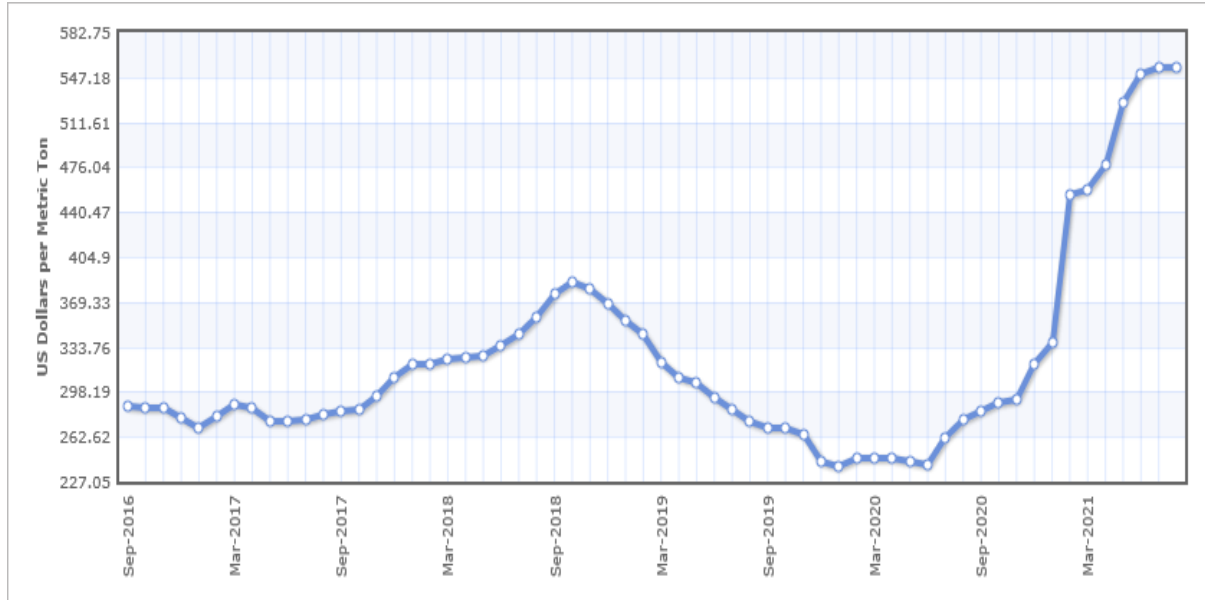
Figure 1 Urea FOB price Black Sea; September 2016 to August 2021. Source: Indexmundi



Month	Urea (US\$ price per tonne) Oct 2021 spot price and the rest future prices.
Oct '21	680
Nov '21	712
Dec '21	714
Jan '22	722
Feb '22	728
Mch '22	726
Apr '22	722,5
May '22	725

Source: Chicago Mercantile Exchange; USA Gulf FOB prices

Figure 2 Superphosphate FOB price Black Sea; September 2016 to August 2021. Source: Indexamundi



In August 2020 the price was US\$276,25 (R4 759,78) per tonne and 12 months later, in August 2021, the price rose to US\$555 (R8 197,35) per tonne. This is an increase of 101% in US\$ terms and **72,2%** in ZAR terms.

The prices in Figures 1 and 2 exclude shipping and insurance costs. Figure 3 shows trends in shipping costs.

Figure 3: Baltic Dry Index. Source: Bloomberg



The Baltic Dry Index reflects the cost of shipping dry commodities like grain and fertilisers. These costs are clearly reaching record highs at the moment. These record costs will lead to dramatic further increases in the cost of landed fertiliser.



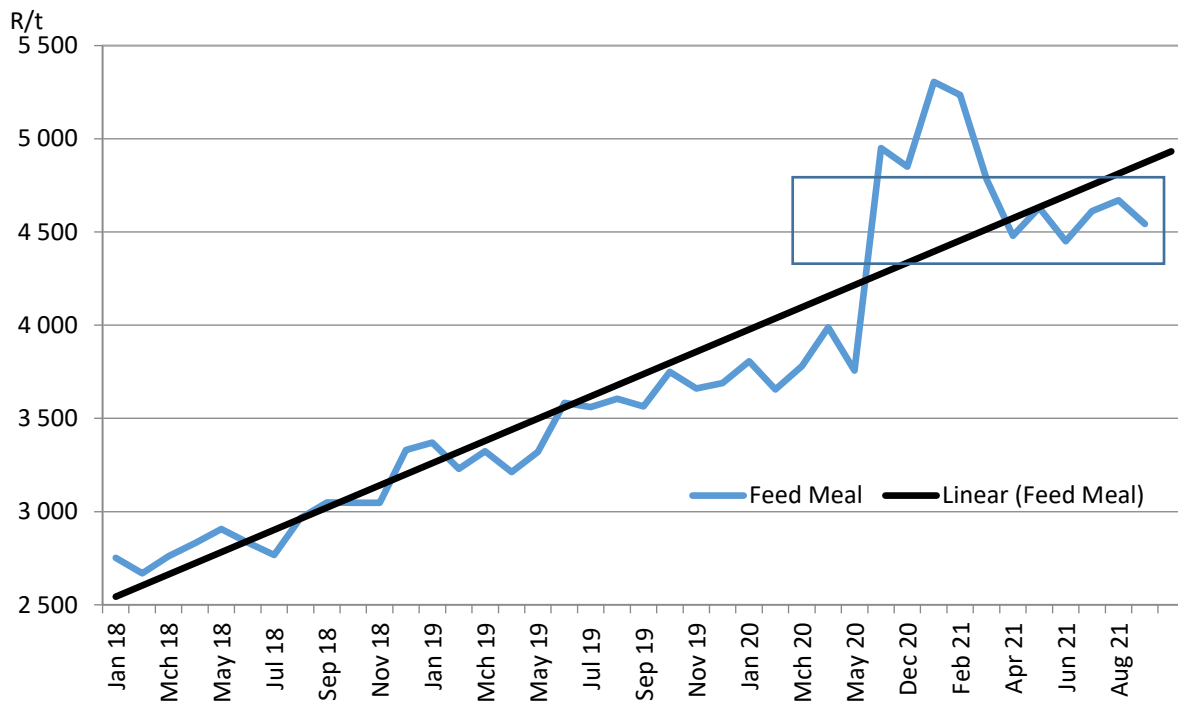
As recently as September 2021 the index rose by **32,5%** and the market is expecting further increases in October 2021.

The above is largely due to the aftermath of the worldwide hard lockdown in 2020. During that period production output and logistic capacity were lost. The world is currently trying to catch up and this process has caused drastic rises in the prices of many commodities, as well as in transport costs and product prices.

Grain prices

The combination feed meal price has risen sharply since May 2020 and it would appear that a new price regime has developed in the process. International coarse grain stocks are low and this is driving the higher levels of grain prices internationally. The average price for combination feed meal rose by 46% from 2019 to 2021.

Figure 4 Feed meal (70% yellow maize and 30% soya), JSE MTM prices, Jan 2018 to September 2021



Other inputs such as electricity rose by 18,7% and basic steel and iron rose by 44% over the period August 2020 to August 2021. Source: StatsSA.

The raised cost structure that is occurring on milk farms, as set out above, is abnormally aggressive. The dairy value chain will have to operate cleverly over the next three months in view of the fact that there is every indication that producer prices cannot drop but are more likely to increase and that the South African consumer is having an uphill battle as a result of the weak South African economy and the resulting negative impact on disposable income.

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