

PRESS INFORMATION from *The Dairy Group*

10th August 2024

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

July 2024 Could Be a Moment of Change

“Aside from the change in Government, which may or may not change the dairy industry’s outlook, there were 2 other notable events,” says Nick Holt-Martyn of The Dairy Group. He goes on to say “first the implementation of Fair Dealings Obligations (Milk) Regulations 2024 came into force and second AHDB reported England’s Dairy Producers dropped below 6,000 for the 1st time.

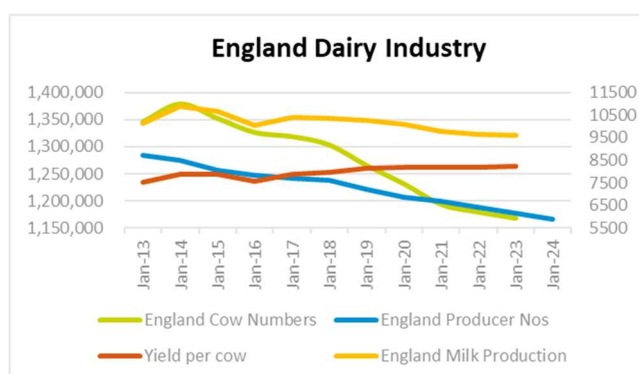
The Dairy Regulations will apply immediately for all new contracts while existing contracts have 12 months grace to make the necessary changes to become compliant. I expect lawyers will be hard at work over the winter so that updated compliant contracts are ready to roll with the new milk year in April 2025. The key features are a minimum 12 months notice processor termination period, a 21 day cooling off period without penalty, A&B pricing can no longer be coupled to exclusive supply contracts and the Agricultural Supply Chain Adjudicator will enforce the regulations on behalf of Defra. Time will tell how contracts will change to comply with the new regulations, but comply they must.

AHDB have published their latest survey of UK Producer numbers which shows a dramatic acceleration in retirements (-5.8%) during 2023/24, following on from the much lower rate in the previous year (-4.2%) as milk prices began to slump and very low (-2.0%) during the high milk price of 2022. What is evident is that milk prices are a key determinate in helping producers to decide when to retire, but probably not the more fundamental question of whether to retire. The decline in producer numbers has been ongoing for decades with ebbs and flows driven by many factors & low profitability. For England and Wales the declines are relentless with 66% of producers retiring in the last 25 years, which if the rate continues could see barely 2,000 producers left in 25 years time!

	England and Wales	Scotland	Northern Ireland	United Kingdom
Change Over Last 25 Years	-66%	-56%	-49%	-62%
Change Over Last 20 Years	-56%	-50%	-43%	-53%
Change Over Last 15 Years	-39%	-41%	-16%	-35%
Change Over Last 10 Years	-29%	-21%	-6%	-24%
Change Over Last 5 Years	-19%	-11%	-1%	-15%

Source: The Dairy Group, AHDB

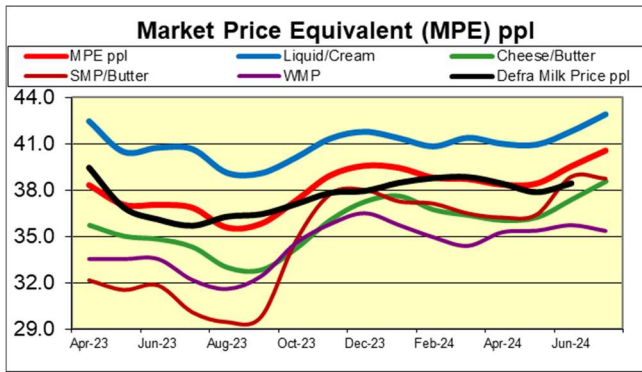
The graph on the right shows the England’s dairy industry over the last 11 years with the constant decline in both producer and cow numbers. Yields have risen for most of that time with the effect that England’s milk production has been stable. However, in the last five years yield per cow has stabilised so total milk production has therefore fallen. England’s milk production dropped below 10 B litres in 2020/21 and dropping a further 5% since.



Source: The Dairy Group, Defra, AHDB

The average Farm Gate milk price in June has recovered to 38.4ppl after the dip to 37.9ppl in May. Seasonally improving milk quality together with higher milk prices should mean prices continue to rise. August is set to see 40ppl and september 41ppl, but with the average cost of production over 44ppl declines in producer numbers are not expected to slow. Although the remaining producers will absorb many of the cattle released by the retirees the cost of reinvestment and environmental compliance/improvement will limit herd expansion.

Improved, fairer contracts will help give some confidence to producers, however there is no substitute for a milk price much closer to the cost of production. Narrowing of the Milk Price Gap closer to the cost of production will bring it’s own reward. Higher milk prices coupled with stable cost of production are the recipe for sustained milk production. Not much to ask for!



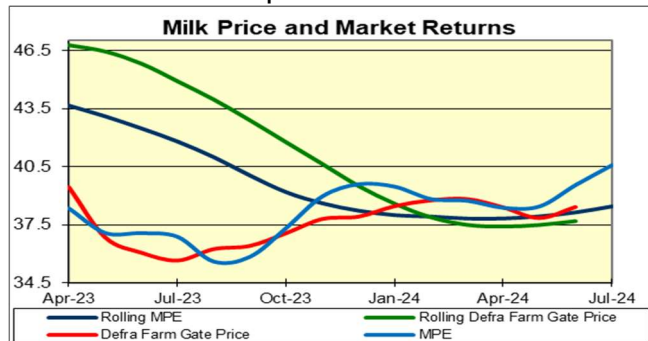
Market Prices

The Market Price Equivalent (MPE) rises in July to 40.6ppl (+2.5%), up 1.1 ppl (2.8%) in the last 6 months and up 5.0ppl (13.5%) year on year. This is the highest and 1st month above 40ppl since January 2023. As expected, UK supply has recovered to -0.9% in May and -0.2% in June with July forecast at 0%. The rise in July MPE is due to a jump in cream prices (+10%) together with a rise

in cheese price. EU weekly commodity prices were mixed in July with some stability in Butter prices in recent weeks, but further weakness in SMP and WMP, Butter up 2.2%, SMP down 1.3% and Whey up 3.8% and Cheddar up 0.8%. The UK commodities were mainly up with Cream up 10%, SMP -2.0% and Mild Cheddar up 3.0%. The range across the sectors widened to 7.5ppl from Liquid to WMP due to the rise in Cream prices.

Farm Gate Prices

Farm Gate Price rose 38.4ppl in June, up 2.8ppl (+7.6%) year on year and up 0.6ppl in May. UK Milk quality will increase towards the autumn peak, but dipped in June at 4.09% Butterfat and 3.37% Protein, due to better grass supply. Combined butterfat and protein production was only up 0.7% on June 2023.



Our latest milk price forecast is up due to increases in the market and at the farmgate. Together this suggests the Defra farm gate price will rise in July to 39.2ppl, 40ppl in August and then rise further towards 41ppl in September.

Production in May was confirmed at 1376 M litres (-0.9%), June 1272 (-0.2%) and based on the AHDB daily deliveries our forecast for July is 1246 M litres (0%). The forecast for August is 1194 M litres (+0.3%) and September 1146 M litres (+0.9%) provided a normal weather pattern persists. The forecast outturn for 2024/25 remains at 14.8 B litres (-0.3%). July weather turned out to be wet, matching 2023 and August is forecast to be changeable supporting good forage production.

July closing exchange rates were £/\$1.2852 and £/€1.1873, Sterling slipped back against the Dollar from a high of \$1.30 mid-month, but fell sharply in the last week against the Euro. The consumer price index remained at 2.0% in June, with the bank base rate cut to 5.00%. Pacific weather patterns remain neutral with no sign of the next the La Nina. The global grain, soya and oil markets all fell with Wheat down 8%, Soymeal down 8% and Crude Oil down 11%.”

- 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.