

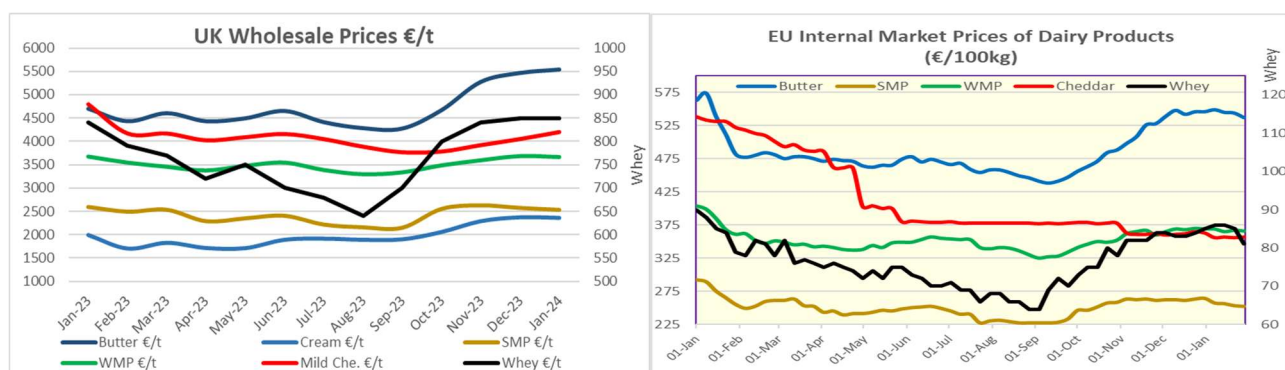
# PRESS INFORMATION from *The Dairy Group*

31st January 2024

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

### The Milk Prices Rises Prove to be a False Dawn

“The welcome farm gate price rises in the last 3 months has wetted the appetite for more and a greater recovery in margins as we start 2024. Alas it’s not to be as markets tread water following the Christmas break,” says Nick Holt-Martyn of The Dairy Group. He goes on to say “milk supply is marginally lower than previous years, but then European economies are also subdued with minimal growth and a high risk of recessions. As economic growth is a key driver of dairy demand, so dairy markets are entering a period of stagnation.



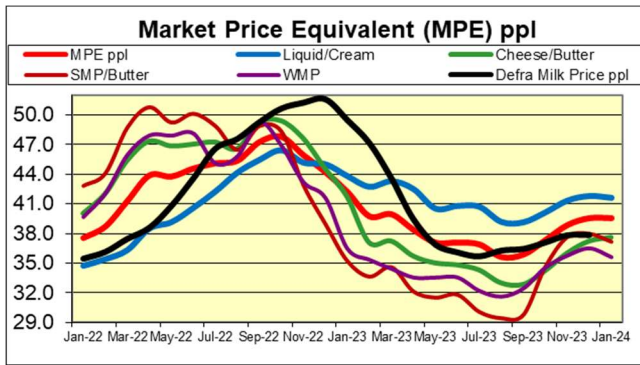
Source: The Dairy Group, EU Milk Market Observatory & AHDB

The graph on the left shows the UK market prices through 2023 expressed in Euros and the graph on the right is the EU Internal Market Prices. While the UK market is tied to the EU market through commodity prices for Butter, SMP, Whey and WMP it still has its own internal dynamics. UK markets having been flat through much of the year saw prices lift through the autumn with Whey acting as an early indicator. These came to a halt in November, but heralded the recent farm gate price increases. With markets flat again through the last 3 months further price rises seem unlikely unless processors are still playing catch up or have concerns regarding their own milk supply. With EU markets there is a very similar pattern with the notable exception of cheddar cheese which has been drifting lower throughout the year whereas European cheeses have followed the market.

The clear shortfall in UK supply through September to November 2023 has narrowed to below 1% which when coupled with record breaking milk quality narrows still further in terms of Butterfat and Protein production. There is some uncertainty over the spring flush, which is only a couple of months away, with variable forage stocks and forage quality, margin pressure, high cull cow prices and any consequential impact of the widespread uptake of the Sustainable Farming Incentive Scheme. When all these factors are taken into account along with the weather there is a lot to be unsure about.

Globally milk production remains weak but there are signs of an improvement in Australia and New Zealand although so much hangs on EU production levels which have mirrored the UK through the autumn. With the major export nations between -1% to +1% supply to world market will be subdued encouraging markets to remain stable. EU production levels through the spring flush will be the key driver of market tone through the next 6 months. Although feed prices have eased, milk prices above the cost of production and more “normal” weather will be required to encourage a stable milk supply.

El Nino conditions are weakening and are expected to become neutral in Spring 2024. However global weather effects are expected to persist through the summer with a risk of La Nina conditions following towards the end of the year. Variable weather is likely to carry on through the year providing challenging farming conditions at times. The ongoing cost of production looks set to reduce slightly by falling feed prices, but these will be offset by headline inflation over 4% and higher electricity and finance costs.



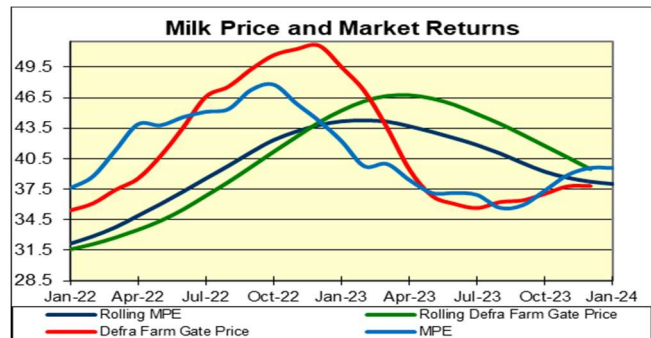
### Market Prices

The Market Price Equivalent (MPE) rose again in December by 0.69ppl to 39.6ppl, but slipped slightly in January to 39.4ppl (-0.6%), up 2.54 ppl (6.9%) in the last 6 months and down 2.75ppl (-6.5%) year on year. Liquid retail prices stood still yet again at 65.5ppl, down 10.9% on the year and unchanged in the last 6 months. UK supply stabilised in December and January, easing by just 0.5%

each month. EU weekly commodity fell in January with falls in Butter (-1.6%), SMP (-4.5%) and Whey (-4.7%), while Cheddar slipped further behind (-1.7%). The UK commodities were more robust with Cheese and Butter up 2.4% and 0.2% respectively, while Cream and SMP were down 1.6% and 2.8% respectively. The range across the sectors lifted to 5.8ppl from Liquid to WMP.

### Farm Gate Prices

Farm Gate Price was provisionally up to 37.8ppl (+1.6%) for November but flat in December also at 37.8ppl. The farm gate price continues to track the MPE which has moved above 39.5ppl. UK Milk quality reaches record levels of milk protein of 3.52% in November and butterfat in December of 4.39%, partially compensating for the slightly lower milk supply.



Our latest milk price forecast, based on current prices and the latest market returns, suggests the Defra farm gate price will seasonally rise to 39.6ppl in January, 39.8ppl in February and at 39.6ppl in March, with Arla's January price increase directly and in-directly feeding into milk price baskets.

Production in October was confirmed at 1184 M litres (-2.6%), November was confirmed at 1161 (-2.7%) M litres and provisionally for December at 1223 M litres (-0.5%) and based on the AHDB daily deliveries our forecast for January is 1240 M litres (-0.5%). Our forecast for February is 1140 M litres (-1.2%) (1181 M litres due to the leap year) and March 1322 M litres (-0.2%). The forecast for 2023/24 falls to 14.84 B litres (-0.5%). The weather has finally become "normal" for the time of year allowing the start of some field operations including some late drilled winter cereals.

January's closing exchange rates were £/\$1.2677 and £/€1.1734, Sterling has risen against the Euro but has been flat against the Dollar. The consumer price index eased to 4.2% in November and remained there in December which has led to a hold to bank base rates at 5.25%. Pacific weather patterns are showing the El Nino event is likely ease towards neutral by summer 2024, although weather effects are likely to continue further. The grain, soya and oil markets have had a mixed month with Wheat down 3.3%, Soymeal down 4.1% and Oil up 4.2%."

- 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](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.