PRESS INFORMATION from

The Dairy Group

5th June 2024

The Market Price Equivalent (MPE)

***By Nick Holt-Martyn,* The Dairy Group**

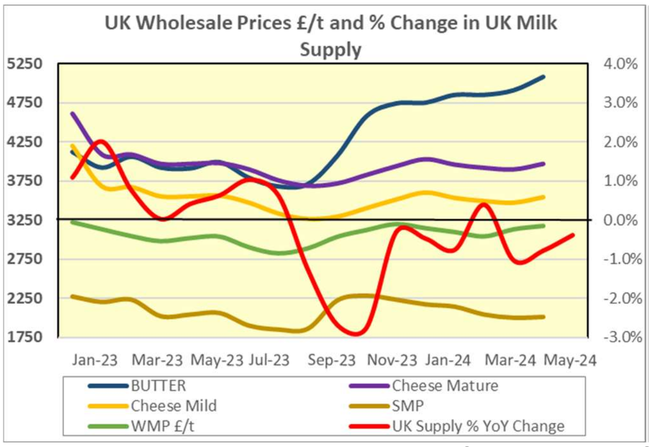
Milk production unsustainable with high farm costs

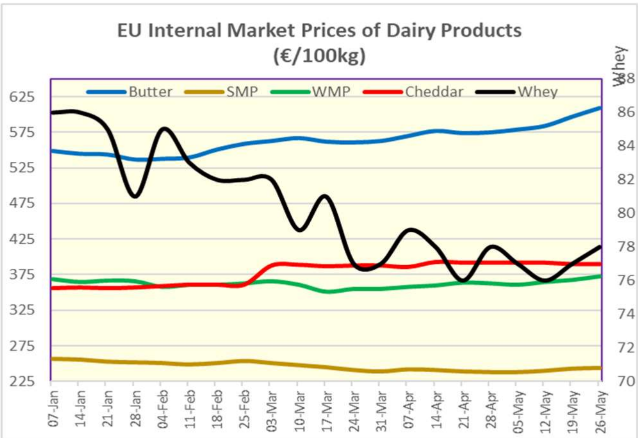
“Looking at the cost of production over the last 2 years at 43.8ppl in 2022/23 and 43.4ppl in 2023/24 it is clear that milk production is not sustainable at the current level of milk pricing,” says Nick Holt-Martyn of The Dairy Group. He goes on to say “a gap of 6 ppl between the cost of production and milk price is too big to be bridged by livestock sales and non-dairy income, especially with Basic Payment Scheme income now 50% less. The legacy profits of the 2022/23 high milk price period have been raodly eroded by the high cost of production and the milk price weakness of 2023/24.

Although variable costs have fallen back they remain 12.2% higher than 2021/22 while fixed costs continue to rise and have reached 21.2% above 2021/22. It is highly unlikely that the cost of production will ever fall below 40ppl again and a rise towards 45ppl is more certain. The dairy market throughout Europe needs to recognise that dairy farmers need higher milk prices if they are to meet the aspirations for environmentally sustainable milk production.

April milk supplies were 1% down at 1319M litres, 1.5% below the 3-year average and 1.5% below the 5-year average. May is on course to be around 1378M litres, down 0.8%, 1.1% below the 3-year average and 1% below the 5-year average. Despite good milk quality, butterfat and protein production was also down 1%, all putting pressure on UK processors to increase the farm gate price.

Grass production has returned to the seasonal pattern and despite peaking above the 5-year average the deficit in production has not been recovered. This may change in June which saw drought conditions in 2023 curtail grass production. Markets have responded to the production signals with UK wholesale prices up across the board and strong rises in EU markets.

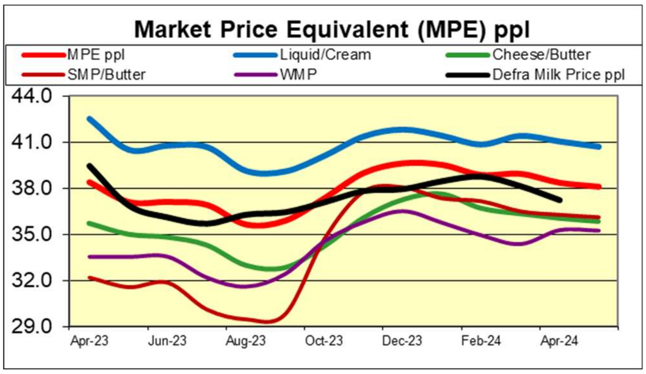




Source: The Dairy Group, Defra, AHDB

The graph on the left shows the UK wholesale prices and the corresponding change in milk supply. UK milk supply has been at or below 0% since August 2023 (with the exception of March 2024) which has put pressure on markets to respond with price increases. The EU milk production has shown a similar pattern as has the market response (graph on the right). Butter has been leading the way while the protein side has been getting weaker. SMP and Whey have slipped back through much of the spring, but there are recent signs of an improvement.

Globally production looks flat for the rest of 2024, while GDP is forecast to grow gently as inflation recedes and interest rates begin to fall. GDP growth is usually a sign for increased dairy demand and with it milk prices. We will have to wait and see if it materialises, but the current market upturn could be the beginning of a recovery or yet another false dawn.

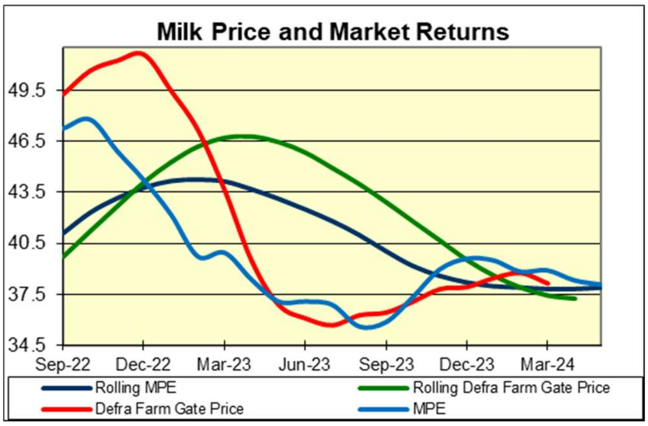


Market Prices

The Market Price Equivalent (MPE) eases in May to 38.1ppl (-0.7%), down 0.9 ppl (-2.3%) in the last 6 months, but up 1.0ppl (2.7%) year on year. This continues to show how flat the markets have remained for more than a year. UK supply was down 1.0% in April and is forecast to slip 0.8% in May. The decline in the May MPE is due to the seasonal decline in milk quality. EU weekly commodity prices were up in May with Butter up 5.9%, SMP up 2.5%, but Whey 0% and Cheddar was down 0.5%. The UK commodities were all up with Cream up 3.2%, SMP up 0.5% and Mild Cheddar up 2.0%. The range across the sectors fell to 5.5ppl from Liquid to WMP due to the rise in commodity prices.

Farm Gate Prices

Farm Gate Price was adjusted to 38.8ppl in February, 38.1ppl in March and 37.2 ppl in April. UK Milk quality continues to seasonally ease back to 4.26% Butterfat and 3.4% Protein in April - very similar to 2023.



Our latest milk price forecast is largely unchanged despite the market rise, based on current prices and the latest market returns, suggests the Defra farm gate price will be stable in May, but rise to around 38ppl by July and then rise further towards 39ppl in August and September due to seasonal price increases.

Production in February was confirmed at 1145 M litres (-0.8%), provisionally March is 1327 M litres (+0.4%), April 1319 (-1.0%) and based on the AHDB daily deliveries our forecast for May is 1378 M litres (-0.8%). The forecast for June is 1270 M litres (-0.4%) and July 1236 M litres (-0.8%) with a more normal weather pattern emerging. The forecast outturn for 2023/24 is 14.85 B litres, down 58M litres (-0.4%) and for 2024/25 14.78 B litres (-0.4%). The warm damp May has seen grass growth return to normal with a forecast suggesting a continuation into June.

May closing exchange rates were £/$1.2737 and £/€1.1732, Sterling rose against the Dollar and the Euro. The consumer price index fell to 2.3% in April, so the bank base rate is expected to be cut after the General Election from its current 5.25%. Pacific weather patterns are neutral and the La Nina event is still expected to develop over the next 6 months. The global grain, soya and oil markets have had a mixed month with Wheat up 8.25%, Soymeal down 3.6% and Crude Oil down 6.6%."

- 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.