

PRESS INFORMATION from *The Dairy Group*

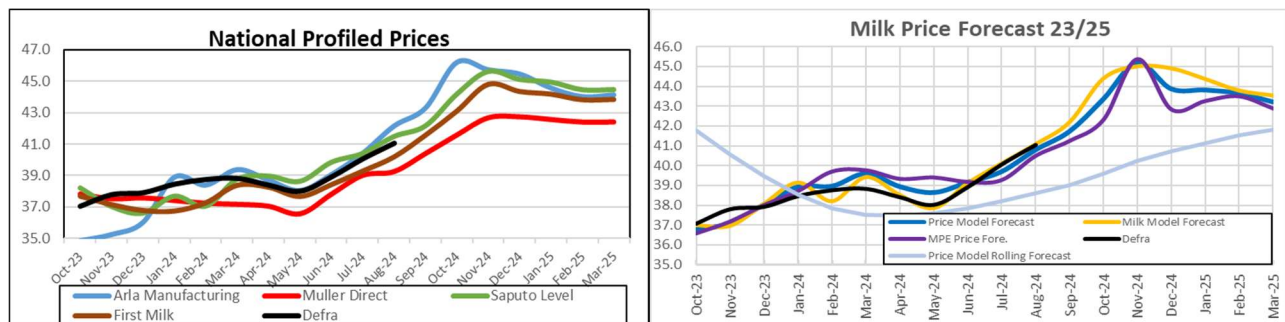
3rd October 2024

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

Where Markets Go the Farmgate is Sure to Follow!

“Wholesale prices for Cream and Butter have, as expected, set new record levels dragging the Market Indicators to levels not seen since the heady days of 2022,” says Nick Holt-Martyn of The Dairy Group. He goes on to say “with rising market returns comes rising Farmgate prices with Arla leading the way with their standard manufacturing price of 45.02ppl for October.

Arla, as a farmer owned business, continues to play the role of honest broker, with its unique position of straddling most sectors and a presence across the Northern European milk field and is a bell weather of market returns. When markets rise it channels back the maximum to its members, challenging the rest of the dairy processors to keep up. Which is why it is present in most milk price baskets benefitting many non-members as well. There is a downside to reflecting the market conditions so directly as was seen in summer 2023 when Arla’s prices dropped below most of the market as the post-boom adjustment took place. For now, at least everything is looking rosy with EU butter reaching new heights - up 10.3% in the last 4 weeks.

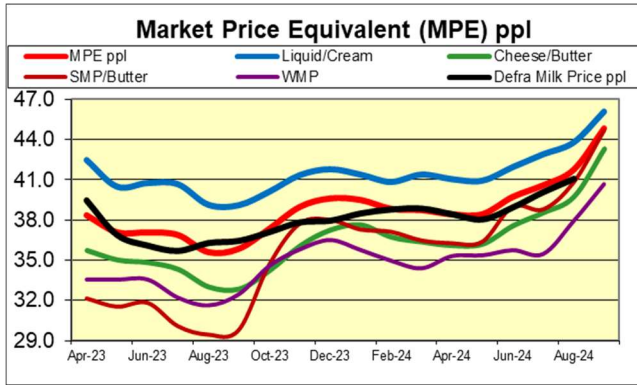


Source: The Dairy Group, AHDB & Defra

The graph on the left shows the Profiled Prices for the 4 indicator companies used in our milk price forecast profiled with UK levels of supply and milk quality. This is suggesting, as things stand, Arla’s members price will reach 46.2ppl in October. There is also the suggestion that the non-aligned liquid sector, represented by Muller, is languishing behind which is not surprising as there has been no Retail Price increase for 12 months.

The graph on the right shows the 2 models, 1 based on the profiled prices and 1 on the market returns which are then combined to produce our Milk Price Forecast. Both models are in strong agreement that the Farmgate price will exceed 45ppl in November due to the current contract prices and market levels combined with the seasonal peak in milk quality. With further increases in the profiled price due to more recent rises in the market the farmgate price is likely to be higher. A peak price of 46-47ppl cannot be ruled out.

The change in market prices is predicated on the balance of supply and demand and with demand currently strong and supply stable, market prices are rising. This balance is easily upset if supply increases in response to the higher prices and stable variable costs of production. Small changes in supply can trigger bigger corrections in market returns. The risk in the UK supply is small given the falling national herd numbers and indifferent silage quality, year on year might be up but supply is in line with the 3 & 5 year averages. However, tentative signs from New Zealand suggest a good start to their new milk year with August production up 9% on 2023, aided by the recent Fonterra price rises. If global markets fall then EU commodity prices could catch a cold this winter. Historically butterfat prices are volatile so the market needs the protein sectors to join the party to ensure sustainability. For the moment the prospects of the farmgate price exceeding the cost of production this autumn is welcome and will repair some of the economic damage from 2023. Farmers are advised to make the best of this period, exploit their milk contract by producing high milk quality and minimise their feed costs for efficient production and profiability. In markets what goes up does come down!



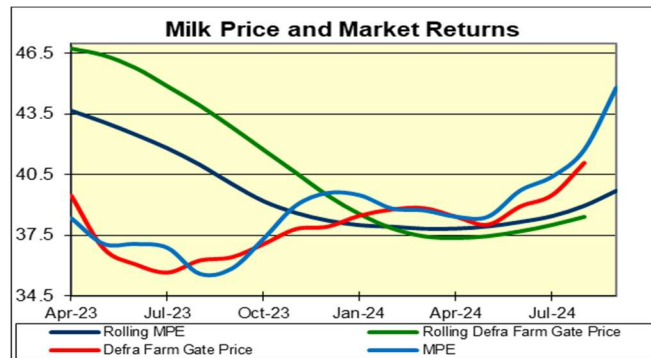
Market Prices

The Market Price Equivalent (MPE) jumped 3.1ppl in September to 44.8ppl (+6.8%), up 6.1 ppl (+15.7%) in the last 6 months and up 9.0ppl (+25%) year on year. This is now just 3.0ppl below the peak achieved in October 2022. UK supply tracks 2023 at +0.1% in June, -0.1% in July and August at +0.0% with September forecast at +0.8%, it remains in line with 3 & 5 year averages. The rise in September MPE is due to a 14% rise in cream and 9% in butter prices with a 6-7%

rise in cheese and SMP. Liquid 4-pint retail remains flat and detached from the market. EU weekly commodity prices were up in September with Butter +10.3%, WMP +7.2%, SMP +4%, Whey +14.5% and Cheddar +1.3%. The range across the UK sectors narrowed to 5.4ppl from Liquid/Cream to WMP due to the rise in butterfat values.

Farm Gate Prices

Farm Gate Price rose again, up 1.0ppl to 41.1ppl in August and up 4.8ppl (+13.2%) year on year. UK Milk quality is seasonally rising with Butterfat up 0.7% in August to 4.18%, but Protein was down 1.1% to 3.37%. Combined butterfat and protein production was down 0.2% on August 2023 due to the weaker Protein levels masking stronger Butterfat production.



Our latest milk price forecast has jumped due to widespread milk price increases at the farmgate alongside the rising markets. Together this suggests the Defra farm gate price will rise in September to 41.7ppl, 43.4ppl in October and then rise further to 45.2ppl in November.

Production in July was confirmed at 1246 M litres (-0.1%), August 1190 (0.0%) and based on the AHDB daily deliveries our forecast for September is 1147 M litres (+0.8%). The forecast for October is 1197 M litres (+1.2%) and November 1170 M litres (+0.9%) subject to the weather, inline with the 3 & 5 year averages. The forecast outturn for 2024/25 remains at 14.84 B litres (-0.1%). October weather is forecast to be similar to September with a mix of cool, wet and hopefully occasionally settled spells.

August closing exchange rates were £/\$1.3375 and £/€1.2011, with Sterling firming against both the Dollar and the Euro. The consumer price index was unchanged at 2.2% in August, with the bank base rate held at 5.0% in September. Pacific weather patterns remain neutral, but there is a 70% chance that a La Nina will develop this autumn. The global grain, soya and oil markets were mixed with Wheat up 8%, Soymeal down 12% and Crude Oil down 1%."

- Ends -

For further information please contact:

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- ❑ **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.