PRESS INFORMATION from

The Dairy Group

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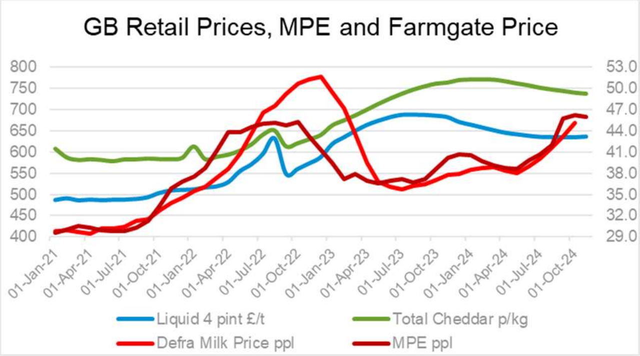
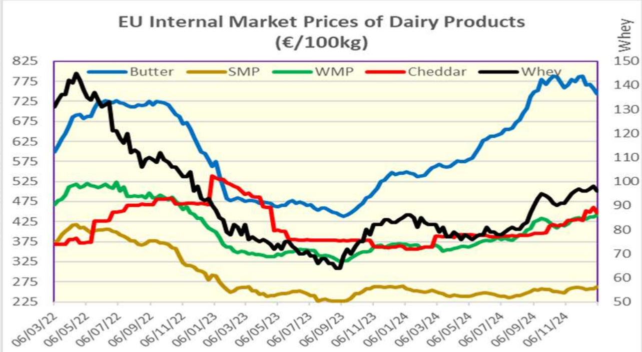
The Market Price Equivalent (MPE)

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

Consumers Fully Detached From Market Realities

“The October budget will increase the labour costs throughout the supply chain in the next 6 months and retailers are looking to pass cost increases back to primary producers” says Nick Holt-Martyn of The Dairy Group. He goes on to say “the insulation of consumers from market realities breaks a key requirement of the supply demand relationship. Without price movements, demand can’t act as a driver of supply. The elasticity is non-existent and the feedback loop is broken. UK supply is mainly driven by the weather and production economics.





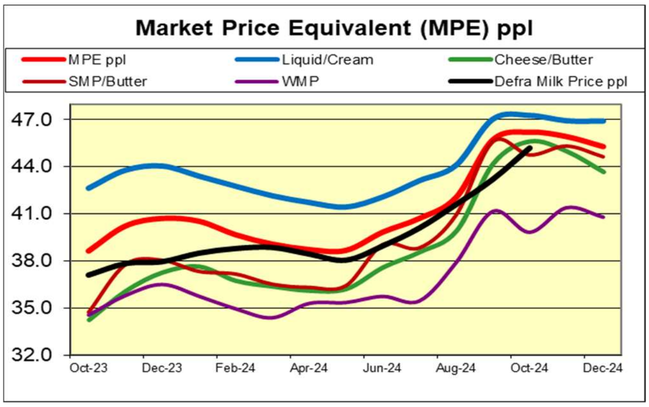
Source: The Dairy Group, AHDB, MMO & Defra

The graph on the left shows the retail price changes and wholesale market changes over the last 4 years. In that time there have been two spikes in wholesale prices which have transferred to the farmgate price, but have had less impact at the checkout. Liquid milk and cheddar cheese take around 76% of UK milk supply so dominating the farmgate price. As for the consumer prices, they have seen the effects of post covid inflation that extended long after wholesale markets had dropped significantly. The more recent wholesale price increase has had no effect on retail prices and arguably it shouldn’t as consumers had not benefited from the fall in wholesale markets in 2023.

The graph on the right shows the volatility in EU wholesale prices which drive UK wholesale prices through commodity pricing. The latest peak in EU Butter prices was higher again than the previous peak, but was largely confined to butterfat only and in a post-Christmas seasonal decline. UK consumers have been immune to this volatility meaning higher (retail) margins in the supply chain when the wholesale markets are low. Increasingly retailers are nullifying price movements to the consumer and the expectation is that the increases in labour costs in 2025 will be treated in the same way. Consumers will be protected by the retailers at the expense of the already beleaguered supply chain.

With the Christmas hiatus in data flow it takes several weeks to get a feel of how the new year will shape up, but the updated EU dairy commodity prices are showing mixed fortunes. Butter, as expected, has declined 6.1% from its December peak but has stabilized, whereas Cheddar, SMP and WMP remain largely stable, up over the last 3 months. With December supply up around 4.5%, following on from November’s 5%, sustaining these prices over the next 3 months against a rising supply will be a challenge. A lot will depend on the tone being set by EU commodities which latest reports suggest are stable across the board.

Any hope the Secretary of State Steve Reed would use the Oxford Farming Conference to mollify the agricultural community have come to nought with very little of substance announced and still no sign of the grant schemes returning. The new Higher Tier Stewardship announcements have been released this week but are of limited importance with a clear steer towards SFI apparent. 2025 seems likely to be characterised by an abundance of positive words from Defra but nothing substantial. Labour's "New Deal for Farming" seems to be based on platitudes without the necessary detail to bring about change at a farm level. It looks like agriculture and food production will have to find their own way in 2025.



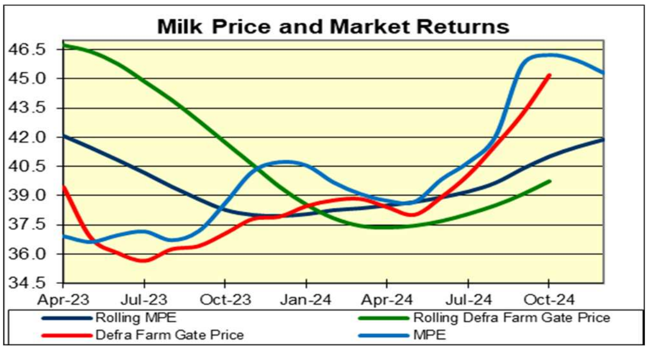
Market Prices

The Market Price Equivalent (MPE) softened 0.7ppl in December to 45.3ppl (-1.4%), up 5.5 ppl (+13.7%) in the last 6 months and up 4.6ppl (+11.3%) year on year. After 2 months the MPE is just 0.9ppl below peak suggesting stability. UK supply has lifted further with November forecast at +5.6% and December +4.5%, UK supply is around 4% above the 3 & 5 yr averages. The relative stability in the December MPE is due to the small gain in liquid returns due to high record butterfat levels offsetting the weakness in the commodity side. EU weekly commodity prices eased in December with Butter down 4%, SMP -1.5%, WMP +0.5%, Whey +1% while Cheddar was up 7%. The range across the UK sectors rose to 6.1ppl from Liquid/Cream to WMP due to weaker butterfat values.

Farm Gate Prices

In the absence of Defra data there are no updates to Farmgate Price, milk quality or a volume confirmation.

Our latest milk price forecast has eased slightly due to the seasonal slip in otherwise stable markets and without the Farmgate Price correction. This suggests the Defra farm gate price will ease to 45.9ppl in January.



Our forecast production for November is 1224 M litres (+5.6%), for December is 1280 M litres (+4.5%) and January 1290 M litres (+4.0%). The forecast outturn for 2024/25 jumps to 15.12 B litres (+0.8%). The cold, wet and wintery start to the year has been replaced by extended dry conditions which are forecast to be replaced by more mixed westerly conditions to the month end.

December closing exchange rates were £/$1.254 and £/€1.205, with Sterling falling against the Dollar but stable against the Euro due to the Dollar's strength following Trump's election. The consumer price index eased to 2.5% in December, with the bank base rate stable at 4.75%. Pacific weather patterns have developed into a weak La Nina with modest effects in the pacific region. The global grain, soya and oil markets were mixed with Wheat down 2%, Soymeal up 3.9% and Crude Oil up 8.5%."

- Ends -

<u>For further information please contact:</u>

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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.