

PRESS INFORMATION from *The Dairy Group*

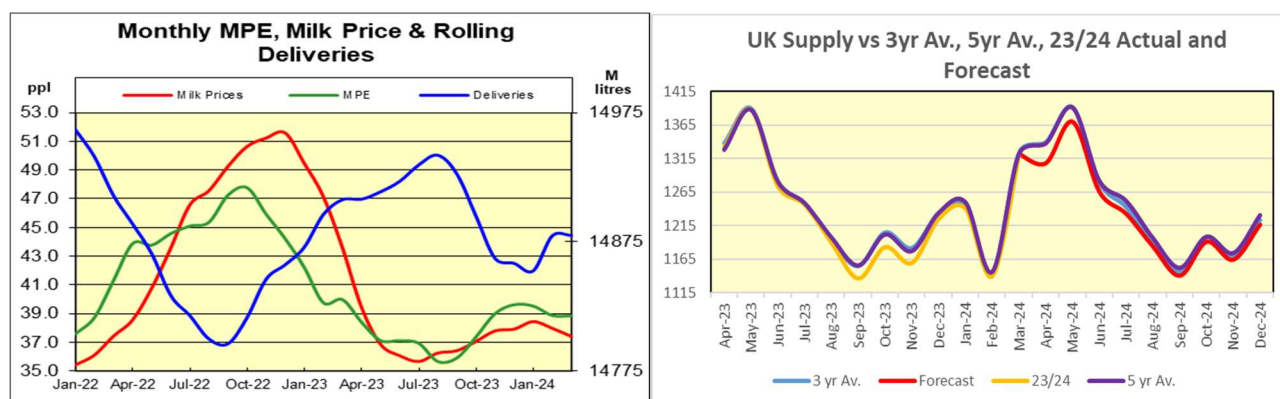
1st May 2024

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

April Milk Supplies Collapse Under the Cold, Wet Spring!

“With milk supplies having tracked the 3 and 5 year averages quite well in recent times there has been little incentive for milk prices to rise, the only exception was September to November 2023 when milk supply dropped around 2% below the averages” says Nick Holt-Martyn of The Dairy Group. He goes on to say “this produced a rally in prices that culminated in the January 2024 peak of 38.5ppl, during a 6-month period when prices averaged 37.8ppl.

While March supply followed that trend (-0.2% & 0% respectively) in April there has been a sudden departure due to the awful weather that has cut grass growth to just 2/3rds of the 5-year average. The relationship between supply and price only comes about when adverse weather causes supply to fall below the long-term trends, more rarely when trends are exceeded. The departure from trend needs to be significant for the markets to take notice

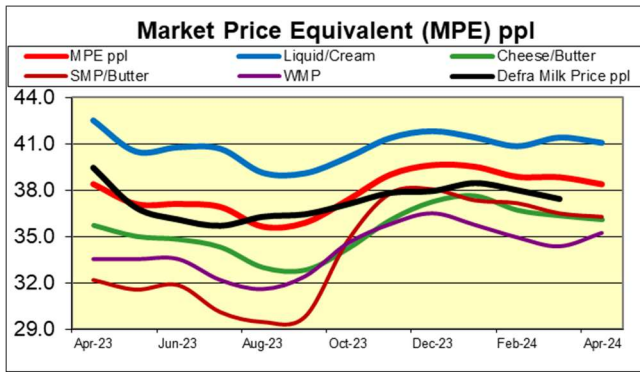


Source: The Dairy Group, Defra, AHDB

The graph on the left shows the monthly MPE (Market Price Equivalent), Defra Farmgate Milk Price and the Rolling Milk Supply. This shows how milk supply and milk prices are directly linked, weak supply or even the clear risk of a weak supply will cause wholesale markets to compete for supply and increase prices. The opposite applies, if supply is immune to low pricing then prices will fall to a point where the risk to supply becomes apparent. When supply is stable and tracks the longer term averages then prices are also stable, which is where markets have come to in the last 6 months. April might just jolt the markets into life.

The graph on the right shows the 3 year and 5 year average UK milk production which essentially coalesce into a single line and adequately portrays the normal position. Against this is set the monthly supply from April 2023 and the forecast up to December 2024. This shows the departure from the averages in the autumn 2023 and the current position for April 2024. The April 2024 figure is based on the daily supply figures from AHDB which indicates a supply reduction of around -1.8% compared to April 2023, -2.4% against the 3 year average and -2.2% against the 5 year average. This departure from the normal is more significant than what occurred in the autumn 2023 and the markets should be taking action to head off a reduction in dairy product supply. The expectation is that supply will recover to the norm as the year progresses if the market responds.

Our latest estimate for cost of production for 2023-24 is around 42ppl (-3.4% on the previous year), with a 10% reduction in variable costs (mostly feed) being offset by the 5% rise in Fixed Costs. The weighted rolling Farmgate price has finished the year at an average of 37.3ppl, 4.9ppl (-11.6%) below the cost of production. Livestock sales will make up some of that deficit, but the bottom line is that milk prices are not sustainable. Fixed costs will continue to rise by 5% with inflation at 3-4% and feed costs will rise as the weather effects feed into next winter's prices. It is time for dairy markets to wake up and smell the coffee!

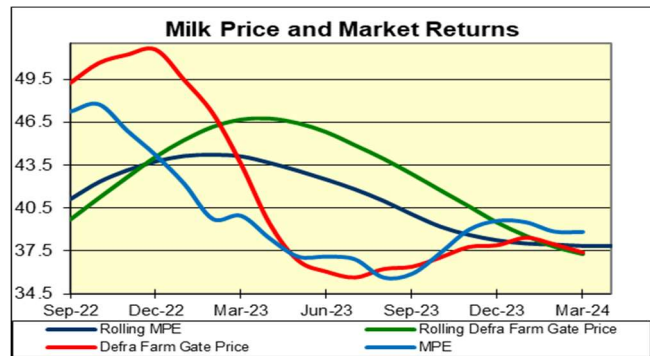


Market Prices

The Market Price Equivalent (MPE) eases in April to 38.4ppl (-1.2%), up just 1.0 ppl (2.7%) in the last 6 months and up 1.3ppl (2.7%) year on year. This shows how flat the markets have been for the entire year. Liquid retail prices slipped to 65.0ppl, down 7.3% on the year and -0.7% in the last 6 months. UK supply was a flat 0% in March and is forecast to drop 1.8% in April. EU weekly commodity prices were mixed in April with Butter up 2.3%, SMP down -0.8%, Whey -1.3% and Cheddar up 1.0%. The UK commodities were flat with only Cream unmoved, SMP down 2% and Mild Cheddar dropping another 1.0%. The range across the sectors fell to 5.9ppl from Liquid to WMP due to the slip in liquid prices.

Farm Gate Prices

Farm Gate Price was adjusted to 37.7ppl in February and down again to 37.4ppl (-1.5%) in March. The farm gate price has been around 37ppl since May 2023, ranging from 36.1ppl in June to a high of 38.4ppl in January, much of which will be milk quality related. UK Milk quality continues to seasonally ease back to 4.3% Butterfat and 3.4% Protein in March, very similar to 2023.



Our latest milk price forecast is largely unchanged, based on current prices and the latest market returns, suggests the Defra farm gate price will rise slightly, but be stable around 38ppl until July and then rising towards 39ppl by September.

Production in February was confirmed at 1140 M litres (-1.2%), March was provisionally 1322 M litres (0%) and based on the AHDB daily deliveries our forecast for April is 1308 M litres (-1.8%). Our forecast for May is 1370 M litres (-1.3%) and June 1265 M litres (-0.7%) provided the weather gets back on track. The forecast outturn for 2023/24 is 14.84 B litres, down 68M litres (-0.5%) and for 2024/25 14.75 B litres (-0.6%). Despite the welcome dry, albeit cold, spell through the middle of April the month ended and May started with a month's rain in a week. The forecast for May is slightly warmer but with rain never far away.

April closing exchange rates were £/\$1.2488 and £/€1.1708, Sterling eased against the strengthening Dollar while remaining mostly flat but volatile against the Euro. The consumer price index remained at 3.8% in March to delay any interest rate cut later to in the year so the bank base rate is held at 5.25%. Pacific weather patterns continue to show the El Nino event is nearly neutral, but the La Nina event is expected to be present by the autumn. The global grain, soya and oil markets have had a mixed month with Wheat up 13.3%, Soymeal up 14.4%, but Crude Oil down 5.4%."

- 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.