

PRESS INFORMATION from *The Dairy Group*

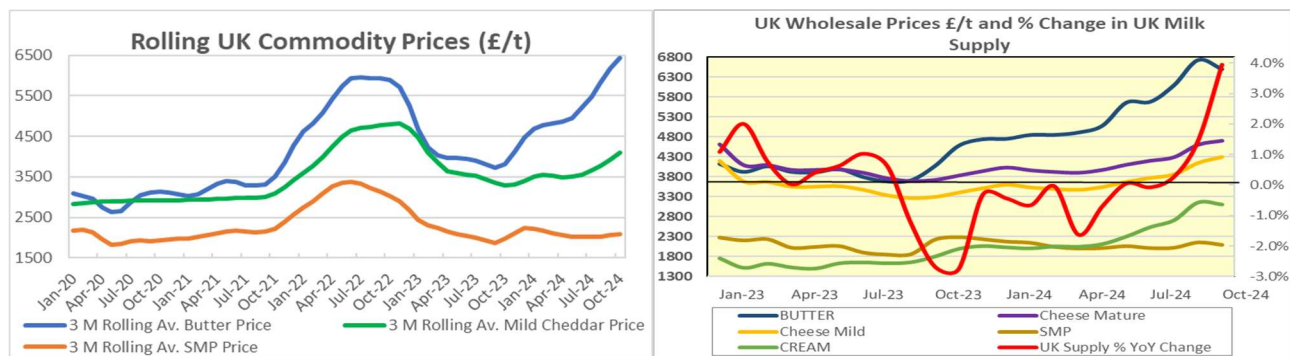
5th November 2024

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

Arla Cranks Up the Farmgate Price Pressure!

“Arla have increased the pressure on the rest of the UK milk processors by increasing prices by a further 2.66ppl in November,” says Nick Holt-Martyn of The Dairy Group. He goes on to say “this takes their average November price up to 48.6ppl based on 2023/24 milk quality and profile. This is significantly 3-6ppl above most of their competitors and indicates their exposure to the rampant butterfat market in the EU. Arla is in a unique position with its presence in the European milk market and is a direct indicator of European market returns.

The question now is can this be sustained and can the rest of the UK industry respond? So far, the rise in markets has centred squarely on Cream and Butter with some spill over into higher butterfat sectors like Cheese and WMP. Compared to the 2022 price rise Butter has moved above the previous peaks whereas Mild Cheddar has only reached as far as £570/t below peak.



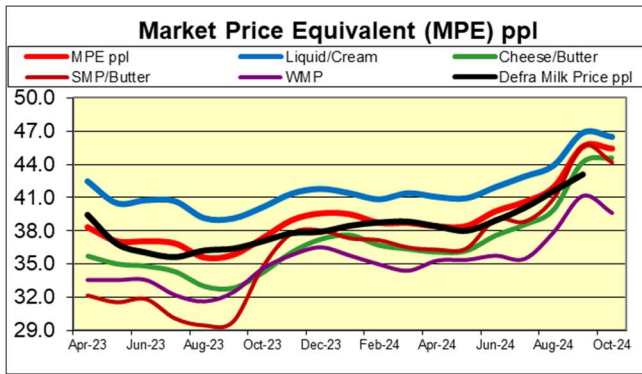
Source: The Dairy Group, AHDB & Defra

The graph on the left shows the 3 month rolling UK wholesale prices of the key commodities that drive the UK market. The key difference between 2022 and 2024 is the range across the market. In 2024 SMP is unmoved, indicating a marked difference between the demand for butterfat and milk protein. This suggests the farmgate price will not get as high as 2022 unless Mild Cheddar (or cheese in the EU) and SMP gets moving.

The graph on the right shows the commodity prices against the Year on Year change in UK milk production. Apart from the sharp rises in butter and cream there is now a significant rise in UK milk supply in October. The supply increase has to be tempered by the obvious slump that occurred in October 2023 and the fact that UK milk supply is only up 1.1% against 2022. The picture is further complicated due to GB milk supply being 0.2% below 2022, with all the increase from Northern Ireland where milk supply is up 10.4% against 2023 and 9.0% against 2022. To what extent the UK market is affected by Northern Irish milk supply remains to be seen, but for GB the milk supply is in line with the 3 and 5 year averages.

Apart from the seasonally high milk quality in the autumn which drives UK prices to peak levels there is also a seasonality to butter prices which peak in the pre-Christmas period only to decline into the New Year. This seasonality is a minor effect compared to the general tone of the market that has lifted it to record levels. European milk supply will be key to maintaining markets with some key players (Germany, Netherlands and Ireland) showing significant falls through to August. Only Poland and France were above 0%.

The prospects for the farmgate price are strengthening with Arla's price reflected in many basket prices as well as directly. Coupled with the likely record levels of butterfat in November then a Defra Farmgate price above 48ppl is likely this winter. Global supply is possibly moving above 0%, but the global economy is still growing at 3.2% which is fuelling demand. The economics of milk production look better for the next 3-6 months so producers should make the most of this positive period. Weather and events can soon change the outlook so use this period wisely.



Market Prices

The Market Price Equivalent (MPE) eased 0.2ppl in October to 45.4ppl (-0.4%), up 7.0 ppl (+18.3%) in the last 6 months and up 8.1ppl (+21.7%) year on year. This is now just 2.3ppl below the peak achieved in October 2022. UK supply tracked 2023 at -0.1% in July, 0.3% in August, but lifted +1.5% in September with October forecast at +3.9%. Milk supply has moved above the

3 & 5 yr averages. The stability in October MPE is due to a 2% easing in cream prices and 3% in butter and SMP, countered by a 4% rise in mild cheddar. Liquid 4-pint retail remains flat and detached from the market. EU weekly commodity prices were mixed in October with Butter up 1.7% and WMP -2.6%, SMP -2.7%, Whey -2.1%, but Cheddar was up 4.8%. The range across the UK sectors rose to 6.9ppl from Liquid/Cream to WMP due to the further rise in butterfat values.

Farm Gate Prices

The Farm Gate Price jumped 1.5ppl to 43.1ppl in September, up 6.6ppl (+18.2%) year on year. UK Milk quality is seasonally rising with Butterfat up 3.2% in September to 4.32%, Protein was up 0.6% to 3.44%. Combined butterfat and protein production was +3.5% on September 2023 due to the higher supply and milk quality.



Our latest milk price forecast has jumped again due to further milk price increases at the farmgate alongside the stable markets. Together this suggests the Defra farm gate price will be rise in October to 43.8ppl, 46.3ppl in November and hold at 46.3ppl in December.

Production in August was confirmed at 1193 M litres (+0.3%), September at 1153 (+1.5%) and based on the AHDB daily deliveries our forecast for October is 1230 M litres (+3.9%). The forecast for November is 1200 M litres (+3.5%) and December 1247 M litres (+1.8%), 2.0-2.7% above the 3 & 5 years averages. The forecast outturn for 2024/25 rises to 14.97 B litres (+0.8%). November weather is forecast to be calm and dry before becoming changeable later in the month.

October closing exchange rates were £/\$1.2896 and £/€1.1849, with Sterling sliding against the Dollar, but mixed against the Euro. The consumer price index eased to 1.7% in September, with the bank base rate held at 5.0%. Pacific weather patterns remain neutral, but there is a declining chance that a La Nina will develop this autumn/winter. The global grain, soya and oil markets weakened with Wheat down 5%, Soymeal down 9.9% and Crude Oil down 3.3%.”

- 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.