PRESS INFORMATION from

The Dairy Group

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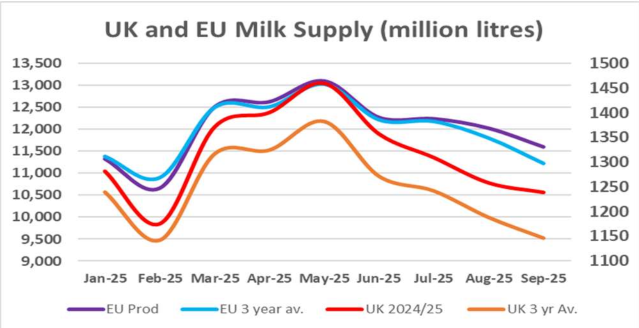
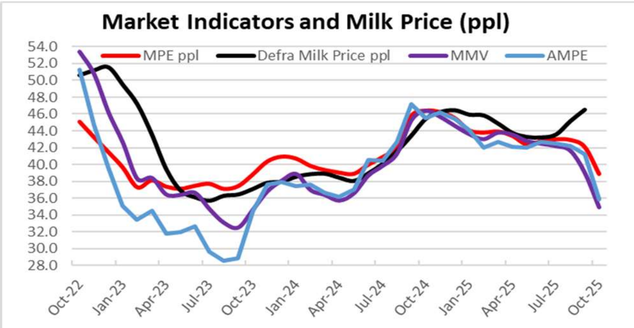
The Market Price Equivalent (MPE)

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

EU Milk Surge Upsets the European Market

"A 4.9% increase in the EU's September supply confirms traders concerns that the EU has joined in with Ireland and the UK in ramping up milk supply this autumn" says Nick Holt-Martyn of The Dairy Group. He goes on to say "meanwhile the UK supply has increased further by 7% in October to crush the UK mild cheddar price in its wake. Milk supply is now rising all round the world stressing markets and lowering commodity prices with effects being seen in dramatic cuts in farmgate prices.





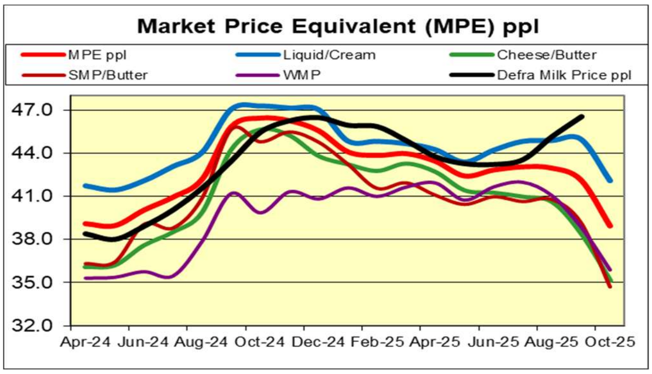
Source: The Dairy Group, AHDB, MMO & Defra

The graph on the left shows UK and EU milk supply against their respective 3 year averages. The UK has been running comfortably above for some time, but has really jumped through the summer months. The EU has tracked its 3 year average for a while, but in the last 3 months has suddenly risen considerably above the long term trendline. The EU is the largest milk supply block in the world, 9 times bigger than the UK, so it imparts significant direction to the market and sets the tone of the UK market. It is this sudden departure from the norm that has spooked EU and UK markets. From April to July the combined EU+UK milk supply was +1% above the 3 Year average which allowed for stable markets, August and September have been +2% and +4% respectively, shattering market confidence.

The graph on the right shows the UK wholesale market indicators and Defra Farmgate price over the last 3 years. From the giddy heights in 2022, through the low point of 2023 to the sustained higher prices of 2024-25. What it shows is that the market indicators are unanimous that milk prices are going to fall considerably in the next 6 months and suggests that by Spring 2026 the Defra milk price could be below 35ppl. What is certain is there can be no recovery in market returns until milk supply drops back below trend levels.

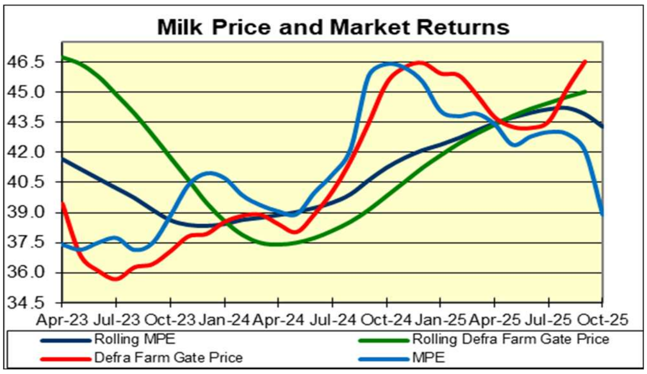
In previous oversupply led milk price changes, the typical price change to supply change ratio to trigger an adjustment was 10:1, a 10% drop in price leads to a fall in supply of 1% which suggests to lower Europe's milk supply by 4% will require an alarming 40% market adjustment! Previous studies have also shown that massive reductions in milk price are likely to trigger a rapid rise in retirements from the dairy industry hence achieving the reduced supply the market requires. The quicker supply falls the sooner market stability will be restored and some kind of direction established. The supply chain is in disarray as dairy farmers are facing milk prices around 10ppl below the cost of production, milk processors are facing markets returns below their raw milk cost, but consumers are yet to see any dairy product deflation. Everyone's margins are being squeezed except the retailers. Consumers may not see any deflation if retailers decide to take advantage of the market situation and bolster their profit margins.

Significant reductions in the cost of production are hard won, so cutting production costs in line with the fall in milk price is unlikely to happen. Our latest figures suggest that the average cost of production in 2024/25 was 48ppl, 13ppl above some of the announced December farmgate prices and our forecast for 2025/26 is a cost of production of 49ppl. With a milk price in 2026 of 35ppl indicates losses for many farmers even after accounting for the income from culls & calves, with just a maximum of £600 per business from BPS."



Market Prices

The Market Price Equivalent (MPE) dropped 3.2ppl in September to 38.98ppl (-8.2%), down by 4.5ppl (-10.4%) in the last 6 months and down 7.5ppl (-16.2%) year on year. UK milk supply in September was +7.4%, October is forecast at +7% and November at +5.5%. 2025/26 UK production is forecast at 15.9 B litres, +5.2%. EU weekly commodity prices declined in October with Butter -6.7%, SMP -4.4%, WMP -8.5%, Whey +5.1% while Cheddar was -1.6%. In the UK Cream -23%, Butter -16%, SMP -5% and Mild Cheddar -9% have followed a similar tone with milk supply weighing heavily on the market. All sectors of the market have been affected with liquid/cream -6.8%, cheese/butter -9.2%, SMP/butter -12.9% and WMP -8.3%.



Farm Gate Prices

The Defra Farmgate Price in September was provisionally 46.5ppl (+2.9%), down 1.7ppl (+3.7%) in 6 months and up 3.1ppl (+7%) annually due to very high milk quality. The weighted rolling price rises to 45.0ppl. November and December prices have dropped sharply.

Our latest forecast for the Defra farm gate price is 45.5ppl in October, 43.7ppl in November and 41.3ppl in December.

Milk production was confirmed at 1309M litres (+5%) in July, 1258M litres (+5.4%) in August and was provisionally 1239M litres (+7.4%) in September. Our forecast production for October is 1312M litres (+7%), for November is 1290 M litres (+5.5%) and December is 1334M litres (+4.3%). The sharp price reductions will influence milk supply although probably limited to culls due to cull prices, forage quality and quantity.

October closing exchange rates weakened against the Dollar and the Euro as trade relations with China became more volatile, £/$1.321 and £/€1.135. The consumer price index has remained at 3.8% in October and the Bank Base Rate 4.0%.

Pacific weather patterns have slipped into a weak La Nina phase similar to last winter. The global grain, soya and oil markets rose due to EU Soya policy & Chinese buying, while oil eased as the Gaza ceasefire held. Wheat up 6.8%, Soya Bean meal up 15.5% and Crude Oil down 1.9%. Despite feed prices rising they remain low with political events and small changes on logistical issues affecting day to day pricing. Ukraine is far from settled and the “secondary tariffs” briefly unsettled the oil markets.”

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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.