PRESS INFORMATION from

The Dairy Group

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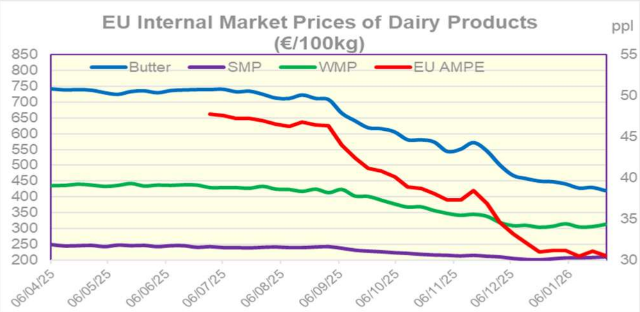
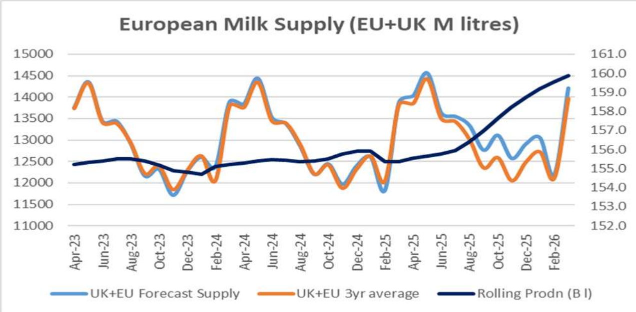
The Market Price Equivalent (MPE)

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

European Dairy Market Bouncing Along the Bottom

"The European dairy markets appear to have bottomed out through January with the effective EU AMPE around 30ppl, on a par with the UK AMPE" says Nick Holt-Martyn of The Dairy Group. He goes on to say "the supply side is expected to respond to the lower pricing by stabilising milk production at 2025 levels. The next crunch point will be Easter and the spring flush in April/May. Supply growth will need to have been curtailed to avoid markets weakening further.





Source: The Dairy Group, AHDB, MMO & Defra

The graph on the left shows the EU commodity prices and the EU AMPE equivalent which has stabilised through recent rises in SMP countering variable Butter pricing through January. The effect is to produce some welcome stability in the run up to Easter.

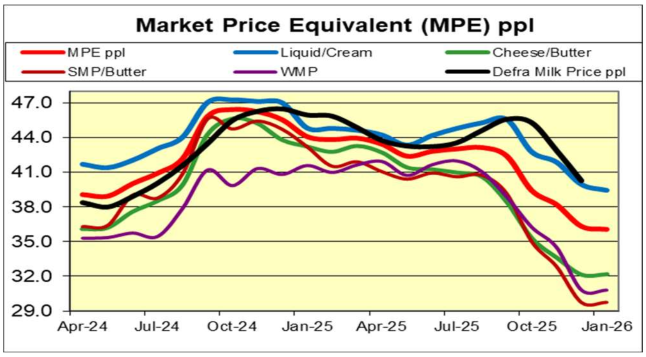
The graph on the right shows the combined EU and UK milk supply over the last 3 years against the 3 year average. This shows how closely supply has tracked the average until summer 2025 when EU supply took off and markets were spooked. The latest data is for November supply which was +4.3%. It is expected (hoped) that lower farmgate prices across Europe will trim supply through to spring. A stable supply will encourage markets to stabilise and provide the supply chain some confidence. However there are few signs gloablly that supply is coming into line with previous years; in 2025 European(EU+UK) milk supply was up +1.8%, the USA +2.4% and NZ +1.8%. In December alone milk supply from these blocks was up 3.5% indicating an acceleration in milk supply through the autumn and early winter.

Even if supply stabilises against 2025 levels then it still requires consumption and demand to rise absorbing the higher level of product available. Higher supply is due to milk solids as much as volume with milk quality at record levels in many areas, which has been aided by low global feed prices. All forecasts of an improving market in late 2026 are predicated on growth in global milk supplies falling to less than 2%, often requiring the EU and/or NZ supply easing not just slowing down. Evidence for this is supposition at best and possibly wishful thinking at this distance.

Our latest forecast based on current market returns and milk contracts suggests a Defra milk price of 38.0ppl in January dropping to 35ppl in March. Our expectation remains that April will see a farmgate price around 34ppl. There will be a significant range in prices between processors and individual farmers who will have to contend with A and B prices and in some cases valueless C prices.

The effects on farm businesses are obvious with businesses unlikely to exceed outputs of 43ppl when livestock sales are included against a forecast Cost of Production (CoP) for 2026/27 at 49ppl. Despite low feed prices expected to persist through 2026, feed costs remain 25% of the cost of production and represent the biggest area to target reductions.

The farmgate price is likely to remain below 40ppl for 2026 and possibly 2027 so understanding the cost of production has never been more important. Spring is a good time to review the dairy system to identify things that work and more importantly things that didn't. The focus is likely to fall on quality and quantity of forage, quality livestock and a right first time mentality to eliminate waste and inefficiency. That's the challenge for 2026!

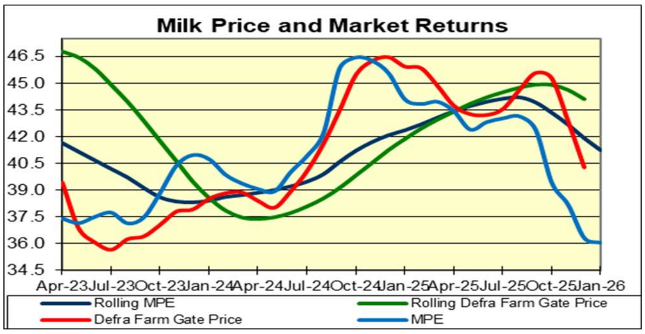


Market Prices

The Market Price Equivalent (MPE) eased 0.25ppl in January to 36.1ppl (-0.7%), down by 7.0ppl (-16.1%) in the last 6 months and down 8ppl (-18.2%) year on year. EU weekly commodity prices were mixed in January with Butter -6.3%, SMP +2.9%, WMP +2%, Whey +1.9% while Cheddar was -8.3%. The EU Cheddar price remains above the UK level. In the UK Cream fell -10.7%, Butter -3.1%, SMP +4.4% and Mild Cheddar +1.0%, with cream losing 57% of its value in the last 6 months. Cream's weakness affected liquid/cream -0.9%, but the other sectors stabilised with cheese/butter +0.6%, SMP/butter +0.6% an WMP +0.3%.

Farm Gate Prices

The Defra Farmgate Price for November was 42.9ppl and December 40.3ppl indicating the decline in market returns are reaching the farmgate.



Our latest forecast for the Defra farm gate price is 38.0ppl in January, 35.6ppl in February and 35.2ppl in March. The early forecast for April is 34.2ppl and May 33.8ppl.

UK milk supply in November was confirmed at +5.4%, December at +5.2% and January is forecast at 3.7%. 2025/26 production is forecast at 15.88 B litres, +5.1%. Our forecast production for January is 1329M litres (+3.7%), for February is 1213 M litres (+3.3%) and March is 1388M litres (+1.2%). The beef market is holding up with little change in prices for clean beef or cull cows so far.

January closing exchange rates gained against the Dollar, but was stable with the Euro, £/$1.378 and £/€1.152. The consumer price index rose slightly to 3.4% in December and the Bank Base Rate remained at 3.75%. The Government announced a revamp to SFI, but no details have been released other than a much-simplified offer targeted at smaller farms.

Pacific weather patterns have changed with the La Nina phase rapidly deteriorating and an El Nino expected to establish later this year and changing the global weather patterns. The global grain, soya and oil markets remained mixed due to widespread uncertainty on most issues with oil jumping on tensions between USA and Iran. Over the month Wheat up 4.2%, Soya Bean meal down 1.5% and Crude Oil up 9.5%. The USA remains unpredictable with tariffs being used as a temporary foreign policy lever causing uncertainty in trade relationships as evidenced by presentations at the Davos World Economic Forum. The UK, EU and Canada have been conspicuous in seeking trade relationships with other partners."

- 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.