PRESS INFORMATION from

The Dairy Group

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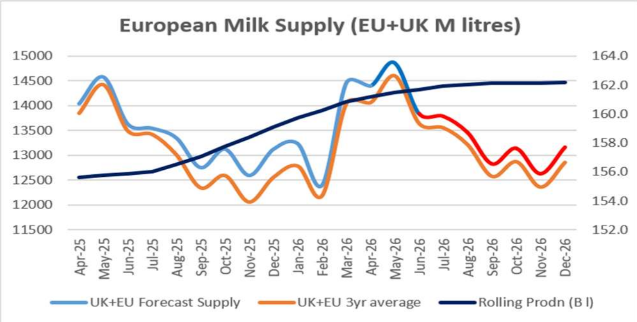
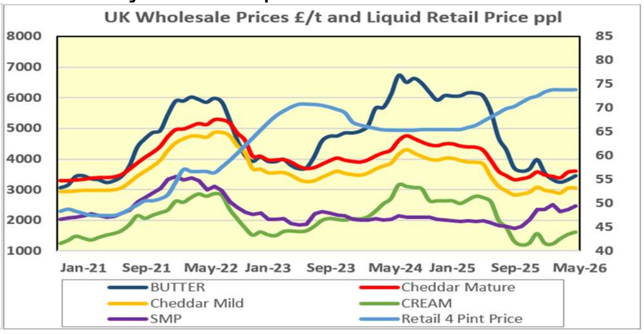
The Market Price Equivalent (MPE)

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

It's All About the Milk Supply!

"UK milk supply shrank in August by 4.1% and although rain has returned, the grass has greened up but growth is only just beginning for many and forage remains in very short supply" says Nick Holt-Martyn of The Dairy Group. "The tight milk supply control of April and May was replaced by a deadly combination of excessive heat, drought and Bluetongue through the summer to severely clip milk production. The latest rolling seven-day average shows UK supply is down 4.0%, GB -4.4% and even Northern Ireland -2.2% as grazing deteriorated and full winter feeding increased. With almost all of August's rain falling in the last 2 weeks recovery is underway although some are still waiting for significant rain. Many maize crops have suffered with poor yields and low quality exacerbating the forage shortage with hopes now resting on autumn grazing, a late silage cut and purchased feed. A very expensive outcome at a time of very low milk prices."





Source: The Dairy Group, AHDB, MMO & Defra

The left-hand graph shows the EU + UK combined milk supply has remained above the 3-year average although there has been a distinct narrowing to just +1.4% in June. There is significant variation between countries with Germany +5.7% in July, whereas France +0.2% and Ireland bounced back from a poor spring to +4.0% and the UK at -2.4%. Although Europe as a whole has seen the hottest summer on record milk supply looks like remaining above the 3-year average and with cooler conditions we may see some improvement later in the year.

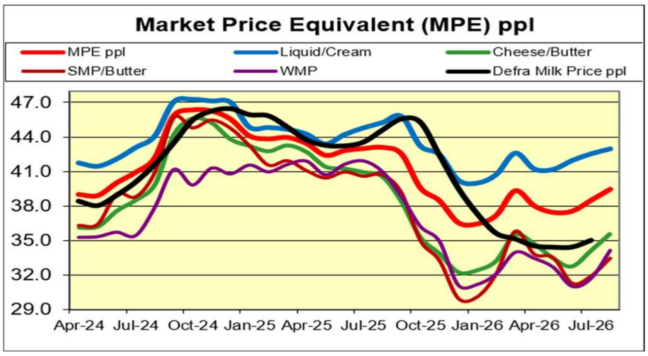
The right-hand graph shows the UK wholesale market prices and liquid retail price over the last 5 years. This highlights how low wholesale market returns fell in the last 12 months with cream and butter only showing the slightest recovery to date. SMP has shown significant improvement that has yet to spill into the cheese market, although with milk supply severely constrained as supply enters the trough months of the year (August and September), a market response is expected. Whilst there has been an upturn in recent months prices remain at the lowest levels of the last 6 years.

Many processors are increasing prices in response to the low milk supply, but this is due to direct communication with customers rather than a wholesale market response to weak supply. The result is a wide variation in milk prices amongst processors depending on which sector they operate, the strength of their branding and the relationships they have with their customers. Amongst the manufacturing contracts the August standard litre milk price ranged from 30ppl to 37ppl, and even with the increases announced for September and October the range will not narrow without an improvement in wholesale commodity prices.

The European dairy herd has never been smaller and yet the milk supply has never been higher, which shows the sharply increasing yield per cow, a trend that is likely to continue with environmental pressures only set to increase. Fewer cows, higher yields, more storage feeding and greater use of bi-products and co-products from the human food industry. Higher cost but greater climate resilience!

Assessing both the feed requirements and availability will be required to navigate through to the next growing season, but a greater use of purchased feed is inevitable. The higher production costs will need to be met with significantly higher milk prices for a sustainable dairy industry. A challenge!

Market Prices



Market Price Equivalent

The Market Price Equivalent (MPE) continues to rise, up in August by 0.95ppl (+2.5%) to 39.5ppl. It is now **up 2.3ppl** (6.5%) over the last six months and 3.6ppl (-8.5%) year on year.

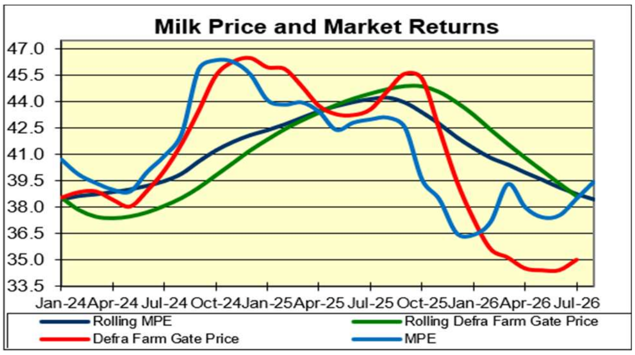
Commodity and Sector Movements

The UK market moved up across the board as weaker milk supply drove the market higher, led by Cream and SMP supported by Butter with Mild Cheddar unmoved.

***UK Commodity prices*:** Cream rose by 5%, Mild Cheddar by just 0.3%, SMP by 4.7% and Butter by 3.9%. Sector movements: Cheese/butter/whey rose by 4.3%, Liquid/cream by 1.0%, SMP/butter by 4.8% and WMP by 7.6%.

***EU Commodity Prices*:** EU weekly commodity prices also strengthened across the board in August. Cheddar rose by 1.2%, Butter by 1.0%, WMP by 6.3%, SMP by 4.7% and Whey by 22.8%. EU AMPE jumped by 3.7% to 36.4ppl, down 21.6% year on year.

Farm Gate Prices



The latest Defra Farmgate Price was 35.0ppl in July, extending the sequence of flat prices (34.4ppl-35.0ppl) to 4 months. The rolling 12 months milk price has fallen to 38.5ppl, the lowest since July 2024.

Many milk processors have indicated price increases for September and October which should break the flat price sequence. Reflecting the latest market movements and recent price rises, our forecast for the Defra average farmgate prices are August 36.2ppl, September 38.2ppl, October 39.5ppl and November 39.0ppl. The price forecast continues to edge up and we expect 40ppl to be achieved in December 2026, if not sooner.

UK Milk Supply

UK milk supply was 1,443M litres in May (-0.9%), 1,326M litres in June (-2.1%) and provisionally 1,277M litres in July (-2.4%). Forecasts have been revised down again to 1,207M litres in August (-4.0%), 1,180M litres in September (-3.4%) and 1,262M litres in October (-3.5%). The hottest summer on record means milk supply in 2026/27 is likely to be 250-270M (-1.6-1.7%) litres below 2025/26. Beef prices have stabilised as Brazilian beef has been suspended from the EU market due to non-compliance with antimicrobial regulations, alongside declines in the European cattle population.

August exchange rates were broadly stable at £/$1.36 and at £/€1.17. CPI rose to 2.9%, but the Bank Base Rate remained at 3.75%. Inflation fears have risen again as the Iran war heated up and crude oil prices rose through August to $95/barrel making bank base rate rises more likely. Over the month, Crude Oil +13.3%, Wheat jumped +21.6% and Soya Bean meal +9.2% ratcheting up production costs.

El Nino's rate of progress is suggesting a 'super' event may occur triggering extreme weather effects globally in 2027/28. Grain, soya and oil market volatility combined with challenging weather will mean rising cost of production and an even greater need for increases in milk prices over the next few years.

- 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 80% 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.