PRESS INFORMATION from

The Dairy Group

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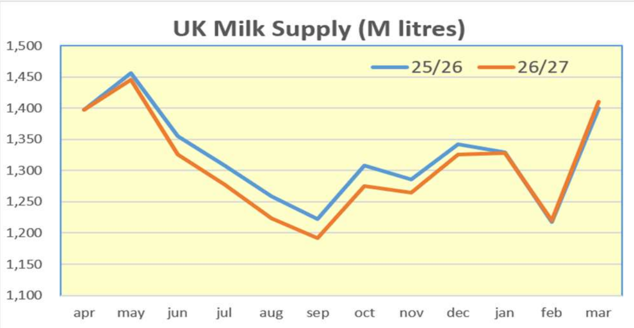
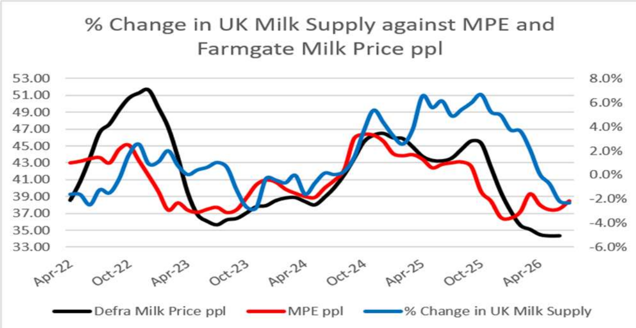
The Market Price Equivalent (MPE)

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

UK Milk Supply Evaporates in the Heat and the Market Starts to Jump!

“UK milk supply tightened in July and is forecast to fall by 2.3%, with GB bearing the brunt of the decline at 2.9%, which follows a 2.2% fall in June. The latest rolling seven-day GB supply is down 3.3% as grazing conditions deteriorate and farmers begin feeding winter rations in July and August. With little rain forecast for August, UK milk production could fall by 150–200 million litres by the end of the year. Even when rain arrives, it may take up to a month to improve grass availability—and longer to rebuild forage stocks.”





Source: The Dairy Group, AHDB, MMO & Defra

The left-hand graph shows the UK milk supply deficit widening as the summer draws to a close. The gap is likely to narrow as we move into autumn, but much will depend on forage availability, feed prices and, of course, milk prices. With some maize crops failing to ripen and being harvested six weeks early, forage supplies will be constrained on most farms, requiring a range of strategies to see producers through to spring 2027, including earlier culling of cows, increased feed levels, the planting of short-term forage crops and even a reduction in herd size. The effect on UK production is difficult to forecast, although some partial recovery is expected.

The right-hand graph compares the Defra Milk Price with the MPE and the percentage change in UK milk supply. Milk supply has corrected and markets have begun to respond, but further movement is needed. Although there have been encouraging signs from some milk processors, prices remain well below the cost of production. MPE has risen by 5.6% over the past three months and by 2.5% in the last month, suggesting that the market may have turned a corner. By contrast, the Defra Milk Price has fallen by 13% over the past three months and has remained unchanged at 34.4ppl since April, despite earlier price movements from Arla and others. From here, the only way is up.

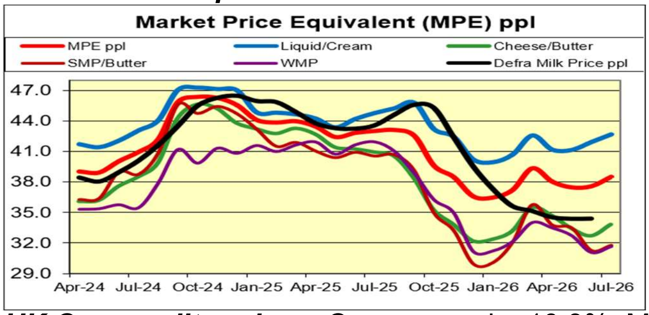
July was the sunniest and driest, and the second hottest, since records began, following a dry June across many parts of England and Wales. Even areas that received average rainfall during May and June, mainly in the west of the country, saw forage production decline progressively as July continued. The limited rainfall at the start of August is encouraging, but insufficient for grass growth to resume in most areas. The August forecast remains unfavourable, with above-average temperatures and below-average rainfall most likely, postponing forage recovery until September. Such a late recovery will restrict the autumn flush of grass, leaving winter forage supplies limited.

June saw an easing of the Middle East conflict that helped crude oil prices fall to around $70–75 per barrel. That progress has since been reversed, with prices returning to approximately $85 per barrel. The resulting decline in inflation is also likely to reverse, as are the recent reductions in fertiliser and fuel costs for farmers. With Trump threatening further significant destruction of Iranian infrastructure, and an Iranian response appearing inevitable, the effects of the conflict are likely to persist for some time, keeping production costs elevated.

As the drought hopefully eases through August and September, milk producers will need to assess their forage stocks, crops still to be harvested and available alternatives, and balance these against the expected demand from their livestock. Adjustments on both sides of the equation will be needed to achieve a sustainable balance, requiring some difficult but important decisions to be made.

Market Prices

Market Price Equivalent



The Market Price Equivalent (MPE) jumped in July by 0.9ppl (+2.5%) to 38.5ppl. It is now down 2.0ppl (-5.6%) over the last six months and 4.5ppl (-10.5%) year on year.

Commodity and Sector Movements

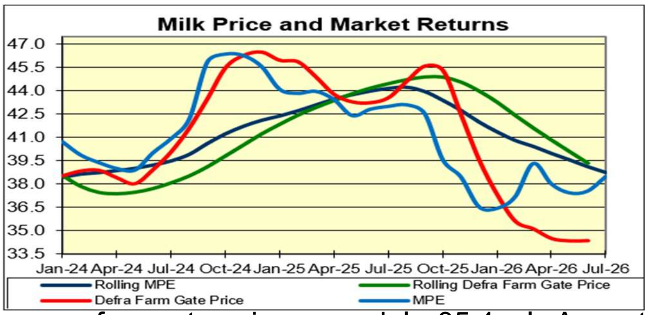
The UK market moved up across the board as weak milk supply and hot weather drove the market higher, led by Cream and supported by Mild Cheddar.

***UK Commodity prices*:** Cream rose by 10.3%, Mild Cheddar by 5.5%, SMP by 3.1% and Butter by 2.5%. Sector movements: Cheese/butter/whey rose by 3.4%, Liquid/cream by 1.8%, WMP by 1.9% and SMP/butter by 1.7%.

***EU Commodity Prices*:** EU weekly commodity prices also strengthened across the board in July. Cheddar rose by 7.4%, Butter by 3.4%, WMP by 3.4%, SMP by 2.2% and Whey by 1.4%. EU AMPE jumped by 2.1% and is now 14% above its February 2026 low point.

Farm Gate Prices

The latest Defra Farmgate Price was 34.5ppl in April, 34.4ppl in May and 34.4ppl in June, showing the flat prices for the first 3 months of the milk year. The rolling 12 months milk price has dropped below 40ppl to 39.4ppl for the first time since October 2024.



Reflecting the latest market movements and recent price rises, our forecast for the Defra average farmgate prices are July 35.4ppl, August 36.8ppl, September 38.1ppl and October 38.1ppl. As markets currently stand the forecast suggests prices will remain at 38ppl until the spring although we expect significant upwards market movement this autumn to push prices above 40ppl later in the year.

UK Milk Supply

UK milk supply was 1,398M litres in April (+0.1%), 1,445M litres in May (-0.8%) and provisionally 1325 in June (-2.2%). Forecasts have been revised down again to 1,278M litres in July (-2.3%), 1,224M litres in August (-2.7%) and 1,192M litres in September (-2.4%). The extended drought means milk supply is likely to run under 2025 by around 30M litres/month until November, a deficit of around 150-200M litres. Beef prices have faltered as rising cull cow numbers and the end of the world cup more than compensate for the reduced clean beef supply.

July exchange rates were broadly stable: softer against the Dollar at £/$1.33 and stronger against the Euro at £/€1.17. CPI was eased to 2.6%, and the Bank Base Rate remained at 3.75%. Inflation fears have risen as crude oil prices rose through July deferring any bank base rate cuts towards winter.

El Nino progressed as expected with significant Pacific weather effects likely from late summer. Grain, soya and oil market volatility followed the conflict tension and European heatwaves reducing harvest yields led to rising wholesale prices. Over the month, Crude Oil +10.8%, Wheat +5.5% and Soya Bean meal +3.3%. Markets react wildly on any news of Strait of Hormuz operations resuming.

- 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.