

PRESS INFORMATION from *The Dairy Group*

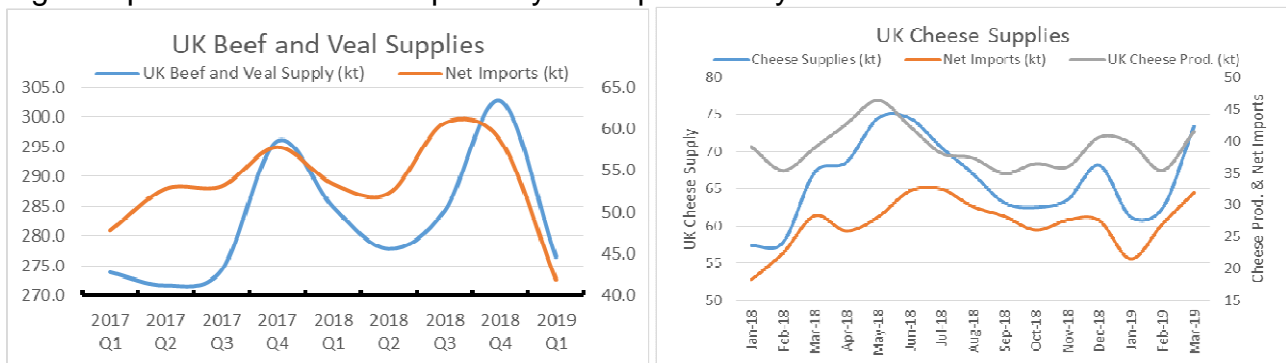
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The Market Price Equivalent (MPE) Update June 2019

By Nick Holt-Martyn, The Dairy Group

Brexit Outcomes No Clearer 3 years On

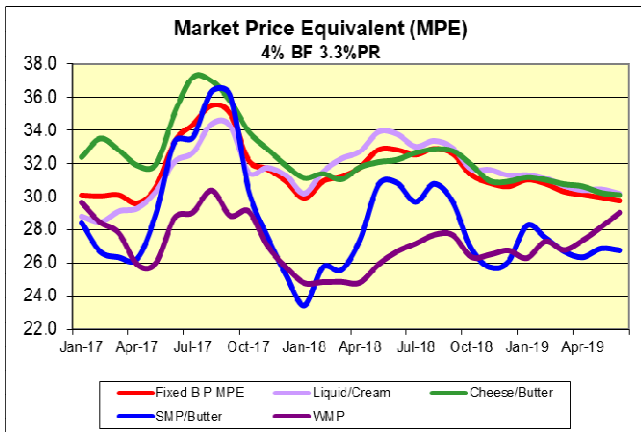
“A failure to plan is said to be a plan to fail. However after 3 years, planning for Brexit remains impossible when the potential outcomes are no clearer” says Nick Holt-Martyn of The Dairy Group. He goes on to say “the options are; seamless transition, devastating high reciprocal WTO tariffs or possibly more painful asymmetric tariffs. Plan for what?”



Source: The Dairy Group and Defra

It would be nice to say the drift in milk markets or the collapse in beef prices to 2011 levels could be blamed on Brexit confusion, stockpiling and delay, but the evidence is mixed. The graphs above for beef and cheese supplies shows contrasting trends. Beef and Veal supplies were down 2.9% in 2019 Q1 compared to 2018 with Net Imports down 21.5%, UK production was up 1.3%. But the cheese supply graph shows March supply up 9.2% with Net Imports up 12.8% and UK Cheese production up 6.5%. With beef it looks like a demand issue following on from months of adverse climate change sentiment whereas milk prices have held up well in the face of sharply rising cheese supply with little impact of Brexit so far. What neither sector can afford is to have an adverse Brexit outcome compound the existing issues confronting them. The current Conservative leadership/prime minister election does not give much confidence with their do or die, come what may Halloween Brexit stance. The fate of the “upland sheep farmer” was left hanging in the air at the televised debate with only Jeremy Hunt recently seeming to recognise the risk to agriculture of WTO tariffs.

Global supply growth continues to remain benign at less than 1%, with a modest recovery in New Zealand and the EU being offset by a decline in US milk production. UK, Ireland and Poland are showing strong spring production that has been tempered of late by the dry, hot weather with supply easing in the UK to +1.5% in May and +1.4% in June. UK looks set to remain above +1% through the summer, drought permitting. Stable milk supply suggests stable markets should continue with attention switching to the southern hemisphere’s new milk season later this year. The GDT is easing back while MPE drifts lower each month, although Arla’s robust pricing and stable prices from cheese makers is supporting the UK farmgate price. Higher prices are still needed to counter increased production costs over the last 2 years.



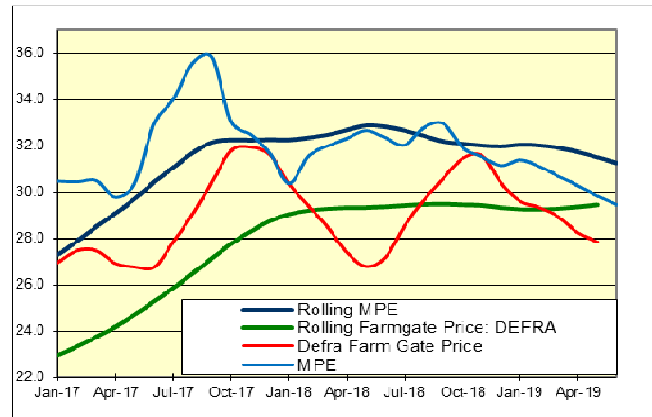
Market Prices

The Market Price Equivalent (MPE) drifts lower yet again to 29.75 ppl (-0.7%, -0.21ppl). MPE is down -0.9ppl (-2.9%) in the last 6 months and down 3.1ppl (-9.4%) year on year. SMP rose 4.9% to £1820, Butter was down 6.2% and Cream fell 4.1% as high butterfat supply continues. WMP shows strong growth so the weakness remains on the butterfat side of the market. The range across the sectors narrowed again to 3.4 ppl from Liquid/Cream returns

to SMP/Butter. The GDT price equivalent has dropped to 27 ppl, -7% in the last month, still +15% in the last 6 months. The UK SMP price has closed to just £58/t below the GDT auction, but is £308/t above Intervention. Global supply growth has picked up in 2019 but is drifting along around 0.2% with New Zealand drought affected year coming to an end and a recovery in EU supply to +1.5% in March.

Farm Gate Prices

The May 2019 farm gate price has fallen by 0.3 ppl to 27.9 ppl, down 3.73ppl (-11.8%) in the last 6 months, but up 1.1ppl (+4.0%) in the last year. The rolling Farm Gate price rises to 29.4ppl and continues to remain above 29ppl as it has for the last 18 months. The graph shows the relationship between the farm gate price and market returns over the last 2 years and the strong seasonal element in April to June. The graph suggests milk will remain above 2018 levels despite market returns continuing to drift lower each month.



The production in April was confirmed at 1340 million (M) litres (+55 M litres) and May was 1392 (+20 M litres). UK dry conditions came to an abrupt end in June but seem to have resumed in July producing a fairly beneficial mix of weather helping sustain grass supply. June production is running at +1.3% at 1285 M litres (+16 M litres) and July is forecast at 1245 M litres (+15 M litres) subject to grass supply. UK 2019/20 supply is currently forecast at 14,958 M litres, +0.5%, +75 M litres.

The UK farm gate price has followed its normal seasonal pattern and fallen to 27.9ppl in May and is expected to rise with better milk quality above 28ppl in June/July.

As the Conservative leadership contest rumbles on possible Brexit outcomes have been in full focus with so little time before the 31st October deadline to conclude a deal. Currencies have weakened by the turmoil down to £/€1.12 and £/\$1.26 at end of June.

Milk prices continue to look stable although reports of low margins in liquid milk is no surprise with Arla and the cheese makers providing most support to the market. Drought fears diminished with June's rain but will be in evidence again as hot weather returns for July. The cost of production remains high at around 33ppl and is increasingly unlikely to return to the long term level around 30ppl. Brexit uncertainty over agricultural markets will continue and still means labour supply persists as the number one issue on many dairy farms."

- Ends -

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