

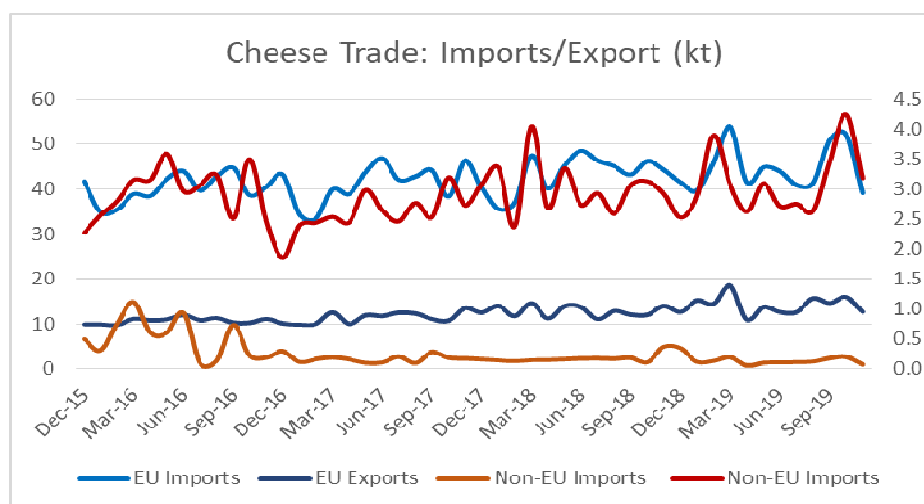
# PRESS INFORMATION from *The Dairy Group*

1<sup>st</sup> February 2020

## The Market Price Equivalent (MPE) Update January 2020 By Nick Holt-Martyn, The Dairy Group

### UK Enters the Brexit Departure Lounge

“With Brexit day marking the end of the beginning we can now look towards the beginning of the end when Brexit changes do really take place” says Nick Holt-Martyn of The Dairy Group. He goes on to say “what happens on the 1<sup>st</sup> January 2021 will be the deciding factors as to how our first year or so outside the EU will affect the UK. The potential outcomes still range from a no-deal exit to an all-encompassing free trade agreement. Both sides have stepped up their tough rhetoric which is likely to harden as negotiations get under way. The UK Government are already highlighting how difficult cross border trade could be with increased customs checks, paperwork and delays impeding trade. This is before we get down to potential tariffs that exporters will have to overcome to get product out of the UK. We will be able to see how tariffs affect trade by watching the cheese exports to the US.



Source: The Dairy Group, AHDB and Defra

Although it is still early days the graphs showing the trade in cheese, with EU trade on the left and non-EU trade on the right, shows a ten-fold difference in volumes. It also shows the difference in the volumes of imports compared to exports. The UK is an importer and a modest exporter with imports (536 kt) making up 40% of supply (801 kt). Exports (207 kt) are important however as they represent 44% of UK annual production (470 kt) providing balance to the market.

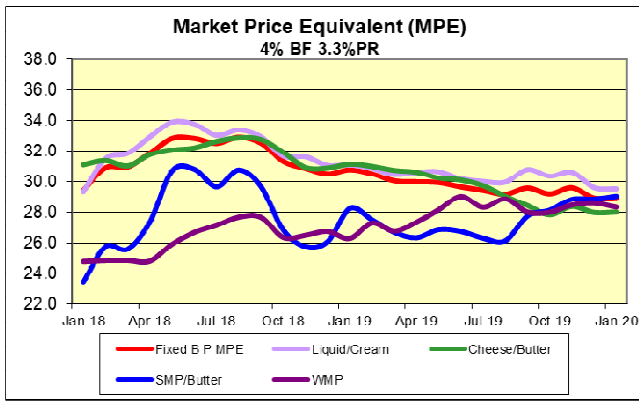
The early AHDB evidence of the effect of US tariffs applied in October (WTO approved in retaliation for Airbus subsidies) is that there may be a limited effect on tonnage provided exporters absorb the cost of the tariffs. AHDB report a 19% reduction in the value of exports in November to the USA. The problem, if it holds true, is that it will reduce the returns to the processor and therefore milk prices. The limited effect of the small tonnage exported to the US can be absorbed by the milk pool, but it is indicative of what could happen if exports to the EU (170 kt) were affected by tariffs.

The prevailing no-deal tariffs tabled are 7.5% on imports, but exports to the EU would move from 0% to 40%, potentially killing off 82% of exports. The UK applied import tariffs would be worth around £260/t, but the export tariffs £1400/t. The potential disruption to the cheese sector is immense and would knock on through the industry as utilisations were re-

balanced and prices realigned. If the effect was seen in prices to maintain volumes, the effect could be a reduction in milk price by 1ppl or more.

As the trade negotiations carry on through 2020 expect both sides to talk tough, prepare for talk of no-deal and who would be affected the most coupled with lots of speculation on the eventual outcome. Exchange rates are likely to be volatile with a resulting effect on market values and input costs.

As things stand with EU butterfat prices drifting down and protein prices held up by SMP the prospects are for farmgate prices to stagnate or fall slightly as Spring approaches. UK butterfat supply is up +1.5% year on year due to high butterfat levels on stable milk supply, which looks set to continue to the Spring. There is unlikely to be an upturn in markets while global supply remains stable and GDP growth falls away. Winter weather is forecast to carry on the current wet and mild theme allowing early spring growth to pick up the pace encouraging thoughts of an early turnout in March. The indications are suggesting stability in markets before any Brexit shenanigans are factored in.



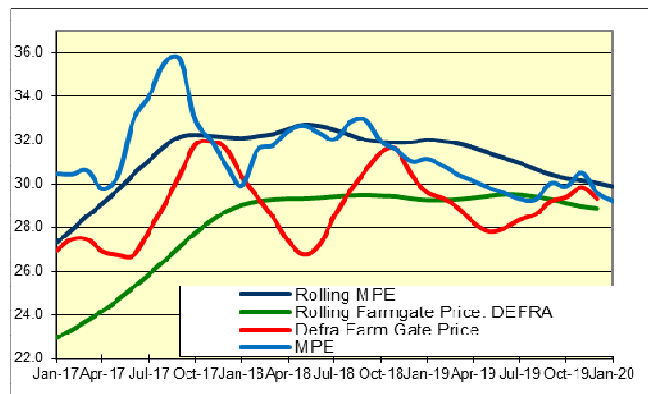
## Market Prices

The Market Price Equivalent (MPE) was unchanged at 28.9 ppl (-0.0%). MPE is down 0.5ppl (-1.7%) in the last 6 months and down 1.8ppl (-6%) year on year. SMP rises 1.4% to £2220, Butter was down 0.3% and Cream slipped 1.5% with record milk quality continuing. The range across the sectors stays at 1.5 ppl from Liquid/Cream returns to Cheese/Butter with powder returns continuing to exceed cheese/butter

returns. The GDT price equivalent has lifted in January 2020 to 27.8 ppl, due to across the board price recovery. The UK SMP price has narrowed further to £106/t below the GDT auction. Global supply growth has slipped to 0.3% in October reducing the chance of an upturn until the EU spring flush.

## Farm Gate Prices

The December 2019 farm gate price fell by 0.5 ppl to 29.3 ppl, up 1.3ppl (4.8%) in the last 6 months, down 1.1ppl (-3.6%) in the last year. The fall is a combination of record milk quality and reduction in seasonality. The rolling Farm Gate price drifts lower to 28.9ppl, down 0.4ppl on 2018. January 2020 milk price, without seasonality and a seasonal fall in milk quality could be 0.8ppl lower at 28.5ppl. With market returns drifting down farmgate prices are set to follow into the New Year with price cuts by Saputo (Davidstow) already signalled.



Production in November was confirmed at 1167 M litres (-7 M litres) and December was 1228 M litres (-7 M litres). UK winter weather has remained very wet, but warmed up to give a hint of spring around the corner. January production is estimated at -0.8% at 1248 M litres (-18 M litres) and February is forecast at 1193 M litres (+37 M litres) with the extra day. UK 2019/20 supply forecast remains a record at 14970 M litres, +0.7%, +96 M litres but with the leap year will top 15.0 B litres.

Sterling has stabilised at £/€1.18 and £/\$1.31 through December and oil prices have continued to ease back with tensions easing in the Gulf.

Milk prices are coming under renewed pressure with reductions being led by Saputo indicating difficulties in cheese not helped by a 6% rise in cheese imports through September to November 2019. The US/China trade deal will limit falls in feed costs and the cost of production may struggle to improve much on the 33.7ppl in 2018/19 but will undoubtedly remain significantly above milk prices.”

- Ends -

## For further information please contact:

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- **Visit [www.thedairygroup.co.uk](http://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.