

PRESS INFORMATION from *The Dairy Group*

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The Market Price Equivalent (MPE) Update May 2020

By Nick Holt-Martyn, The Dairy Group

UK Government Produces a Favourable Tariff Regime but Resists Amendment of the Agriculture Bill

“The Government resisted the amendment to the Agriculture Bill preventing the import of goods produced using methods illegal in the UK, but introduced a modicum of trade protection with the UK Global Tariffs” says Nick Holt-Martyn of The Dairy Group. He goes on to say “the Bill amendment was an opportunity to restate the illegal nature of certain practices and the Government’s desire to prevent their import, common sense to most in the food sector. The threat of a no deal tariff imbalance that would disadvantage UK farmers was also replaced by a much more reciprocal arrangement, offering a sound starting point for negotiations with prospective trading partners.

Global Tariffs (£/t)	UK	EU
Butter	1580	1699
Cheddar	1390	1497
Liquid	1800	1953

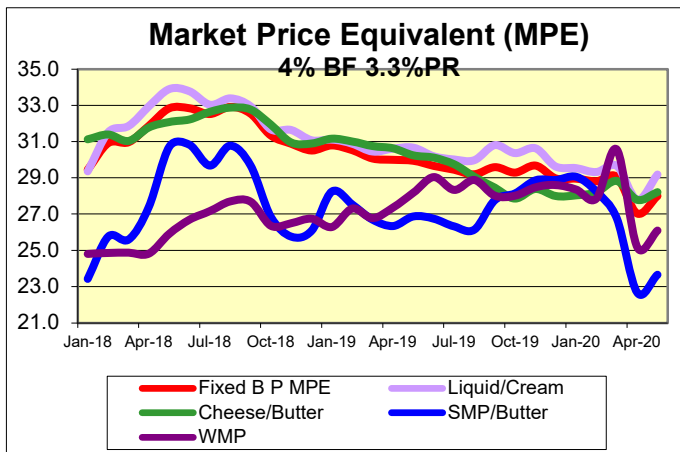
Source: The Dairy Group and Defra

The table above shows that despite not being perfect the external tariffs are much closer than those proposed 12 months ago and provide a basis for negotiating a fair reciprocal arrangement. Obviously if no deal is forthcoming, as current sabre rattling suggests, even at these levels there would be some disruption to trade with Ireland, a main supplier of cheddar and processor of raw milk.

For many these are problems for next year with Coronavirus and drought the current issues to be overcome. With the virus the range of milk prices across the country has never been more extreme depending on the exposure of the milk buyer to the effects of lockdown. With social distancing looking like the norm for most of 2020 it is difficult to see how food service can recover to no more than 30 to 40% of previous levels.

The drought however looks set to stretch through most of June preventing any sort of recovery in forage supply until July at the earliest. In the 2018 drought milk only suffered a minor reduction due to farmers taking swift actions on feed to make sure cows were well fed and kept producing milk. 2018 came on the back of a cold, wet spring (beast from the east etc) whereas meaningful rainfall stopped in March this year. A further complication is the lack of winter sown crops and a reliance on spring sown crops that are now struggling with the drought.

Globally milk supply remains subdued and reduces to +0.7% growth between the major exporting blocks. With drought widespread in the EU and New Zealand hitting its trough period there is little prospect for an increase in supply until the autumn. The effects of the lockdown may coincide, so the real question is how quickly and to what extent demand picks up later in the year. Unemployment and loss of GDP usually reduce demand and 2020 is unlikely to be any different.



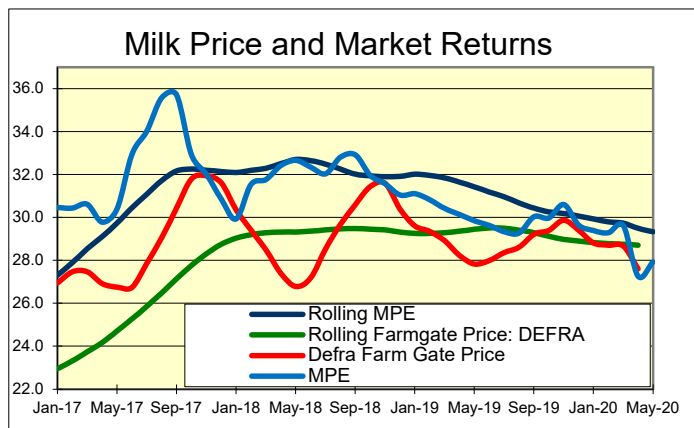
Market Prices

The Market Price Equivalent (MPE) staged a partial recovery of 0.9ppl to 28.0 ppl (+3.5%). MPE is down 1.7ppl (-5.7%) in the last 6 months and down 1.9ppl (-6.5%) year on year. Prices rose across the board, with cream the big winner, making up for last month's fall. Rapidly easing supply due to drought should help prices to recover further in June. The range across the sectors jumps to 5.5 ppl from SMP/Butter returns to Liquid/Cream. The GDT price equivalent was unmoved

at 24.9 ppl and is back to levels not seen since January 2019.

Farm Gate Prices

The April 2020 farm gate price slips to 27.6 ppl, as April's price cuts feed through, down 0.6ppl (-2%) in the last year. This shows the sharp price reductions for some and seasonality effects. The rolling Farm Gate price falls to 28.7ppl. Milk quality has held up well limiting the price fall to 1.1ppl. The patchy nature of the effects of virus mean some buyers have been able to maintain prices, limiting the price fall overall. As usual cheese is the least dynamic of the sectors maintaining a steady return for producers.



Production in March is confirmed at 1305 M litres (-25 M litres) and April production is 1318 M litres -15% (-20 M litres), May is estimated at 1380 M litres, -1% (-14 M litres). Peak supply was 7 days later than 2019, but has dropped quickly since as drought conditions persist.

Sterling has slipped through the month to £/€1.11 and £/\$1.22 as May ends with oil starting to recover at \$32.5/barrel as the widespread lockdown effects ease off slowly. Both the UK and the EU are sounding negative about finding a trade agreement which is probably to be expected at this stage in the process. The outlook for milk prices remains mixed depending largely on the successful withdraw of lockdown. Until social distancing is relaxed, not until Coronavirus is reduced to a handful of hotspots, can food service get back to anything like what it was. The cheese sector remains the most resilient, but farmers have limited scope to change their buyer. The best thing farmers can do in these circumstances is to focus on their own business, the cost challenges and better meeting the needs of their milk contracts. Limiting the effects of the drought will be their next challenge. Coronavirus won't last and farmers need to make sure they are in good shape to meet future demand."

- Ends -

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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.