PRESS INFORMATION from

The Dairy Group

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The Market Price Equivalent (MPE) Update October 2016

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

‘Hard’ Brexit could be good news for UK dairy farmers

“Politicians and others are filling the news with a myriad of views of how Brexit might look even before Article 50 is triggered and any negotiation can begin. Negotiation on leaving the EU and what a future UK/EU trade relationship might look like is of vital importance to UK farming.” says Nick Holt-Martyn of The Dairy Group. He goes on to say “recently, buoyed by the collapse of sterling high profile businessmen have suggested tariffs on exports to the EU would be no hardship, but tariffs work both ways, on imports as well as exports. The effect would add further to the exchange rate inflation that is already becoming evident on farm inputs. Tariffs can be applied as a flat rate as well as a percentage so the effect can be significant on certain types of goods. Dairy products attract some of the highest tariffs in international trade to protect domestic supply. A recent AHDB Dairy review highlighted the 2015 EU Tariff levels which we present here with the corresponding trade balance.

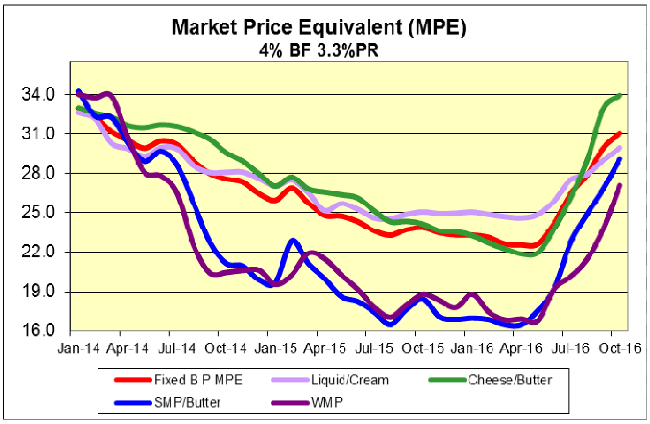
Product	Tariff Rate	Sterling Equivalent	Effective ad valorem rate (2015 Prices)	Trade Balance (000 t)
Milk	€21.8/100kg	19.5 ppl	74%	
Cream	€109.1/100kg	£974/t	50%	-9
Butter	€189.6/100kg	£1693/t	63%	-55
Cheese	€167.1/100kg	£1060/t	42%	-342
SMP	€118.8/100kg	£1492/t	63%	86

Source: The Dairy Group & AHDB

Effectively tariffs at these levels would significantly reduce the competitiveness of imports and exports and increase the domestic demand for UK product with the exception of SMP and normally Cream. Trade balance for Cream is usually positive, but 2015 was an unusual year. When added to and weighted across the UK market tariffs effectively adds 14 ppl to the current MPE of 31.1 ppl, so a ‘hard’ Brexit would disrupt the UK dairy market completely to the benefit of UK farmers.

This explains why the Irish in particular are very concerned about the outcome of negotiations and the effect on their biggest agricultural market for dairy and beef. Trade agreements to prevent tariffs are the UK Government’s preferred outcome, but with both sides playing hard-ball on free movement of workers the conclusion is a long way off. It’s still single market up to 2019, but thereafter we shall have to wait and see, but is likely to add another layer of volatility. EU agreements aside, free trade agreements with individual countries could be significant if they are dairy nations.

Meanwhile UK supply continues to fall with Sep -9.7%, at 1053 million litres and October is forecast -7.6% at 1110 million litres. EU supply is still falling with August at -1.3%, while New Zealand rose 1.0% in September, the US +2.2%. So the combined daily supply falls again in August by -0.3%, a trend that is continuing. Markets are still on track to deliver UK prices of 26 ppl by January 2017 and 30 ppl by April 2017.

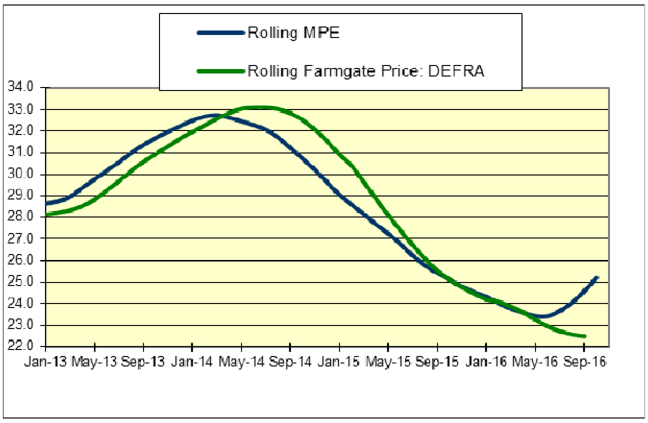


Market Prices

The only way is up for the Market Price Equivalent (MPE), increasing by 1.11 ppl (3.7%) to 30.06 ppl due to improvements across the board with the exception of liquid. The range across the sectors narrows to 6.8 ppl from Cheese/Butter returns to WMP. SMP has lifted to £1860/t, still £359/t above Intervention price and 4% above the last GDT auction, which rose 4.8% in Sterling equivalent. The GDT price equivalent (GDTPE) is up to 25.2 ppl and rolling at 18.3 ppl. At the latest GDT auction tonnages were down 10% on September so markets might be levelling off at the new high levels. US production is running at +2.2% in September, New Zealand was +1% while the EU was -1.3% in August.

Farm Gate Prices

September 2016 price rose to 22.6 ppl as the first price rises appear, but still down 1.1 ppl on the year. The weighted annual average is down 3.0 ppl on the year to 22.5 ppl. The milk price curve is levelling off while the MPE curve is moving sharply upwards, so it is now just waiting for the time lag (normally 3-5 months) between markets and the farm gate to play out. Weather has stayed mild and dry, but the effects of reduced supplementary feeding on milk output remains. Sterling is still falling on Brexit issues despite favourable economic news, currently €1.11 raising the SMP Intervention price to £1511, but with markets ahead at £1860/t the intervention price has become irrelevant. UK production in September was 1053 million litres, 113 below 2015 and 30 below the 5 year average. October is forecast at 1110 million litres, 94 million litres below 2015 and November is forecast to be around 1100 million litres. The milk price is rising rapidly in some sectors, but not as fast as market returns which continue to firm globally and the UK exchange rates continue to weaken. Liquid values are being left behind by the surge in cheese values and the persistent decline in volumes.



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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. The MPE is calculated from wholesale market values, whereas IMPE (Intervention Milk Price Equivalent) accounts for just 14% of United Kingdom milk production and is effectively determined by the Council of Ministers and the prevailing exchange rate. 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.