

PRESS INFORMATION from *The Dairy Group*

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The Market Price Equivalent (MPE) Update March 2019 By Nick Holt-Martyn, The Dairy Group

Can We Trust the Government to Set the Import Tariffs?

“After another turbulent Brexit week in which Brexit like beauty is in the eye of the beholder (you see what you want to see!), the publication of No Deal tariffs set by the Government appear to have bypassed the mainstream media” says Nick Holt-Martyn of The Dairy Group. He goes on to say “the tariff setting was our first opportunity to see hard evidence of what a post Brexit trade policy might look like, with or without a deal. For Agriculture the worst fears were realised! As an opening gambit with future negotiations in mind they were a disaster. The complete antithesis of Trump tactics. No ramping up tariffs to negotiate them away, but instead half them and invite the EU to do the same! Have they learnt nothing in the last two years? Asymmetric tariffs will be very hard to negotiate down to parity or even free trade.

2018	Production kt	Imports kt	Exports kt	Supply kt	UK self- sufficiency %	Net UK self- sufficiency %	Import Tariffs %	Export Tariffs %
Raw Milk	15168	132	938	13965	109%	102%		63%
Liquid	6799			6799	100%	100%	0	63%
Cream	280	32	24	288	97%	89%	0	37%
Butter	151	84	62	173	87%	51%	32%	41%
Cheese	468	517	190	794	59%	39%	7.5%	40%
Condensed Milk	120	51	7	164	73%	69%	0	
Milk Powders	90	56	126	20	453%	-179%	0	79%
Yogurt	350	151	27	474	74%	68%	0	17-20%

Source: The Dairy Group, NFU and Defra

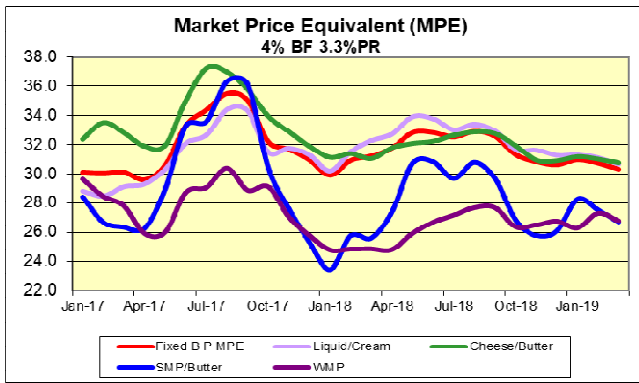
The table above shows the self-sufficiency, net self-sufficiency and proposed tariffs of the main dairy categories. While no deal has almost certainly been ruled out by recent votes in the House of Commons, the tariffs are indicative of future UK trade policy. The Import/Export columns show the scale of the problem, the asymmetric nature means that imports in most things other than butter are likely to be unchallenged, but exports are likely to be severely curtailed when moving from a tariff free trading environment. It begs the question of what will happen to the 437,000t of dairy products that are currently exported? There isn't the capacity to produce alternative products for a domestic market, so existing markets will be swamped by excess product. What will happen to milk prices in the face of such a distortion of trade?

With 1 billion litres per year of raw milk travelling across the Irish border the imposition of a 60% tariff on supplies heading south is likely to kill that trade overnight. With no processing capacity in either Northern Ireland or GB to process that milk where will it go? The effect on milk prices is sadly obvious, excess supply versus limited demand leads to weaker prices.

While agriculture adjusts to the loss of direct support and its partial replacement by environmental payments a transition to an interim arrangement that closely resembles the

status quo is imperative. Thereafter a customs union or at least a reciprocal free trade agreement will be needed to provide the level playing field that UK producers require to be competitive despite the loss of direct support. Opening up the UK market to un-fettered imports while faced with significant tariffs on exports can only cause untold damage to farming businesses. The danger is that ironically Government policy might create an agriculture of industrial farming and park keeping that flies in the face of consumer preferences as promoted by the major retailers.

Meanwhile, in the real world, despite strong UK supply growth of 5.4%, weak EU production is helping to maintain some market stability. A stable milk price for the next 3-6 months is most likely unless derailed by a sudden no deal Brexit. As usual external factors do more to destabilise the dairy market than the dairy market itself.



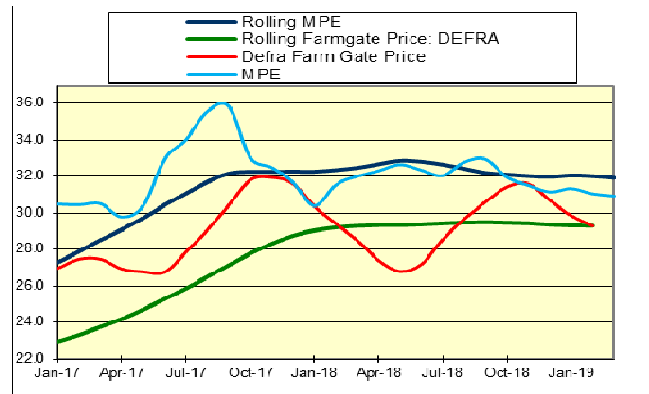
Market Prices

The Market Price Equivalent (MPE) slips again to 30.3 ppl (-1.4%, -0.4ppl). MPE is down -2.3ppl (-6.9%) in the last 6 months and down 0.9ppl (-2.9%) year on year. SMP fell 1.2% to £1670, Butter was down 4.8% and Cream down 6.6% on growing UK supply. The range across the sectors eased to 4 ppl from Cheese/Butter returns to WMP. The GDT price equivalent has risen to 27.3 ppl, +4.3% in the last month,

+16.4% in the last 6 months. Despite the easing in price, UK SMP is still £143/t below the most recent GDT auction, but is £218/t above Intervention. Global supply growth remains flat in 2019, with the EU -1.1% in January, while New Zealand was 7.7% in January, but fell to just 0.5% in February. EU supply with both France and Germany negative is likely to remain flat despite strong growth in the UK and Ireland.

Farm Gate Prices

The February 2019 farm gate price has fallen by 0.6 ppl to 29.3 ppl, up 0.4ppl in the last 6 months, and down 0.13ppl (-0.4%) in the last year. The rolling Farm Gate price has slipped to 29.3ppl, but remains above 29ppl as it has for the last 12 months. The graph shows the relationship between the farm gate price and market returns over the last 2 years.



UK supply continues to grow with February at +3.7% and March forecast +5.4% to finish the milk year +160 million litres (+1.1%) with most of that extra milk produced in the last quarter. The UK farm gate price eased to 29.3ppl in February and is forecast to fall by 0.3ppl to 29.0ppl in March.

As Brexit uncertainty continues currencies have remained fairly stable, £/€1.16 and £/\$1.30 at the end of March. The production in January was confirmed at 1255 million litres (+21 million litres) and February was 1168 (+41 million litres). March production is running at +5.4% at 1330 million litres suggesting April could be as high as 1350 million litres.

Milk prices look set to remain stable into the new milk year despite some short term market movements globally. Weather remains benign and is forecast to extend into April bringing forward the spring flush in the UK. Feed prices have come back but are unlikely to help the cost of production in the short term. Labour supply persists as the number one issue on many dairy farms looking forward.”

- Ends -

For further information please contact:

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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.