PRESS INFORMATION from
The Dairy Group

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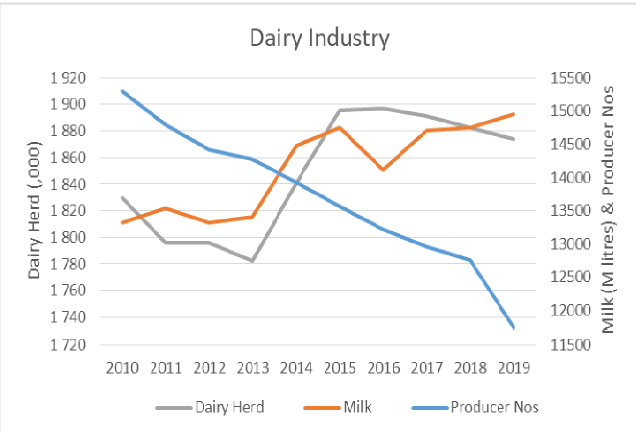
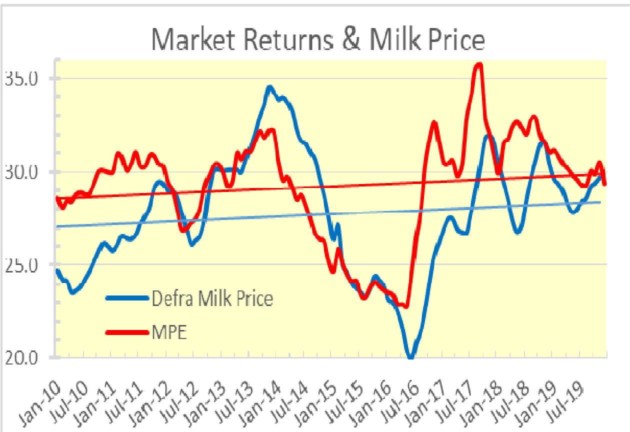
The Market Price Equivalent (MPE) Update December 2019
***By Nick Holt-Martyn,* The Dairy Group**

A turbulent decade sees devaluation of the dairy market value

"The last decade was dominated by variable weather and quota abolition which both contributed to boom and bust cycles that shaped markets and therefore farmgate prices" says Nick Holt-Martyn of The Dairy Group. He goes on to say "producer numbers declined by 27%, accelerating in 2019, production rose 15% but has been stable since quota abolition in 2015. Over the past decade the MPE has risen by 5.3% to 30ppl, with a corresponding increase in the farmgate price rising 5.5% to 28.5ppl. The key parameter however has been volatility; the MPE peaked at 35.7ppl and bottomed out at 22.8ppl, milk prices peaked at 34.5ppl and crashed to 20.0ppl. Meanwhile the Consumer Price Index has risen by 20%, highlighting agricultures biggest problem, the continual devaluation of food, a repeated goal for those advocating Brexit.





Source: The Dairy Group, AHDB and Defra

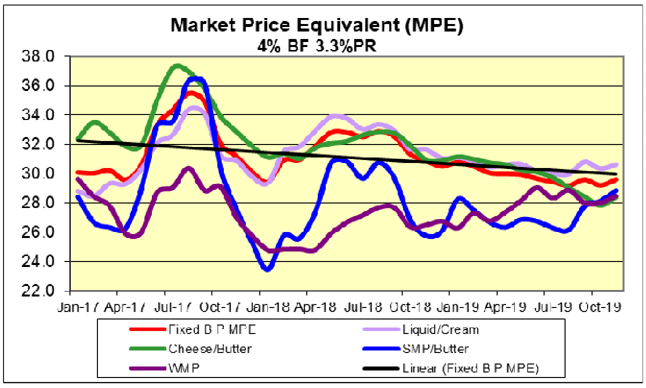
The graphs and comments above shows that dairy farmers are having to run faster to stand still with any improvement in milk prices dwarfed by inflation across the decade. The options are to get bigger, get niche or to leave. The decade was bookended by relatively stable market conditions which was only derailed by political intervention mid-decade. Even recent difficult weather has had a very limited effect on milk supply.

Contrary to popular beliefs the most turbulent weather occurred in the early part of the decade swinging between Cold (2010, 2013) to Hot (2011, 2014) to Dry (2011, 2013, 2018) to Wet years (2012, 2014, 2019). Although climate is more than 10 years of weather the warming and wetter trend of the last 30 years continued, slightly skewed by the last 6 years all being warmer than average. A similar period occurred in the "noughties" but was followed by a period of 5-6 years of colder weather. The effects on production did not combine well with the political events. The good weather of 2014 after a succession of miserable years led to a recovery in production which continued through quota abolition in 2015. The combined effect was to crash market returns from excessive supply which persisted until late 2017. The relative steady recovery since, butter spike in 2018 aside, has left supply, markets and farmgate prices subdued against rising production costs. Severely restricting profitability and hampering the re-investment needed to meet consumers/retailers rising welfare demands.

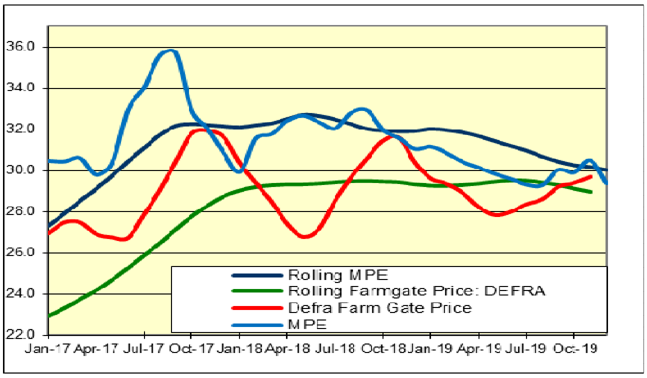
The new decade starts off in a subdued state with markets and supply still in balance but an enormous impending political intervention tabled for 2020. With only months to go the future trading relationship with the EU remains unknown with options ranging from continued free trade to the worrying no-deal tariffs as outlined previously by the Government. Either way the uncertainty will act as a significant lead weight on the UK market keeping prices low to reduce retailers and processors exposure to adverse risk. The expectation is that the UK market will slowly detach from the EU market due to the uncertain UK trading conditions. Farmers yet again will be shouldering all the risk as milk processors protect themselves and their margins. The evidence from the previous decade is that the feedback loops within the markets work well enough to manage prices and supply, with political intervention acting as the main disrupter in these sensitive relationships.

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. There is no sign of an upturn in markets while global supply remains stable and GDP growth falls away. Even extreme weather has less of an impact than previously and would not be welcome with more pressing matters to be taken into consideration. The large Conservative majority means Brexit will take place in 2020, but no-deal remains a risk if there is no trade agreement by the end of 2020.

Market Prices



The Market Price Equivalent (MPE) fell 0.65 to 29.0 ppl (-2.2%). MPE is down 0.7ppl (-2.4%) in the last 6 months and down 1.6ppl (5.5%) year on year. SMP rises 2.7% to £2190, Butter was down 3.6% and Cream crashed 17% with November milk quality at record levels. The range across the sectors stays at 1.6 ppl from Liquid/Cream returns to Cheese/Butter, with powder returns continuing to exceed cheese/butter returns. The GDT price equivalent has rebounded in January 2020 to 27.3 ppl, due to across the board price recovery. The UK SMP price has narrowed to £116/t below the GDT auction. Global supply growth has risen to 0.8% in September and is expected to remain above +0.5% through the winter.



Farm Gate Prices

The November 2019 farm gate price has risen by 0.3 ppl to 29.7 ppl, up 1.9ppl (6.7%) in the last 6 months, down 1.9ppl (-6.0%) in the last year. The rise is a combination of record milk quality and seasonality. The rolling Farm Gate price drifts lower to 28.9ppl, slipping below 29ppl for the first time since December 2017. January 2020 milk price, without seasonality and the seasonal fall in milk quality could be 1.5ppl lower. The graph shows the relationship between the farm gate price and market returns over the last 3 years and the strong seasonal element in April-June and October due to milk quality and seasonality. With market returns drifting down farmgate prices are set to follow into the New Year.

Production in October was confirmed at 1192 M litres (-7 M litres) and November was 1167 M litres (-7 M litres). UK winter weather has remained cold and wet following on from an autumn cooler than the 10 year average. December production is estimated at -0.8% at 1230 M litres -10 M litres) and January is forecast at 1260 M litres (-6 M litres). 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.

Some aligned contracts and Saputo aside, milk prices are largely stable for the time being. Autumn weather has caused problems with winter cropping which will have knock on effects on feed prices later in 2020. An 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 -

<u>For further information please contact:</u>

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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.