PRESS INFORMATION from

The Dairy Group

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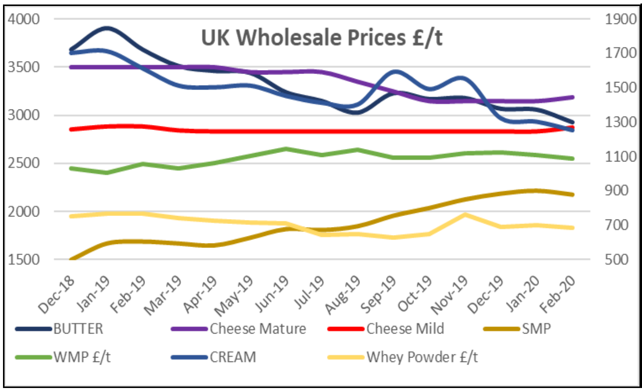
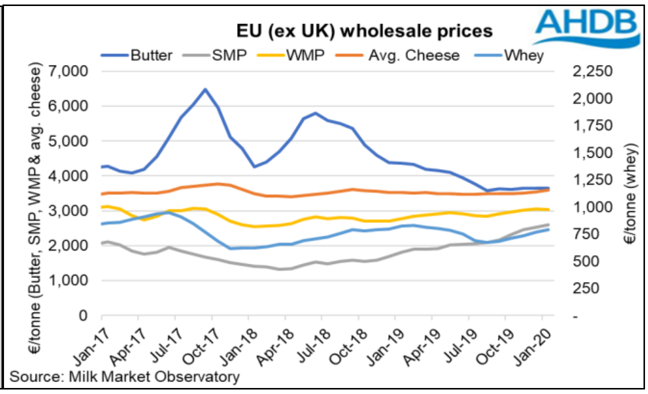
The Market Price Equivalent (MPE) Update February 2020

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

Arla's Pan-European Dimension Increases Milk Price Pressure

"Arla's pricing over the last year is certainly in contrast to others in the UK market and pricing it firmly amongst the retailer aligned end of the milk price league" says Nick Holt-Martyn of The Dairy Group. He goes on to say "Saputo's Davidstow price had kept them company for most of 2019 but a distinct difference in direction is opening up for the new milk year with their cuts totalling 1.2ppl in February & March. In many respects Arla are bucking the trend with the MPE (as shown in the graph on the left) indicating a slow drift down in commodities other than SMP, with WMP showing slight improvement and mild cheddar fairly steady. Even SMP and WMP have taken a turn down in recent months.





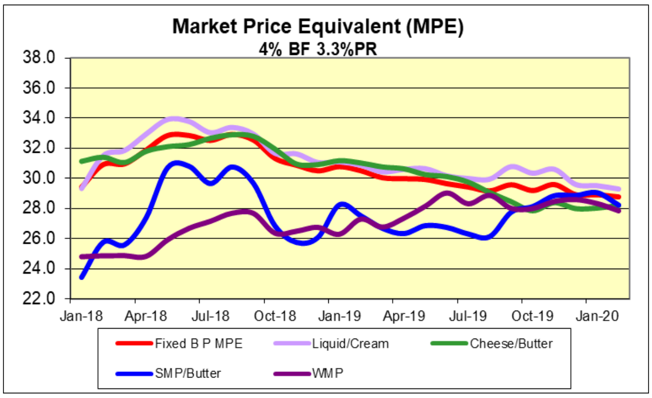
Source: The Dairy Group, AHDB and Defra

The graph on the right show the EU prices which show a distinct upturn over the last 6 months which should have encouraged UK commodity exports. However, the effect of exchange rate volatility and Brexit uncertainties have acted like an anchor holding the UK back. This separation of the UK from the EU market and the effect of volatile exchange rates is likely to be the theme for 2020 as the industry awaits the outcome of trade negotiations. Milk processors and retailers will protect themselves by maintaining healthy margins at the expense of primary producers.

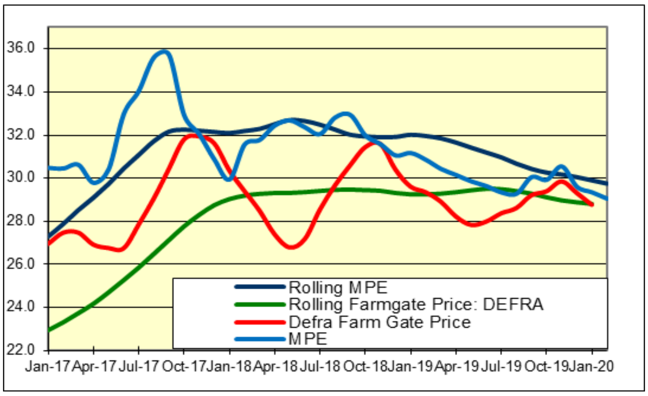
Arla's price, by straddling the English Channel, benefits from both markets with the UK making up 30% of Arla's supply and 22% of Arla's sales. Whereas liquid business like Muller, whilst processing a large volume of milk, struggle to break even. Arla's strength is that it has a broad product portfolio wrapped up in a large milk intake from several northern European countries compared to the more sectorised positioning of its UK competitors.

Global milk supply is subdued with very little growth amongst the major exporting blocks. Similarly the UK supply is running around 1% under 2019 and the current weather suggests 2019's bumper Spring flush will not be repeated in 2020. Covid-19 is rapidly spreading throughout the World due to it's infective nature and a naive population. Widespread self-isolation and curtailment of social activity is likely to reduce GDP and demand for dairy products, so low supply growth is welcome. Weak markets however, are likely to lead to reduced market returns and inevitable weakness in milk prices. 2020 is looking like a difficult year for many reasons and not all of them Brexit related.

Market Prices



The Market Price Equivalent (MPE) was down 0.14ppl at 28.8 ppl (-0.5%). MPE is down 0.4ppl (-1.4%) in the last 6 months and down 1.7ppl (-6%) year on year. SMP's rise has halted, -1.8% to £2180, Butter was down 4.4% and Cream slipped 4.0% with milk quality returning to more normal seasonal levels. The range across the sectors narrows at 1.3 ppl from Liquid/Cream returns to WMP. The GDT price equivalent has slipped in February 2020 to 26.0 ppl, due to across the board price falls of 2-4%, except Cheese that rose 5%. With the GDT price falling UK SMP price is now on parity with the GDT auction. Global supply growth has slipped to 0.3% in October with New Zealand supply suffering dry conditions in January & February 20.



Farm Gate Prices

The January 2020 farm gate price fell by 0.5 ppl to 28.8 ppl, up 0.4ppl (1.4%) in the last 6 months, down 0.8ppl (-2.9%) in the last year. The fall is a combination of reducing milk quality and reduction in seasonality. The rolling Farm Gate price drifts lower to 28.8ppl, down 0.4ppl on 2019. February 2020 milk price is expected to drift down 0.1ppl lower at 28.7ppl. With market returns drifting down farmgate prices are set to follow with only Arla bucking the trend with it's April milk price increase.

Production in November was confirmed at 1164 M litres (-10 M litres), December was 1222 M litres (-19 M litres) and January came in at 1244 M litres (-22 M litres). UK winter weather has got even wetter and has cooled to push Spring further away. February production is estimated at -0.9% at 1146 M litres (-10 M litres) or at 1187 M litres with the extra day. UK 2019/20 supply forecast slips to 14907 M litres, +0.72%, +35 M litres, which is a record, but even with the leap year will not top 15.0 B litres.

Sterling has slipped to £/€1.15 and £/$1.28 with oil dropping below $50/barrel as Covid-19 starts to hit the global economy and the Government's tough talking as EU negotiations get under way. The US/China trade deal will be derailed by the Covid-19 pandemic which will stifle trade and weaken input prices to counter weaker exchange rates.

A more confusing picture on milk prices is emerging with reductions being led by Saputo and countered by Arla. With the general immobility of milk contracts in many regions producers have to get the best out of their existing contracts rather than moving their supply."

- 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.