

# PRESS INFORMATION from *The Dairy Group*

31<sup>st</sup> March 2020

## **The Market Price Equivalent (MPE) Update March 2020** *By Nick Holt-Martyn, The Dairy Group*

### **Avoiding Cv-19 Causes Disruption to Domestic Dairy Supply Chain**

“The UK will continue to operate on a Cv-19 rolling 21 day isolation to manage the peak critical case load and minimise morbidity” says Nick Holt-Martyn of The Dairy Group. He goes on to say “with little effective treatment and vaccination seemingly some distance into the future, it is hard to see how the Government can bring the isolation period to a conclusion without causing a spike in hospitalisations. It can probably only occur once widespread testing has identified those with acquired immunity, a significant reduction in deaths and the new infection rate has dropped away. For the 2 million people in the vulnerable group restrictions may be in place for sometime to come.

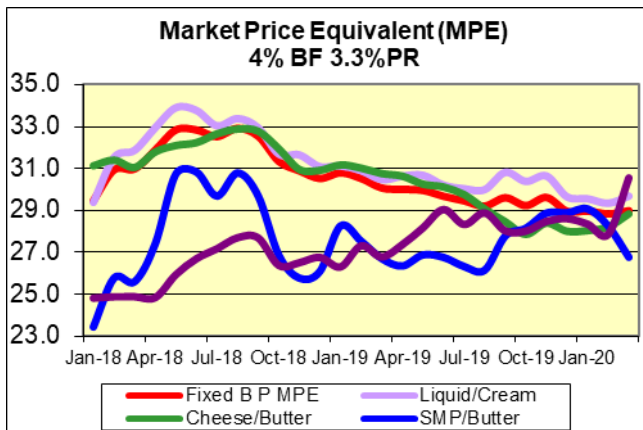
The loss of the catering industry in parallel with the rise in home working and the stockpiling that occurred in the weeks running up to the lockdown, put supply chains under pressure causing retailers to introduce rationing. The diverting of raw materials from catering to retail has taken time, but the retailer restrictions are starting to be reduced suggesting supply has improved and the panic demand has been satiated.

<b>Expenditure - £bn</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>
<b>Catering</b>	52.92	54.29	56.6	60.44	<b>61.49</b>
<b>Food and non-alcoholic drink shopping</b>	97.57	97.46	98.81	104.02	<b>107.59</b>
	<b>54%</b>	<b>56%</b>	<b>57%</b>	<b>58%</b>	<b>57%</b>
<b>Average Weekly Spend £bn</b>					
<b>Catering</b>	1.02	1.04	1.09	1.16	<b>1.18</b>
<b>Food and non-alcoholic drink shopping</b>	1.88	1.87	1.90	2.00	<b>2.07</b>

**Source: The Dairy Group and Defra**

The table above shows the UK Consumer Expenditure on Catering and Food showing the steady rise of catering but without any loss of sales on domestic foodstuffs. A rise of £19bn (20%) in 4 years, £10bn on domestic and £9bn on catering. With catering effectively suspended and the reported £2bn rise in retail sales it is easy to see where that could come from before income restrictions begin to bite on a significant proportion of the country's workforce. Going forward it is likely that total sales through retailers will not totally compensate for the loss of the catering outlets.

The effect on the dairy industry is starting to show with Freshways and Meadow cutting prices while Muller have announced a 1ppl increase to 27.25ppl on the back of increased demand. Arla are still 2ppl ahead at 29.6ppl for liquid standard litre. Liquid appears to be winning whereas those exposed to catering will have a big problem trying to move supplies on to those sectors with increased demand. For the moment spot milk is holding up, helped by the cool, dry weather limiting grass growth and possibly delaying the peak milk flush. Our March forecast shows milk down 2% to 1300 M litres and April down 1.4% to 1320 M litres. Globally milk supply is subdued with barely 1% growth between the major exporting blocks. Widespread self-isolation and curtailment of social activity is likely to cut GDP and demand for dairy products, so low supply growth is welcome. One of the effects of the pandemic will be to create winners and losers in many areas, some will not survive while for others the future will be assured. Farmers need to hope their milk buyer is a winner.



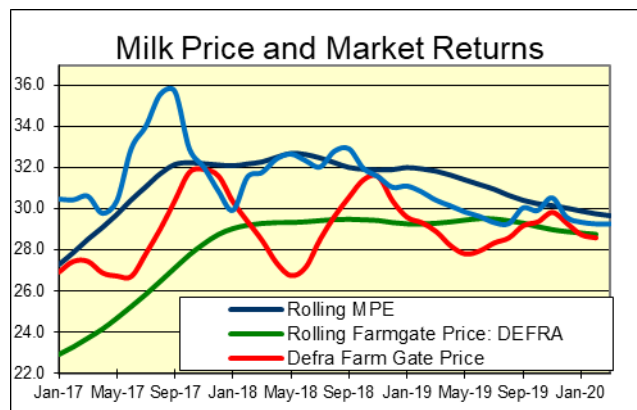
### Market Prices

The Market Price Equivalent (MPE) was up 0.15ppl at 29.0 ppl (0.5%). MPE is down 0.6ppl (-2.1%) in the last 6 months and down 1.1ppl (-3.6%) year on year. SMP fell due to global pressure, -9% to £1990, Butter slipped down 0.1% and Cream rose 2% with milk quality rising on partial turnout. The range across the sectors jumps to 3.8 ppl from SMP/Butter returns to WMP which benefited from the collapse in Sterling. The GDT price equivalent slipped

in February 2020 to 26.0 ppl and has lifted to 26.4ppl with the drop in sterling, despite further price falls in powders. With the GDT price falling UK SMP price has fallen 5% below the GDT auction. Global supply growth has improved to 1% in December with rises in EU, US and Argentina.

### Farm Gate Prices

The February 2020 farm gate price fell by 0.15 ppl to 28.6 ppl, no change in the last 6 months, down 0.74ppl (-2.5%) in the last year. The fall is a weakness in the markets from December onwards. The rolling Farm Gate price drifts lower to 28.7ppl, down 0.5ppl on 2019. March 2020 milk price is expected to lift 0.2ppl to 28.9ppl on rising milk quality. With market returns moving up farmgate prices for some are set to lift with Muller following Arla's spring milk price rise. The firming cheese market could help lift the manufacturing side, logistical issues with some buyers not withstanding.



Production in January is confirmed at 1244 M litres (-22 M litres) and February production is 1137 -1.7% (-19 M litres) or at 1166 M litres (+0.9%) with the extra day. UK 2019/20 supply forecast lifts to 14946 M litres, +0.5%, +74 M litres, a record but with the leap year not topping 15.0 B litres despite the excellent spring and summer in 2019.

Sterling has recovered to £/€1.13 and £/\$1.24 as March ends with oil dropping to just \$23/barrel as the oil world embark on a production spree. A logistical backlog is delaying the economy taking full advantage of the lower prices. Covid-19 completely overshadows Brexit negotiations with most major EU economies also in lockdown restricting trade activities.

The confusing picture on milk prices continues with the logistical challenges and lockdown affecting different companies in different ways depending on their balance of products and sectors served. 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. Covid-19 won't last forever and they need to be in good shape for when social distancing comes to an end and global demand comes back."

- Ends -

### For further information please contact:

- Nick Holt-Martyn, The Dairy Group (01823 444488/e-mail: nick.holt-martyn@thedairygroup.co.uk)
- Visit [www.thedairygroup.co.uk](http://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.