

PRESS INFORMATION from *The Dairy Group*

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

Defra Complacent Over Savage Milk Price Reductions for the Few

“The complete shutdown of catering at the seasonal peak milk flow has triggered a large price cut response from those processors most exposed to that market” says Nick Holt-Martyn of The Dairy Group. He goes on to say “with the death rate still running at 700 per day, suggesting 14,000 infections per day at 1 week into lockdown (average time from infection to death is 26 days) means there is little chance of getting catering back into action in June or possibly July. If social distancing is to be the norm for any resumption thereafter many enterprises will not be viable with only a 30 to 40% occupancy.

April 2020 Milk Problems in GB Dairy Industry		Apr-Jun 2019 Milk Utilisation % of Annual Volume	
Reduced Milk Price	52%	Liquid	25.6%
Cancelled Milk Collections	5%	Cheese	26.9%
Payments Deferred	5%	Butter	28.8%
Asked to Cut Volumes	24%	Cream	26.2%
Full Priced Volume Reduction	7.6%	Yogurt	24.6%
		Powders	32.3%

Source: AHDB and NFU

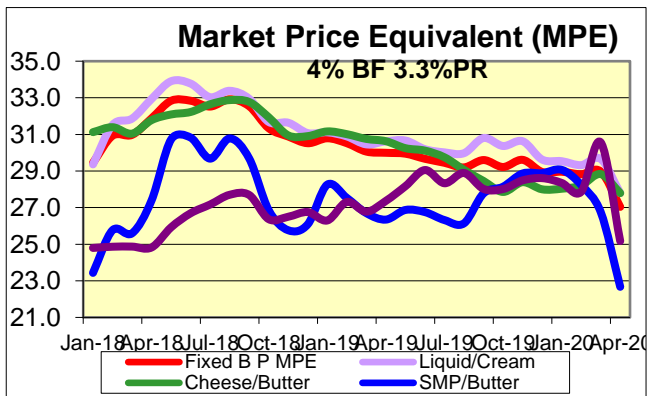
The Dairy Group and Defra

The tables above show that over half of milk producers have seen milk price cuts, a quarter have been asked to reduce volumes and 25% have seen little change to date. The second table shows how only powder and butter production see a significant increase during the spring flush to take advantage of abundant low-priced supply. Core products like liquid, cheese, cream and yogurt show little seasonal increase in April to June. In a normal year powder production rises 100 million litres (29%) in this quarter so it is unreasonable to expect mothballed plant to be available this year when Spring 2019 was a record-breaking quarter for production.

The large processors, Arla and Muller, account for most of the large retailers' demand which takes up 72% of the liquid utilisation. The remaining 28% is made of local shops, independent garages and food service. Often these have relationships with local regional processors who have been the most exposed to the loss of food service outlets.

With production costs on farm stubbornly at around 33ppl and the average farmgate price likely to drop below 27ppl on a 1% reduced supply the whole industry will be under stress. AHDB estimates that 26% of milk producers will experience a medium to high impact on their businesses from direct severe price cuts and milk dumping. Once milk price falls below 25ppl producer's ability and desire to carry on diminishes so reductions to 17 to 22ppl will make many question their future. Exiting dairy farming under the current circumstances will also not be easy with reduced demand for cows due to lower milk prices and some production constraints.

Globally milk supply remains subdued with +1.3% growth from the major exporting blocks. Widespread self-isolation and curtailment of social activity is cutting GDP and demand for dairy products, so low supply growth is welcome. Milk buyers will pass pain onto their suppliers rather than increase the risk to their own businesses in the first instance, but for some processors that will not be enough to survive a protracted lockdown.



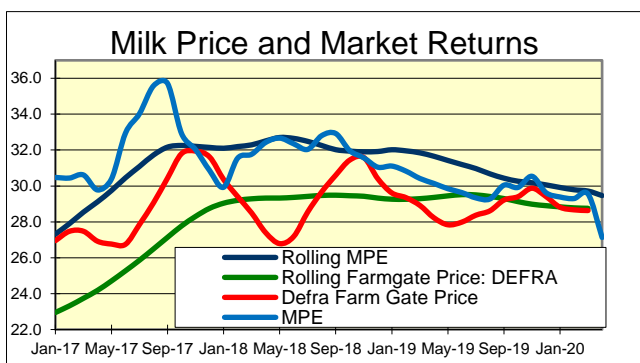
Market Prices

The Market Price Equivalent (MPE) crashed **1.9ppl** to 27.0 ppl (-7.2%), the largest fall recorded in 21 years of producing MPE. MPE is down 2.2ppl (-7.5%) in the last 6 months and down 3.0ppl (-9.9%) year on year. SMP fell due to reduced demand for milk at a time of peak supply, -15% to £1730, Butter dropped down 18% and Cream crashed by 30% with milk quality strong on partial turnout. WMP and Whey were

adversely affected by the near 8% recovery in Sterling to €/\$1.15. The range across the sectors jumps to 5.1 ppl from SMP/Butter returns to Liquid/Cream and Cheese/Butter which enjoyed rising demand from lockdown. The GDT price equivalent slipped in April 2020 to 24.8 ppl and has fallen 2.97ppl since the 21st January. Despite the GDT price falling, the UK SMP price is 12% below the GDT auction. Global supply growth has improved to 1.3% in January with further rises in EU, US and Argentina.

Farm Gate Prices

The March 2020 farm gate price stood still at 28.6 ppl, no change in the last 6 months, down 0.3ppl (-1%) in the last year. This shows the incredible stability of UK prices mostly on the back of record milk quality which continues. The rolling Farm Gate price also stays at 28.7ppl. April 2020 milk price is expected to fall 1.0 to 1.5ppl to 27.2 to 27.7ppl on falling markets and milk quality.



With market turmoil through the peak supply period lower prices for most milk producers are almost inevitable. The firm cheese market provides a welcome crumb of comfort from those dedicated processors compared to those more exposed to the catering sector.

Production in January is confirmed at 1246 M litres (-22 M litres) and February production is 1137 M litres, -1.7% (-19 M litres) or at 1178 M litres (+0.9%) with the extra day. UK 2019/20 supply finished at 14955 M litres, +0.5%, +69 M litres, still a record, but even with the leap year not topping 15.0 B litres despite the excellent spring and summer in 2019.

Sterling has recovered to £/€1.15 and £/\$1.24 as April ends with oil remaining at just \$27/barrel as the widespread lockdown curtails demand. The logistical backlog has recovered, but extended lockdown has now put most western countries into recession. As the global death toll of Covid-19 continues to rise with no effective vaccination or treatment, the EU is sceptical about a successful outcome to Brexit negotiations which are trying to continue.

The outlook for milk prices is mixed as lockdown affects different companies in different ways depending on their balance of products and sectors served. The cheese sector, yet again, seems the most resilient to sudden changes in market sentiment. 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. Cutting milk output unless specifically asked to do so will only damage core business. Limiting any marginal low return litres through better efficiency makes sense in any economic environment. Coronavirus won't last forever and businesses need to be in good shape when lockdown ends and demand recovers."

- 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.