

PRESS INFORMATION from *The Dairy Group*

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The Market Price Equivalent (MPE) Update September 2020

By Nick Holt-Martyn, The Dairy Group

Will La Nina Limit Excess Global Supply?

“With markets the epitome of stability in the last 4 months, becalmed in the face of Covid-19 and Brexit shenanigans, there are signs of a recent surge in supply” says Nick Holt-Martyn of The Dairy Group. He goes on to say “all the major export groups (EU, NZ and US) have seen much firmer supply in recent months. While not necessarily a bad thing, it’s rarely good when the demand side is braced for recession.

Major Export groups	May		June		July		August	
EU	12743	-0.2%	12119	+1.1%	12172	+1.8	11819 <i>est</i>	+1.5% <i>est.</i>
US	8350	-0.6%	8091	+0.6%	8253	+2.1	8178 <i>est</i>	+1.5% <i>est.</i>
NZ	905	+4.3%	230	+1.8%	286	+4.4%	1468	+5.3%
Total	23378	-0.2%	21718	+0.9%	21972	+1.8%	22625 <i>est</i>	+1.7% <i>est</i>

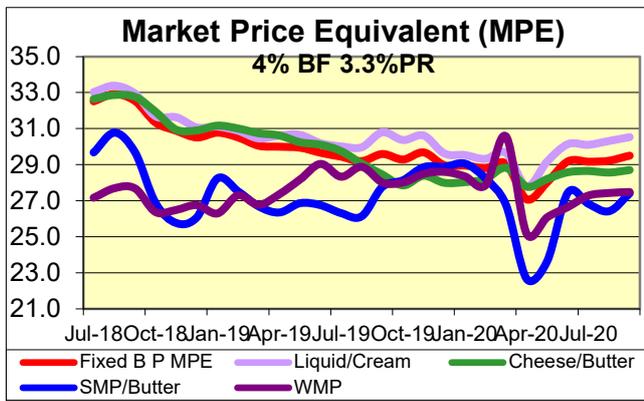
Source: AHDB and The Dairy group

The table above shows the dominant players in global dairy exports who were on a rising trend through June, July and probably August. Although this is only the start of the New Zealand milk year the last 2 reported months are record levels of milk production and are a strong indicator of how their season is starting off.

The likely presence of La Nina conditions for the next 6 months should have a variety of weather affects depending on its severity and persistence. The normal expectation is that North America will see cooler damper conditions while South America experiences drier conditions. In the Western Pacific the likely effects are cooler and damper for Australia, while New Zealand expects drier conditions. However the recent weather in New Zealand has been cool with snow. It is very difficult to forecast how the weather will unfold or its affects on dairy output and soya/maize production. The only thing that is certain is uncertainty!

Stability of dairy markets require supply to drift upwards at between 0 and 1%. Below this narrow range causes markets to rise and above markets generally weaken. Since the recovery in 2017 the global dairy picture has been benign with supply drifting up while markets drifted down. La Nina could herald the beginning of a more dynamic market.

If we thought 2020 was a challenging year it may just be the warm up act for 2021; Covid continues, new trading relationships with the entire planet and now a global weather phenomenon that can affect some key players in dairy production and feed supply industries.



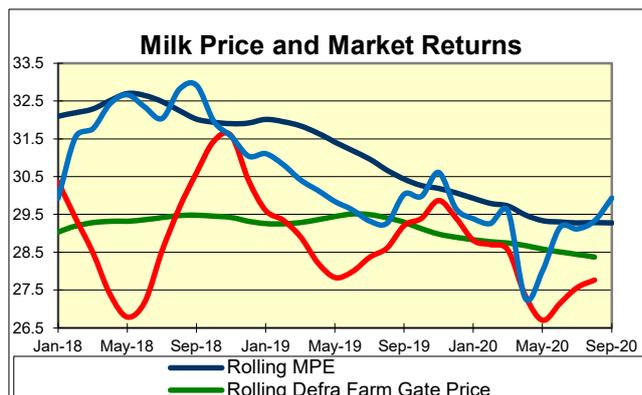
Market Prices

The market almost appears to be rising although it's an optical illusion aided by a 0.3ppl rise in the last month. The Market Price Equivalent (MPE) is up 0.3ppl to 29.5 ppl (+1.0%). MPE is up 0.4ppl (1.6%) in the last 6 months and down 0.1ppl (-0.3%) year on year. Price changes were varied again this month with liquid and cheese static, with gains for Cream, Butter and SMP. The range across the sectors slips to 3.1 ppl from

SMP/Butter returns to Liquid/Cream. UK SMP price is 25% (£384/t) above the Intervention price. The long-term slide in market returns seems to have plateaued for the moment although with much uncertainty ahead.

Farm Gate Prices

The August 2020 farm gate price lifted to 27.8 ppl as seasonality additions appear and milk quality begins its seasonal rise. Disappointingly 0.8ppl below 2019, continuing the long term trend to weaker market returns and farm gate prices over the last 2 years. The rolling Farm Gate price slides to just 28.25ppl. Our November milk price forecast is up to 30.0 ppl, equal to 2019 as some key Autumn milk price rises from Arla, Muller and Saputo feed through, but subject to actual milk quality.



Production in June was confirmed at 1278 M litres (-10 M litres) and July production at 1261 M litres 0.4% (5 M litres), August was at 1200 M litres, -0.5% (-6 M litres). With August rain and warmer September grass supply has been good and our forecast for September is 1160 M litres (0.3%), October 1200 M litres (0.6%), November 1172 M litres (0.72%) and December 1235 M litres.

Sterling has slipped early in the month, but more stable later in the month at £/€1.10 and £/\$1.29 as August ended. The brinkmanship in Brexit negotiations and the passing of legislation that potentially conflicts with the withdrawal agreement has weakened currency and hampered a deal.

The short-term outlook for milk prices remains slightly positive, but no significant increases are likely with recession all around. The message for farmers is unchanged, look within their own business for improvements because of the almost inevitability of a volatile dairy industry for the next couple of years."

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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.