

PRESS INFORMATION from *The Dairy Group*

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The Market Price Equivalent (MPE) Update October 2020

By Nick Holt-Martyn, The Dairy Group

A challenging year with more challenges to come

“2020 has been a challenging year with more challenges to come” says Nick Holt-Martyn of The Dairy Group. He goes on to say “the effects of which will have affected each business in a unique way. The effects of the 1st Lockdown will have depended on your milk buyer and the weather effects will have depended on where you farm and what kind of farm you have. The same can be said of a Brexit deal and whatever form the Brexit deal (or no deal) takes, it will affect each business in a unique way depending where you farm and who you trade with.

Our latest cost of production data suggests the last 2 years have been challenging and will continue to be challenging for the foreseeable future. The latest results from our accounts database are shown below.

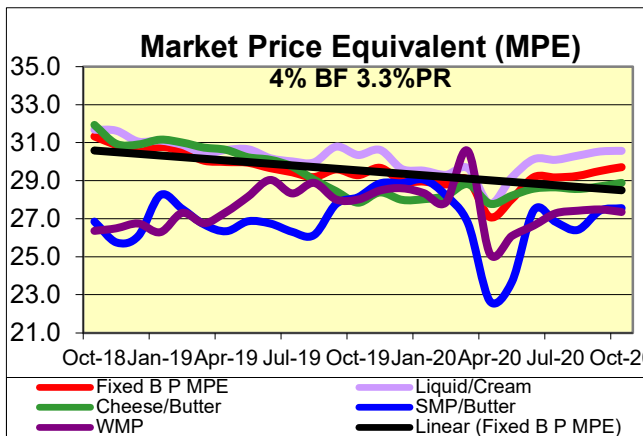
Ppl	2018/19	2019/20	2020/21 <i>Forecast</i>
Milk Sales	30.3	29.5	28.9
Total Output	32.9	32.2	32.0
Variable Costs	16.5	15.2	15.6
Fixed Costs	15.2	15.6	15.4
Profit	1.2	1.4	1.0
Profit after Family Labour	-1.8	-1.5	-1.8
Total Costs	34.8	33.7	33.8
Non-Dairy Income		2.9	2.9

Source: The Dairy group

The table shows a 1.4ppl decline in milk sales over the 3 years being masked by increasing livestock sales, the current year being a good case in point, so that output has fallen more slowly by an expected 0.9ppl. Variable costs have reduced so that gross margins are unchanged over the 3 years, with feed cost the biggest driver of variable cost changes. Fixed costs are more stable although affected by oil prices and general inflation.

Profit is up slightly in 2019/20, but forecast to fall in the current year through lower output and rising variable costs. Profit after family labour remains stubbornly negative with any improvement in 2019/20 being eroded in 2020/21. Total Costs overall fell by 1.1ppl in 2019/20 and appear to have stabilised in the forecast for 2020/21. What is clear is that even in businesses like these with milk sales in excess of 2 million litres, non-dairy income (mainly BPS) makes up 10% of the output helping to shore up viability. Losing much of that non-dairy income over the next 7 years as BPS is reduced will put that viability in jeopardy.

The 2nd Lockdown should have a much more muted effect on dairy markets than the Spring lockdown due to the lower supply base and a better understanding of consumer behaviours by the retailers. Even so, with supply high by seasonal standards, some adverse effect on prices should be expected.

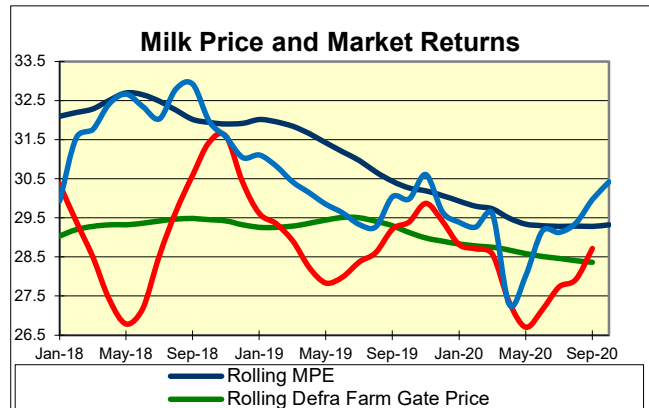


Market Prices

The market remains stable with the Market Price Equivalent (MPE) up 0.2ppl to 29.7 ppl (+0.7%). MPE is up 2.63ppl (9.7%) in the last 6 months and up 0.4ppl (+1.5%) year on year. Prices increased across the board apart from Butter -1%. The range across the sectors remains at 3.2 ppl from WMP to Liquid/Cream. UK SMP price is 28% (£436/t) above the Intervention price. The market returns are remarkably stable probably looking for a steer from the Brexit outcome.

Farm Gate Prices

The September 2020 farm gate price lifted to 28.7 ppl as seasonality additions appear and milk quality begins its seasonal rise. The price was 0.5ppl below 2019, in line with the softening market returns and farm gate prices over the last 2 years. The rolling Farm Gate price reduces to just 28.36ppl. Our November 2020 milk price forecast is up to 30.2 ppl, slightly ahead of 2019 as some key Autumn milk price rises from Arla, Muller and First Milk feed through, but subject to 2020 milk quality.



Production in July was confirmed at 1261 M litres (-5 M litres) and August production at 1199 M litres -0.6% (-7 M litres), September was at 1166 M litres, -0.8% (9 M litres). Wet October weather has forced herds inside curtailing autumn grazing and our forecast for October 1212 M litres (1.7%), November 1184 M litres (1.7%) and December 1250 M litres.

Sterling remains at £/€1.10 and £/\$1.30 as the month ended as Brexit negotiations drag on. A deal is looking more likely while talks continue.

The short-term outlook for milk prices remains slightly positive notwithstanding any effects from the new lockdown and a Brexit outcome. 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."

- 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.