

# PRESS INFORMATION from *The Dairy Group*

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## **The Market Price Equivalent (MPE) Update May 2021**

*By Nick Holt-Martyn, The Dairy Group*

### **Australia Trade Deal: Tip of a Free Trade Iceberg!**

“The Government’s decision to forge ahead with a free trade deal with Australia has raised many questions on tariff barriers and food standards, not just with Australia, but on future trade deals with countries like the USA, New Zealand and many in South America.” says Nick Holt-Martyn of The Dairy Group. He goes on to say “while the standard has been set to phase out quotas and tariff barriers over 15 years, UK Trade ministers have recently stated in parliament that there will be “no compromise on our standards of animal welfare, food safety and the environment”. So despite Australia getting un-fettered access to the UK food market, no hormone or antibiotic growth promoter treated beef and the like will be allowed in. Rules like this are possible under bilateral trade agreements, but not under standard WTO rules. Quite how this is to be implemented is not clear.

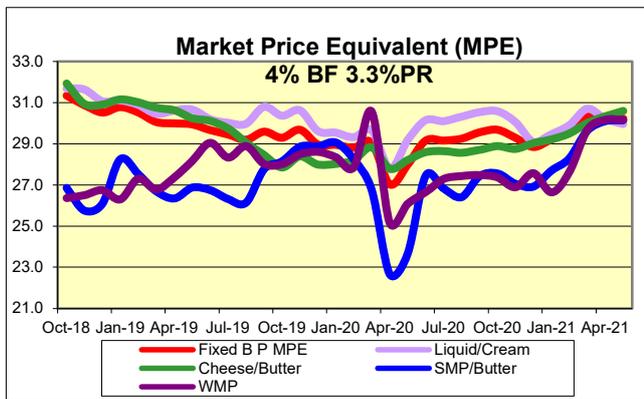
Three months after Brexit it is hard to say what effect on trade there has been so far due to the unreliability of trade information. It is known that trade in January was severely affected due to a combination of Covid measures, pre-Brexit stockpiling and the new trading arrangements and customs documentation. For example, cheese exports were reduced by 85.1% (Food & Drink Federation) in January, there was a recovery towards more normal levels in February and March, but they remained low and the quarterly shortfall was not made up.

<b>Food &amp; live animal</b>	<b>Imports</b>		<b>Exports</b>	
	<b>EU</b>	<b>non-EU</b>	<b>EU</b>	<b>non-EU</b>
<b>Rolling 12 Months</b>				
Year on Year Apr-Mar21	-1%	1%	-9%	-4%
Year on Year Jan-Dec20	0%	0%	-5%	-1%

Source: Office for National Statistics - UK Trade Statistics, current prices, seasonally adjusted

The table above shows the ONS data indicating that while imports were largely unaffected by any of the prevailing factors, exports were greatly reduced suggesting the new trading arrangements were the main cause of difficulty. The stories of lorries returning empty to the EU and shipments being turned back due to proof of origin inaccuracies were correct. Analysis by the University of Sussex suggests that 27% of tariff free goods actually paid duty due to the difficulty in claiming zero tariffs, which has been confirmed by the European Commission.

The flipside however is that market returns have not been affected, beef prices have been at near record levels, milk prices rising, with April 2021 the highest Defra Farmgate price since 2014. With another lockdown ending and hospitality tentatively reopening suggests that the market is set to be very positive as lockdowns measures are wound down through the early summer. The bounce back in the economy looks set to benefit the farming industry as well as other sectors.



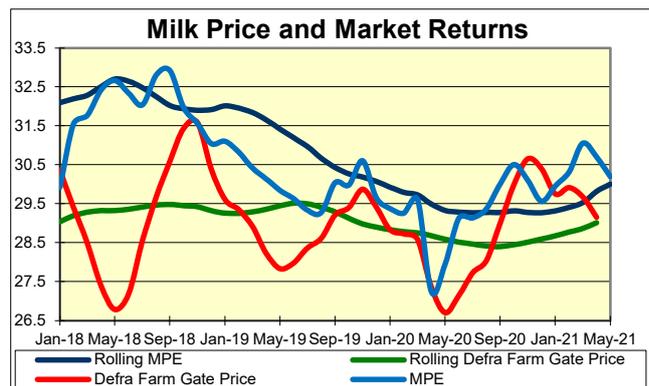
### Market Prices

The Market Price Equivalent (MPE) is unchanged at 30.2 ppl (0.0%) this month, up 0.9ppl (3.2%) in the last 6 months and up 2.2ppl (8.0%) year on year. Cream is down 4% and Butter 3% lower as the range across the sectors narrows further to just 0.6 ppl from Cheese/Butter to Liquid/Cream. Milk protein remains in demand with markets rising for SMP, Whey and WMP, but cheese is stuck in the doldrums, possibly indicating

a large production in the last 12 months. The market returns are still reflecting subdued production with wet cold conditions limiting grazing supply and restricting May to 1400 million litres (+1.3%). The warm sunny weather into June has ensured grass supply will remain good which is likely to lead to firmer milk production.

### Farm Gate Prices

April 2021 farm gate price fell by 0.5ppl to 29.2 ppl, 1.8ppl above April 2020. The rolling Farm Gate price rises to 29ppl. March milk price is in line with our forecast which with the current market prices and recently announced increases raises our latest November forecast to 31ppl.



Production in March was confirmed at 1346

M litres +3.0% (+39 M litres) and April was provisionally 1363 M litres +2.7% (+35 M litres). The cold wet weather has limited grass growth and held supply growth back compared to an average spring, but has come roaring back with the recent warm weather. Based on the AHDB daily deliveries our May forecast reaches 1400 M litres (+1.2%), June remains at 1300 M litres (+1.4%) and July 1270 M litres (+0.8%).

Sterling has risen as the easing of lockdown proceeds, up £/€1.163 and £/\$1.42. The economy is recovering as the roadmap remains on course raising expectations of stronger markets due to increased hospitality and staycations encourage dairy consumption.

Globally milk supply is rising in many areas, at a level that normally suggests markets could weaken, but with sharply rising global GDP there remains upwards pressure on dairy markets and in turn on milk prices. At some point demand will become satiated and market pressure will reduce. The big unknown is when that is going to happen, but it is likely to be linked to stronger fears about inflation and interest rates.”

- Ends -

### **For further information please contact:**

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- ❑ **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.