

# PRESS INFORMATION from *The Dairy Group*

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

### Three Months of Brexit Negotiations Yield Nought!

“Leaving the EU transition on 31<sup>st</sup> December 2020 with no trade deal in place poses an existential threat to the farming industry” says Nick Holt-Martyn of The Dairy Group. He goes on to say “no sector escapes without serious challenges at least and for some a great deal of unknowns. Government adverts urging planning for the change begs the question ‘change to what?’ Unless you know what changes are coming how do you effect a suitable plan other than to strive for greater resilience.

Global Tariffs (£/t)	UK	EU
Butter	1580	1699
Cheddar	1390	1497
Liquid	1800	1953

Source: Defra Statistics and The Dairy group

The table above shows the tariffs in place as of the Agriculture Bill 2020. While on the surface it looks quite balanced and reciprocal it hides a multitude of issues, principal of which is that the UK is not currently registered as a third country and **cannot** export products of animal origin (meat, dairy, eggs, honey etc) to the EU. The registration process is underway!

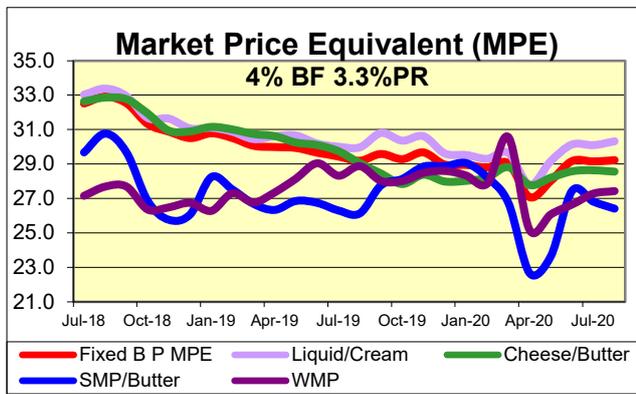
The UK has agreed roll-over arrangements with 18 trading partners which covers around 40% of food export trade which leaves 60% of exports to the EU in jeopardy.

Each sector will have its own issues arising from the import/export balance with the EU. Sheep are possibly hardest hit, with 29% of exports hit with 45% tariffs, with France alone buying 9% of the UK supply. Failure to export would crash UK prices. Beef exports around 16% of supply with the EU dominating taking 90% of UK exports, but as the UK remains only 75% self-sufficient the 65% tariffs are likely to lead to a rise in prices as market balance is found with domestic supply.

Dairy is around 90% self sufficient in terms of fat and protein, but exports tend to be commodities and raw milk for processing, whereas imports are dominated by cheese and yogurts. This raises the problem of processing capacity to make the products that consumers want. With tariffs at 30-40% and milk exports across the Irish border at 800 M litres it is difficult to see past a nightmare no deal scenario and how the market could find a balance. If up to 800 M litres of Northern Irish milk is looking for a home in the GB processing industry, it is hard not to see prices falling as the market struggles to cope.

Globally milk supply remains subdued running at around +1.0% growth between the major exporting blocks as we await the start of the Southern hemisphere milk year. Heat and some dry conditions have affected UK August supply, but the recovery is underway following significant rainfall in many areas down the western side. With difficult weather throughout the year milk supply was always likely to lag behind 2019 with August likely to finish -1.5%.

With Covid-19 cases rising local lockdowns are likely to be a feature for the foreseeable future, through to 2021 when we start to wrestle with the UK’s brave new world as well, creating a great deal of uncertainty.



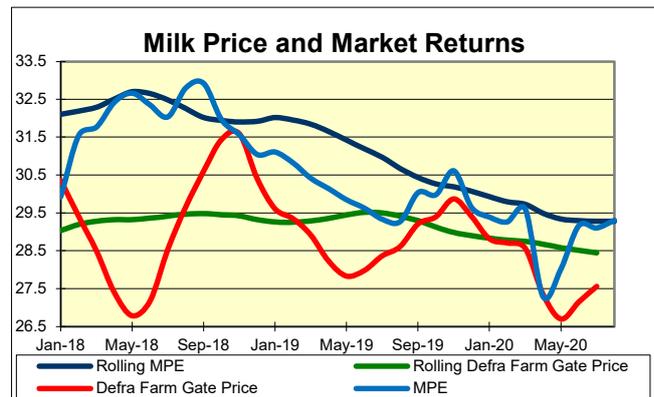
## Market Prices

The market recovery is complete as normal service resumes with liquid and cheese supporting the price while powders are floundering. The Market Price Equivalent (MPE) is up 0.1ppl to 29.2 ppl (+0.3%). MPE is up 0.4ppl (1.5%) in the last 6 months and up 0.03ppl (0.1%) year on year. Price changes were varied again this month with liquid static, gains for Cream, very little for Butter, Cheese was static and mixed for

powders with SMP down, WMP up. The range across the sectors rises to 3.9 ppl from SMP/Butter returns to Liquid/Cream. Despite the fall UK SMP price is 21% (£324/t) above the Intervention price. The long-term slide in market returns seems to be continuing with global recession not expected to cause a change in direction.

## Farm Gate Prices

The July 2020 farm gate price stabilised to 27.6 ppl as seasonality reductions disappear and milk quality begins its seasonal rise. June 2020 was boosted by 0.3ppl to 27.2ppl and May shows the price bottoming out at 26.7ppl, 1.1ppl below 2019. Thus, continuing the long term trend to weaker market returns and farm gate prices over the last 2 years. The rolling Farm Gate price falls to just below 28.5ppl. Our November 2020 milk price forecast is up to 29.0 ppl, 0.9ppl below 2019 but expected to rise with some Autumn milk price increases still to come.



Production in June was confirmed at 1277 M litres (-11 M litres) and July production at 1264 M litres 0.2% (2 M litres), August is estimated at 1190 M litres, -1.3% (-16 M litres). With rainfall through to the end of August and warmer drier conditions likely in early September grass supply is improving. Our forecast for September is 1150 M litres (-0.6%), October 1190 M litres (-0.2%) and November 1160 M litres (-0.2%).

Sterling has been stable, but rose towards the month end to £/€1.12 and £/\$1.33 as August ended. The brinkmanship in Brexit negotiations continues and although a deal cannot be ruled out it is becoming less likely.

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."

- 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.