

# PRESS INFORMATION from *The Dairy Group*

5<sup>th</sup> January 2021

## **The Market Price Equivalent (MPE) Update December 2020**

*By Nick Holt-Martyn, The Dairy Group*

### **A Brexit deal but at what cost?**

“After an extended gestation, many weeks over time, in the end it took political compromises to finally get a deal done on Christmas Eve” says Nick Holt-Martyn of The Dairy Group. He goes on to say “for some it is a sovereign nation throwing off the tyranny of a federal Europe while for others it is the worst example of a democratic Country’s act of self-harm. The Office for Budget Responsibility suggests even with the deal there will be a 4% fall in GDP in addition to the record 11% fall as a result of Covid, suggesting the UK economy in 2021 could be 15% smaller than 2019 trends would have suggested. Vaccinations will be ramped up over the coming months so the effect of Covid will start to diminish as life gets back to normal, however there will be companies that will not survive to see any post-Covid boom.

Although the EU deal removes the threat of tariffs and quotas it does not reduce the regulatory burden of moving to 3<sup>rd</sup> country status. Such burdens are that each item of food will require a Veterinary Health Certificate as well as other export declarations not needed in the single market. This burden also affects products leaving Great Britain for Northern Ireland as the EU border is now along the west coast of Great Britain instead of the island of Ireland.

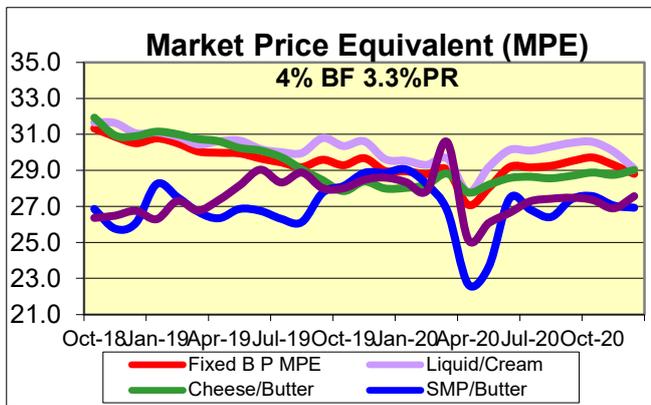
<b>Units: Thousand tonnes</b>	<b>Imports</b>	<b>Exports</b>	<b>Balance</b>
<b>Cream</b>	25	30	<b>5</b>
<b>Butter</b>	78	69	<b>-9</b>
<b>Cheese</b>	535	208	<b>-327</b>
<b>Yoghurt</b>	218	35	<b>-183</b>
<b>Skim milk powder (SMP)</b>	27	82	<b>55</b>
<b>Whole milk powder (WMP)</b>	22	67	<b>45</b>
<b>Concentrated milk</b>	54	26	<b>-28</b>

Source: AHDB, HMRC and IHS Maritime & Trade – Global Trade Atlas®

The table above shows the UK Dairy Trade Imports, Exports and Balance in 2019. Cheese is the dominant sector with large quantities of cheddar traded with Ireland. For all these movements and others not listed there will now be a higher regulatory burden, cost and a disincentive to trade. Why will importers buy British if there is a comparable product, more competitive on price with less regulatory burden available in the EU?

There is already anecdotal evidence (Dutch Bike Bits, Beer on Web) refusing to do business in the UK due to higher costs, while Federal Express/TNT are raising charges on goods shipped between UK and the EU to cover increased administration.

Change after 50 years of the evolving single market was always going to be difficult and lead to higher costs. The question remains ~ over the medium term will the gains be greater than the costs incurred? Only time will tell and I’m sure the scars of the referendum vote will be apparent for some time to come, as politicians and economists argue about the costs, benefits and wisdom of leaving the EU Single Market.



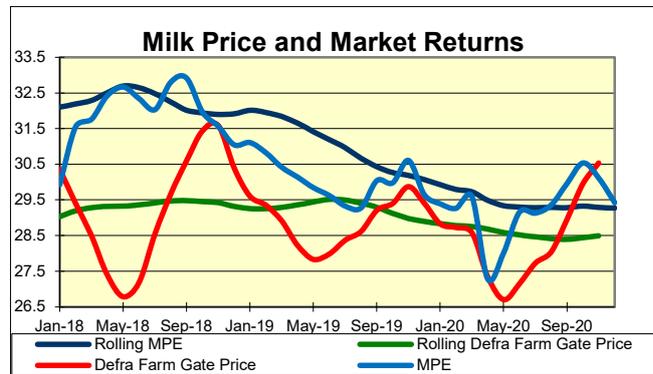
### Market Prices

The collapse of Cream prices, in isolation from Butter, has pulled down the Liquid sector and MPE overall and would not have been helped by the stagnation in cross channel trade over Christmas. The Market Price Equivalent (MPE) is down -0.5ppl to 28.8 ppl (-1.7%) since November. MPE is down -0.4ppl (1.3%) in the last 6 months and down -0.2ppl (-0.5%) year on year. Cream was the only victim with all other prices

mostly stable with small rises in SMP and Cheese. The range across the sectors narrows to 2.2 ppl from SMP/Butter to Liquid/Cream. UK SMP price is 27% (£414/t) above the Intervention price. The market returns remain basically stable overall, despite falling by 0.9ppl in the last 2 months as seasonal, Covid and Brexit volatility combines. New trading practices in January may prolong the difficulties deep into the month.

### Farm Gate Prices

The November 2020 farm gate price rose yet again to 30.5 ppl due to seasonal additions and record butterfat levels. +0.6ppl above November 2019, the highest since December 2018. The rolling Farm Gate price rises to just 28.5ppl. Our December 2020 milk price forecast slips back to 30.2 ppl but January 2021 drops back to 29.3ppl as seasonal pricing drops out and Arla's price cut comes in.



Production in October was confirmed at 1203 M litres +0.9% (+11 M litres) and November was provisionally 1188 M litres +2.1% (+25 M litres). Late Autumn and early Winter weather proved to be very wet with widespread flooding and at the turn of the year frost and snow. Our December milk production forecast rises to 1260 M litres (+2.7%), January 1290 M litres (+3.5%) and February 1180 M litres (+3.8%).

Sterling has lifted on the back of the Brexit Deal and more positive vaccine news to £/€1.11 and £/\$1.36 although the National Lockdown 3 and logistical issues with UK/EU trade is likely to cause concern for January.

The short-term outlook for milk prices remains mostly stable although rising domestic production and trading difficulties post Brexit may cause prices to ease back further. The message for farmers is to review the last 12 months technical performance and address any weaknesses in animal nutrition, fertility and crop production that have led to increased production costs."

- 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.