

PRESS INFORMATION from *The Dairy Group*

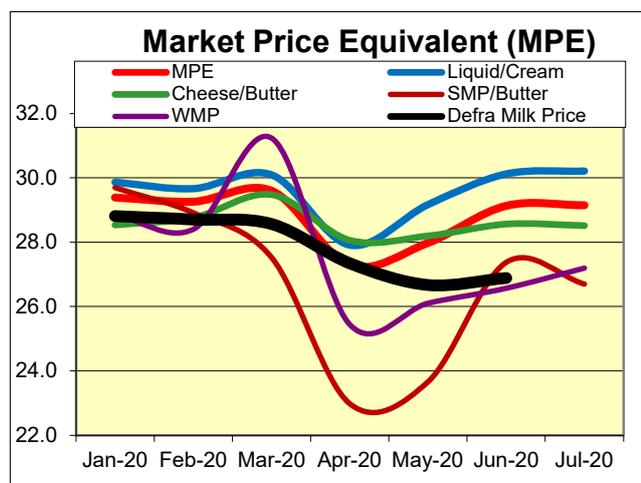
1st August 2020

The Market Price Equivalent (MPE) Update July 2020

By Nick Holt-Martyn, The Dairy Group

With Supply Stable and Markets Recovered Where's the Milk Price?

"The easing of lockdown and the progressive opening of business has heralded a stable dairy environment with sustained market recovery" says Nick Holt-Martyn of The Dairy Group. He goes on to say "markets have resumed their normal relationship, with liquid and cheese holding up the core UK price, while the bulk powders flex to the conditions.



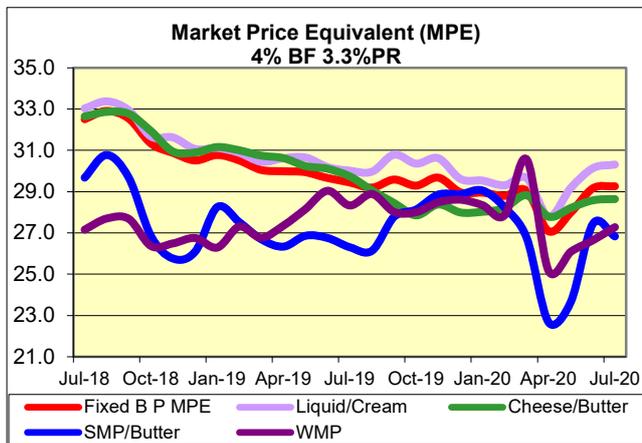
Summary of Price Changes			
	12 mths	CV Apr-May	CV Jun-Jul
Aligned Liquid Contracts	0.1	0.1	-0.0
Independent Liquid	-1.3	-0.6	0.0
Cheese	-1.2	-0.3	0.0
Multi-Sector	-0.8	-0.3	-0.0
Ingredients	-0.8	-0.3	-0.0

Source: Defra Statistics, AHDB and The Dairy group

The graph above shows in real milk quality terms how the April market dip has eased with core markets back to where they were at the start of the year. It helped that milk supply was lower from less production due to widespread drought across the EU as well as here in the UK. It was no surprise that the farmgate took a price hit as well, in part through seasonality and lower milk solids, but also some sharp reductions in certain sectors.

The table on the right characterises those sectors and looks at how their prices have moved in the last 12 months (Covid-19 April/May during peak lockdown and Covid-19 June/July as lockdown easing gathered pace). Aligned contracts aside there were reductions across the board with independent liquid most affected. The cheese sector reduction was mostly through Mozzarella and not cheddar whose prices have been stable. What is clear is that there has been very little recovery at the farmgate suggesting a reluctance to pass on to farmers any benefits of recovery. The processing sector will be encountering higher costs associated with compliance with distancing, hand sanitising and face coverings. Even so, unless there is recognition of the farm cost of production milk supply will not be sustained as producers fall by the wayside.

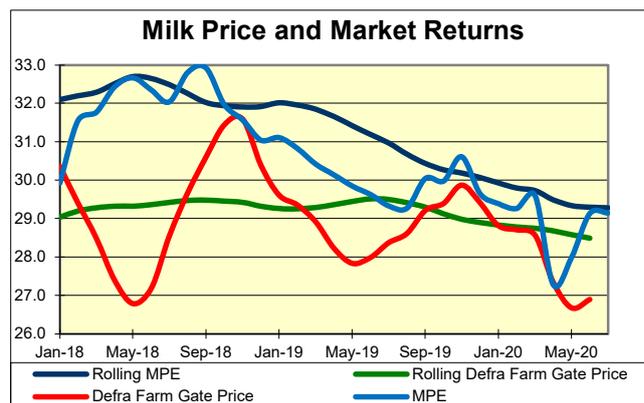
Globally milk supply remains subdued running at around 1% growth between the major exporting blocks through the spring and into summer. Drought effects are still prevalent in many parts of the UK despite a wet June down the western side. Supply is dropping behind 2019 by 2% with July forecast at 1240 M litres (-2.1%). With lockdown easing now in doubt as irresponsible behaviour in more deprived areas and coastal resorts is leading to a rise in Covid cases, the Government is likely to favour a return to school policy rather than increased social freedoms. The warning from Melbourne, Australia is stark, with local extreme lockdowns likely to be enacted in the UK to stem a rise in infections prior to winter. Troubled times ahead!



Intervention price.

Farm Gate Prices

The June 2020 farm gate price stabilised to 26.9 ppl, despite markets remaining stable there was precious little recovery. This continues the progressively weaker market returns and farm gate prices over the last 2 years. The rolling Farm Gate price slides to 28.5ppl. Milk quality is now following a normal seasonal decline, down to 4.0% butterfat 3.3% protein. There are signs of a muted recovery in liquid prices that were most affected during the lockdown, with some cheese prices increasing which reflects the positive retail demand.



Production in May was confirmed at 1382 M litres (-13 M litres) and June production at 1290 M litres +0.1% (1 M litres), July is estimated at 1240 M litres, -2.1% (-26 M litres). The post drought recovery has petered out with milk running along -2%.

Sterling has been rising through the month to £/€1.11 and £/\$1.31. The sabre rattling by both sides in the Brexit negotiations continues although a last-minute deal cannot be ruled out, just yet!

The outlook for milk prices remains positive although lockdown easing problems linked to the reopening on 4th July may lead to further social restrictions. The message for farmers is to look within their business's for improvements because of a strong likelihood of a volatile dairy industry for the next couple of years with Brexit coinciding with the uncertain after shocks from Covid-19. Assuming of course that it can be eliminated once vaccines come on stream."

- 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**
- 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.

Market Prices

The Market Price Equivalent (MPE) recovery continues, up 0.1ppl to 29.3 ppl (+0.3%). MPE is up 0.3ppl (1%) in the last 6 months, but down 0.2ppl (-0.6%) year on year. Price changes were more varied this month with liquid static, gains for Cream, Butter and Cheese and mixed fortunes for powders, with SMP down. The range across the sectors holds at 3.5 ppl from SMP/Butter returns to Liquid/Cream. Despite the fall, UK SMP price is 25% (£381/t) above the