

PRESS INFORMATION from *The Dairy Group*

30th June 2020

The Market Price Equivalent (MPE) Update June 2020 By Nick Holt-Martyn, The Dairy Group

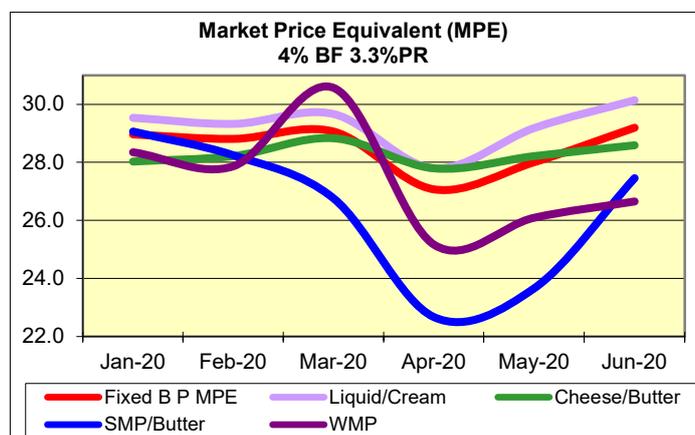
How did the UK Cope with Lockdown and Peak Supply?

“The double whammy of lockdown and peak milk supply have now passed with markets firming as milk supply follows its seasonal pattern” says Nick Holt-Martyn of The Dairy Group. He goes on to say “how the country coped in not yet clear with only the April utilisation figures available, but there are a few clues in the latest Defra utilisation data.

Difference from 2019 in UK Daily Utilisation (m litres)							
	Liquid	Butter	Cheese	Powders	Cream	Yog	Net Available
Feb-20	-0.1	0.0	-0.1	-0.7	-0.0	0.2	-0.5
Mar-20	0.7	-0.1	-0.1	-1.1	-0.0	0.2	-0.8
Apr-20	-0.8	0.0	0.3	-0.4	-0.0	0.3	-0.7

Source: Defra Statistics and The Dairy group

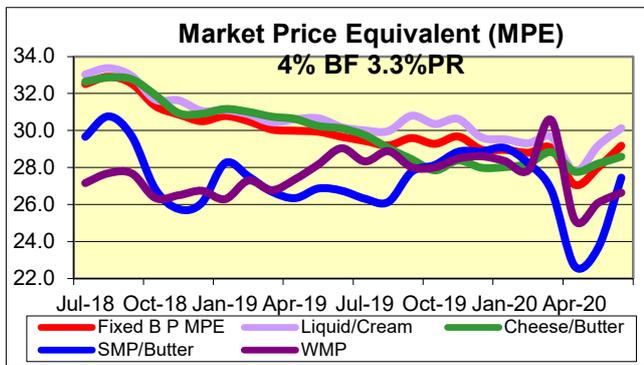
The table above shows February and March as “normal” in comparison to April with its lockdown and rising milk supply. May and June data will be needed to get a fuller picture. It helped that milk supply was lower from less production due to the sunny but cool weather and imports/exports were unchanged. Not surprisingly liquid took a hit that matched the reduced supply and cream and butter were unchanged. It is a surprise that powders (which includes SMP, WMP and condensed milk) were reduced, while cheese and yogurts took up the slack. It will be interesting to see if this continued into May, when supply was down by 17 m litres (-1.2%) and it is expected that cheese production would have been at full throttle.



The partial market recovery in June is welcome but butter, SMP and WMP still lag behind where the January to February trend was heading. High cream values have lifted liquid returns but have yet to be seen in butter. The dominance of liquid and cheese is enough to lift the MPE above January levels and should indicate better prices at the farmgate.

Global milk supply remains subdued running at +1.0% growth between the major exporting blocks through the late winter and early spring. Drought effects are still prevalent in the EU, despite easing in the UK and Ireland, to keep a lid on milk supply.

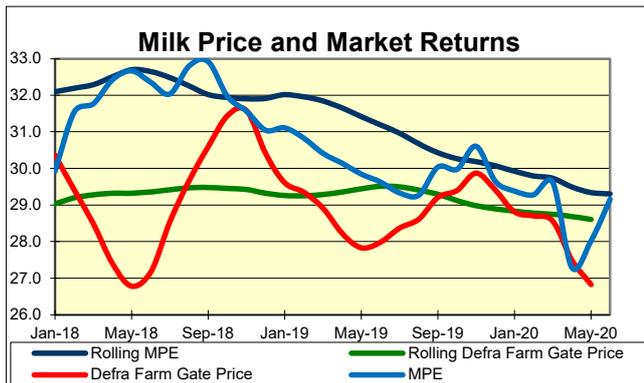
With lockdown measures easing, despite evidence of a sustained infection level and local lockdowns being the main control weapon, Coronavirus is likely to be a factor through to 2021. This heralds a partial recovery in food service at best and low GDP, which coupled with high unemployment, however temporary, will constrain demand. Low milk supply is the best mechanism to ensure improving markets and farmgate prices. The challenges of 2020-21 with Brexit still to follow remain daunting and businesses still need to address cost of production that latest estimates put at 33.5ppl. Farming is no industry for the faint hearted!



Market Prices

The Market Price Equivalent (MPE) has continued to recover, up 1.2ppl to 29.2 ppl (+4.1%). MPE is up 0.2ppl (0.7%) in the last 6 months and down 0.5ppl (-1.6%) year on year. Prices rose across the board, except liquid, with cream the big winner again +16%, ahead of SMP +15% and butter +13%. Drought recovery continues apace with weekly supply back to parity with 2019

from a low of -3% earlier in June. The range across the sectors narrows to 3.4 ppl from WMP returns to Liquid/Cream. The GDT price equivalent was unmoved during the month at 25.1 ppl, remaining depressed since early February. With the recovery UK SMP price is 33% (£513/t) above the Intervention price.



Farm Gate Prices

The May 2020 farm gate price reduces further to 26.8 ppl, as weak markets impact, down 1.0ppl (-3.6%) in the last year. This continues the weaker market returns over the last 2 years. The rolling Farm Gate price slips to 28.6ppl. Milk quality has held up well due to the dry conditions and increase in buffer feeding. The effects of the lockdown have now been mitigated by lower supply and the adjusted utilisation of milk. As usual

cheese remains the least dynamic of the sectors maintaining a steady return for producers and helping to support the average farmgate price.

Production in April is confirmed at 1324 M litres (-15 M litres) and May production is 1378 M litres -1.2% (-17 M litres), June is estimated at 1280 M litres, -0.6% (-10 M litres). Milk was sharply affected by the drought, down 3% in early June, but has now recovered to parity with 2019. With better grass growing conditions July is forecast around 1260 M litres, -5 M litres, -0.4%.

Sterling has continued to slip through the month to £/€1.10 and £/\$1.23 at the end of June, with oil recovering above \$40/barrel as global lockdown continues to ease. The sabre rattling by both sides in the Brexit negotiations is not helping businesses to plan for the post-Brexit future.

The outlook for milk prices is looking more positive provided lockdown can be relaxed without a sharp rise in infections. Food service will try to reopen from 4th July but the foot fall is likely to be limited once the initial enthusiasm has passed. Farmers need to be looking at their costs of production as challenging times remain the most likely future scenario. Coronavirus won't last, although there is evidence of it persisting into 2021 and farmers need to make sure they are running a lean and efficient business."

- 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.