

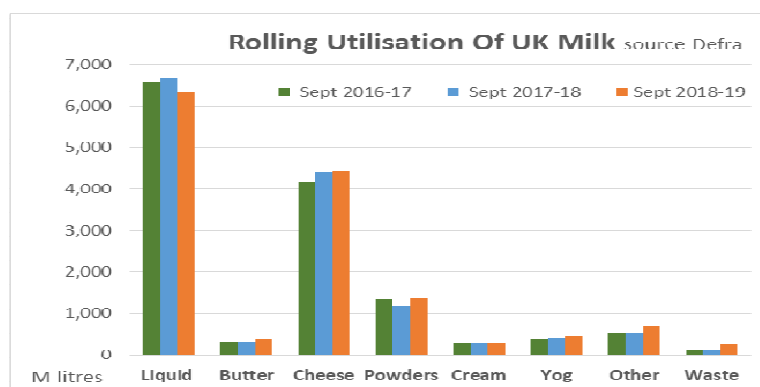
PRESS INFORMATION from *The Dairy Group*

1st November 2019

The Market Price Equivalent (MPE) Update October 2019 By Nick Holt-Martyn, The Dairy Group

Brexit Confusion Adds To the Dairy Market Uncertainty

“Any signs of market encouragement last month have been squashed by Sterling’s rise and further Brexit uncertainty” says Nick Holt-Martyn of The Dairy Group. He goes on to say “while the EU is seeing a firming cheese position on the back of flat production and rising SMP prices the UK is not. Although UK milk production has stabilised and SMP prices are up, a rapid decline in Liquid utilisations over the last couple of months suggests problems in the Liquid sector are set to continue. Has the retailer driven liquid price war finally killed the golden goose? I think it has been dead for a while!



Source: The Dairy Group, AHDB and Defra

The graph above shows the utilisation of milk by product over the last 3 years. Liquid volumes are declining compared to the other products at a time when milk supply has been rising, up 2% in the last year and 3.4% over the last 2 years. At a time of year when seasonally reduced supply normally pushes liquid up to more than 50% of available supply, in September 2019 liquid utilisation was down by 6.8% at just 45% of the Net Available Milk.

Cheese growth has stabilised and Powders have recovered their position as they respond to better returns. The decline in Liquid increases the supply available for other products to absorb with the slack being taken up by Milk Powders, Yogurts and other products. With Liquid in turmoil Cheese remains the main market driver.

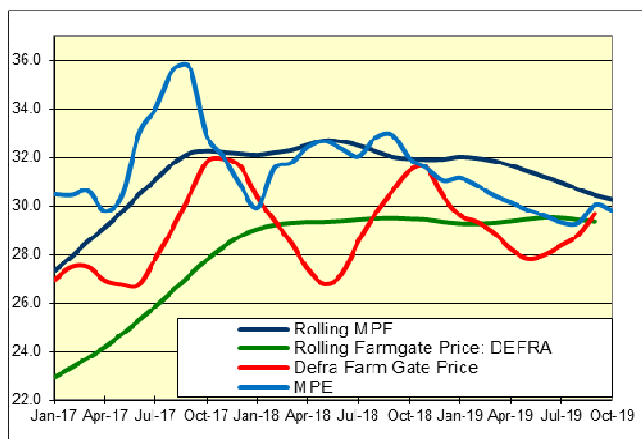
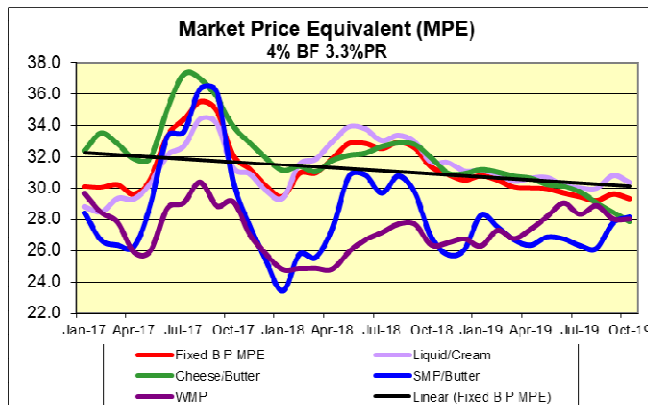
The recent imposition of tariffs by the US in a WTO approved retaliation for State support of the EU aircraft industry is starting to impact on exporters of UK cheese in just 2 weeks! This shows what adverse tariffs can do, with the 25% US tariff on dairy products a foretaste of what a no-deal Brexit could look like, except that a no-deal would affect trade with our biggest trading partner, the EU. It would also open the UK up for unfettered imports as welfare standards, hormone growth promoters and the chlorine washing of chicken are not recognised by the WTO as legitimate barriers to trade. The threat of no-deal has not gone for good but depends on a successful negotiation of a free trade agreement with the EU.

All this adds up to a continued uncertainty for the UK dairy markets which will negatively affect the farm gate price almost irrespectively of the tenor of the EU or global market. The purgatory continues!

Market Prices

The Market Price Equivalent (MPE) slipped back, down 0.29 to 29.3 ppl (-1.0%). MPE is down 0.7ppl (-2.3%) in the last 6 months and down 2.0ppl (6.4%) year on year. SMP rises 3.9% to £2040, Butter was down 1.9% and Cream down 6.7% despite butterfat supply easing back 1.4%. This is the first time since July 2014 that SMP prices have been above £2000/t. The range across the sectors falls back to

2.1 ppl from Liquid /Cream returns to Cheese/Butter with powder returns exceeding cheese/butter returns. The GDT price equivalent has eased back to 27.2 ppl, due to Sterling's gain in recent weeks. The UK SMP price has narrowed to £105/t below the GDT auction but is £577/t above Intervention. Global supply growth has risen to 0.5% in July with the EU supply +0.6% in July so is expected to remain around +0.5% through late summer/autumn.



Farm Gate Prices

The September 2019 farm gate price has risen by 0.8 ppl to 29.7 ppl, up 0.8ppl (2.7%) in the last 6 months, down 0.9ppl (-3%) in the last year. The rolling Farm Gate price drifts lower to 29.3ppl, but continues to remain above 29ppl suggesting the milk price norms of 26-32ppl and a rolling average of 29-30ppl. The graph shows the relationship between the farm gate price and market returns over the last 2 years and the strong seasonal element in April-

June and October due to milk quality and seasonality. The graph suggests an autumn peak almost 2ppl lower than 2018.

Production in August was confirmed at 1205 M litres (+9 M litres) and September was 1156 M litres (+2.5 M litres). UK weather has turned cooler with a lot of rain to bring an early start to winter. October production is running at -0.1% at 1200 M litres (+2.5 M litres) and November is forecast at 1170 M litres (-5 M litres) subject to weather conditions. UK 2019/20 supply is now forecast at 14970 M litres, +0.7%, +98 M litres.

The General Election period will provide little clarity so everything is on hold until the outcome is known. Sterling continues to react and is currently up sharply to £/€1.16 and £/\$1.3 at end of October.

Milk prices are falling particularly in the cheese sector suggesting the downside has arrived despite market improvements in the EU. With the average cost of production at 33.7ppl in 2018/19 profitability is still elusive with political uncertainty continuing."

- Ends -

For further information please contact:

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- **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.