

Covid-19 Update – Dairy Industry Situation and Milk Markets



Information correct as at 09:00am on 17.04.2020

- Market pressure is being maintained as milk production rises towards peak
- Spot prices (B milk) 10-12ppl
- No imminent DEFRA support forthcoming.
- CIBLs loans may be available but every business will have to work through the situation on an individual basis

Milk Demand

- Lockdown of society is likely to be extended for another 3 weeks and there is no indication when businesses and food services may be able to restart.
- Following restart, there is uncertainty over how quickly people will want to frequent food service outlets.
- The impact of loss of food service market on the dairy sector appears much greater than the assumption of 10% of liquid sales.
- Milk sales via retailers were up over the Easter Weekend but overall have eased back close to normal levels with the impact of panic buying and substitution from food service now faded
- There have been some logistics issues in the supply chain with staff self-isolating/illness or mini spikes in demand, but in most cases milk is available in retail outlets

Milk Production

- The latest milk production figures available show output 3.2% below last year (source AHDB) with the gap between this season and 2019 increasing over the last 3 weeks.
- With the imposition of “A” and “B” pricing and various reduction schemes introduced by some processors over recent weeks plus slower grass growth than this time last year it is reasonable to assume that this gap will continue to grow
- Grass quality and utilisation are high, but the slow growth and a continuation of dry weather will limit grazing intake as we move into May.
- Milk production will still increase on the seasonal curve for the next 2-3 weeks.

UK Dairy Markets

- Spot price of milk have now recovered slightly to 10-12ppl
- Commodity markets (butter/skimmed powder) are stabilising at around 20ppl
- Many processors are now taking their own action to limit supply and reduce exposure to the spot market over the spring peak or reduce prices if product value has fallen.
 - Processors supplying 95-100% direct to retail are only moderately affected
 - Processors with >10% lost in food service or exposed to commodities are more affected and those >20% exposed are severely affected.

Impact for Clients

- There is no imminent DEFRA support in sight so at present we will need to work through this situation on an individual business basis

- Each business needs to work with their consultant to analyse their individual business risk and whether cashflow finance will be required – See related note on preparing a case for the bank
- Government CIBLs loans (see linked note on CIBLs) now appear to be available (via your bank) for dairy/beef farms where cashflow is going to be directly affected by the Covid crisis.

For further discussion or to help with any questions that you may have, please contact Consultant Support on consultantsupport@kiteconsulting.com or 01902 851007 / 07542 403225

