

Covid-19 Update - Milk Markets

Information correct as at 12:30pm on 03.04.2020

- Processors with established retailers are currently in a position of strength
- Excess liquid capacity with the change in buying behaviour could undermine the market and spot prices are now falling to 15ppl which could get worse as we approach the flush.
- World recession will put downward pressure on commodity prices, including dairy.
- Prepare your business for downturn and get the support of your bank in advance.

Industry Position March 2020

The COVID-19 crisis has led the UK and much of the world to a social and economic shutdown. The impact of this crisis is likely to lead to recession, Governments are fighting to avoid this.

Food retailers have reported massive demand in the UK since they are now supplying 100% of the food, compared to 60% in normal times. However, demand is reported to have slackened off from the major spike last week. Thus, we have a two-tier dairy market with Arla and Muller current “winners” as key suppliers of liquid milk into retailers. The remaining processors are all suffering mixed fortunes with global commodity markets weakening in the face of the food service collapse, a downward spiral in oil prices (to which most commodities are linked), plus additional seasonal milk in the northern hemisphere. The movement of consumption away from food service to retail is creating a surplus of liquid processing capacity reducing spot prices which will be compounded by the spring flush and will destabilise the market.

Outlook, planning and advice

At present the picture for UK dairy is still uncertain, particularly seeing the positive news on milk price for Muller suppliers for May. However, we are very much in “hope for the best, plan for the worst” territory. Further milk price cuts are likely and for some these will be severe - commodity milk values are still above 20ppl, but not that far above.

Many scenarios are possible. It is important for farmers supplying processors in vulnerable supply chains to prepare a plan to manage any downturn, so they remain ahead of the curve. For others in more integrated supply chains then the outlook might be more positive, but our advice is to also plan for volatility. In all cases be prepared and stay in contact with your bank manager so you can access their support.

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