

Sideways

- Dairy prices lifted a touch overnight, largely as expected.
- The better-than-expected NZ summer and autumn production is now largely priced in.
- From here, we expect prices to largely track sideways, before drifting higher later in 2017.

Summary

It's not often that we say this when it comes to dairy prices, but **we expect prices to track sideways for the time being**. Indeed, after a hectic period where prices have spiked one way or the other, a period of relative calm prices may be a welcome contrast.

For now, **markets have largely priced in the late NZ production fillip**. WMP prices were at once stage down around 20% over 2017, but prices have now stabilised, posting small rises over the last two auctions. Moreover, it appears that global demand and supply are as close to balancing as they have been for several years.

As a result and in the absence of market shocks, **prices are likely to tread water over coming months**. That said, history has taught us that dairy markets don't tend to sit still for very long.

Auction Results

Dairy prices firmed a touch overnight. WMP (up 2.4%), casein (up 6.9%) and AMF (up 2.5%) led the way. Overall auction prices lifted 1.6%, following a similar rise at the previous auction.

The auction was largely in line with expectations heading into the auction. For example, WMP futures pricing had indicated a small lift in the 0% to 2% range.

Meanwhile, SMP prices continued their weak trend, falling 0.8%. In this respect, strong US production and the early stages of an EU production recovery (along with still high stocks) are combining to put downward pressure on SMP prices. Indeed, the WMP to SMP premium is at its highest level since SMP was first offered on the auction platform in March 2010.

With the better-than-expected NZ summer and autumn production now largely priced in, we expect WMP prices to tread water around these current levels. WMP prices were at once stage down around 20% over 2017, but prices have now stabilised, posting small rises over the last two auctions.

It seems that the lower prices of late (along with the fact that further falls now look unlikely) have enticed these buyers back into the market. With that in mind, we note that a broad range of buyers (Middle-Eastern, African and European) participated in the auction overnight. The re-emergence of these buyers overnight follows a similar surge in Latin American buyers last auction.

Heading into next season and as the NZ production fillip clears markets, **we expect WMP prices to remain well-supported and to drift higher**.

Implications

This auction result reaffirms our 2016/17 and 2017/18 milk price forecasts of \$6.00/kg and \$6.75/kg, respectively.

Season-end Forecasts

| | 2016/17 | | 2017/18 | Long Run |
|-------------|----------|--------|---------|---------------|
| | Fonterra | ASB | ASB | ASB |
| Milk Price* | \$6.00 | \$6.00 | \$6.75 | \$6.50-\$7.00 |

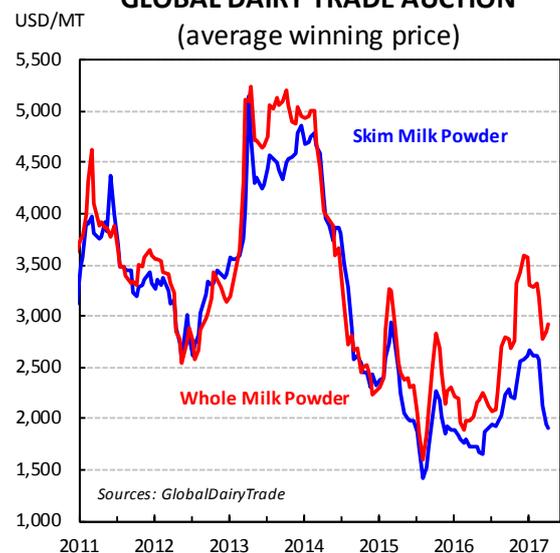
* per kg of milk solids (excluding dividend).

Key Auction Results

| Product | % change in index since last auction | Annual % change in index | Weighted Average Price US\$/MT |
|--------------------------|--------------------------------------|--------------------------|--------------------------------|
| Whole Milk Powder (WMP) | 2.4% | 50.0% | 2,924 |
| Skim Milk Powder (SMP) | -0.8% | 9.4% | 1,913 |
| Anhydrous Milk Fat (AMF) | 2.5% | 86.7% | 5,936 |
| Butter | -1.6% | 78.5% | 4,751 |
| GDT Price Index | 1.6% | 53.9% | n.a. |

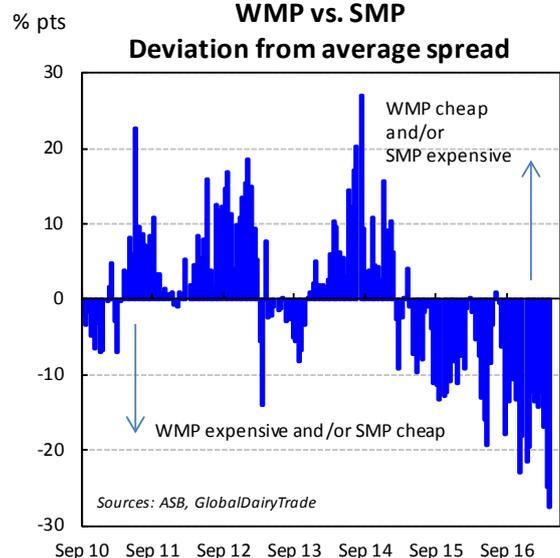
GLOBAL DAIRY TRADE AUCTION

(average winning price)



WMP vs. SMP

Deviation from average spread



ASB Economics & Research

| | | | Phone |
|----------------------------|---------------------|----------------------------------------------------------------------------------|----------------|
| Chief Economist | Nick Tuffley | nick.tuffley@asb.co.nz | (649) 301 5659 |
| Senior Economist | Jane Turner | jane.turner@asb.co.nz | (649) 301 5853 |
| Senior Rural Economist | Nathan Penny | nathan.penny@asb.co.nz | (649) 448 8778 |
| Senior Wealth Economist | Chris Tennent-Brown | chris.tennent-brown@asb.co.nz | (649) 301 5915 |
| Economist | Kim Mundy | kim.mundy@asb.co.nz | (649) 301 5661 |
| Economist | Daniel Snowden | daniel.snowden@asb.co.nz | (649) 301 5657 |
| Publication & Data Manager | Judith Pinto | judith.pinto@asb.co.nz | (649) 301 5660 |



<https://reports.asb.co.nz/index.html>

[@ASBMarkets](#)

ASB Economics

ASB North Wharf, 12 Jellicoe Street, Auckland

Important Disclosures

This document is published solely for informational purposes. It has been prepared without taking account of your objectives, financial situation, or needs. Before acting on the information in this document, you should consider the appropriateness and suitability of the information, having regard to your objectives, financial situation and needs, and, if necessary seek appropriate professional or financial advice.

We believe that the information in this document is correct and any opinions, conclusions or recommendations are reasonably held or made, based on the information available at the time of its compilation, but no representation or warranty, either expressed or implied, is made or provided as to accuracy, reliability or completeness of any statement made in this document. Any opinions, conclusions or recommendations set forth in this document are subject to change without notice and may differ or be contrary to the opinions, conclusions or recommendations expressed elsewhere by ASB Bank Limited. We are under no obligation to, and do not, update or keep current the information contained in this document. Neither ASB nor any person involved in the preparation of this document accepts any liability for any loss or damage arising out of the use of all or any part of this document.

Any valuations, projections and forecasts contained in this document are based on a number of assumptions and estimates and are subject to contingencies and uncertainties. Different assumptions and estimates could result in materially different results. ASB does not represent or warrant that any of these valuations, projections or forecasts, or any of the underlying assumptions or estimates, will be met.