

### Butter up

- Dairy prices lifted a touch overnight.
- Although, whole milk powder prices fell as expected.
- Meanwhile, butter prices set a fresh auction record high.

#### Summary

With winter now upon us, our focus firmly shifts to the new season. The change in seasons also appears to be coinciding with a subtle shift in market focus. Indeed our commentary over the past year or two has largely focused on global, and particularly NZ, dairy supply. **But this season, we anticipate that demand is going to play a much larger role in determining prices.** In fact, that is already the case.

**Global demand for milk fats has surged.** Much of this surge can be put down to an acknowledgement by the scientific community that fats are no longer as bad for your health as once feared. In particular, this notion has been embraced in North America. In short, butter is back!

**This food trend back to fats, along with tighter global dairy supply, has sent milk fat prices soaring.** For example, both butter and AMF have set a number of auction record highs this year.

Moreover, we expect this trend towards fats to continue – the science is conclusive. So while global dairy supply is likely to lift this season, global demand is likely to match this lift. As a result, **we expect global dairy prices to remain firm this season at or around current levels.**

#### Auction Results

**Dairy prices lifted by 0.6% overnight.** However as expected, key product WMP fell 2.9%. AMF prices also retreated from its auction record high, falling 1.2%.

**These two pace-setters aside, the auction was firm.** In particular, butter has set a fresh auction record high of US\$5,631/MT. In addition, cheddar spiked 14.5%, while SMP jumped 7.9%. Five out of the seven main products we monitor rose.

**The WMP fall can be put down to better than expected NZ production.** Dairy markets had pushed WMP prices around 16% higher since March, as they factored in the possibility of disrupted NZ supply. However, if anything NZ production has held up; for example, April NZ production was 6.8% higher than in April 2016.

**NZ production dynamics aside, global demand appears firm.** In particular, milk fat demand is very high, as indicated by the auction-record high for butter and at the last auction for AMF.

#### Implications

As a result, we expect prices to remain firm at or near current levels. **In terms of the new season milk price forecast, we continue to expect \$6.75/kg.**

#### Season-end Forecasts

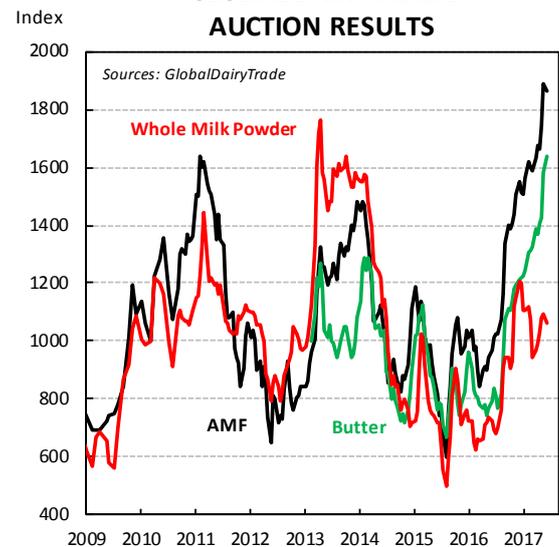
	2016/17	2017/18		Long Run
	Fonterra/ASB	Fonterra	ASB	ASB
Milk Price*	\$6.15	\$6.50	\$6.75	\$6.50-\$7.00

\* per kg of milk solids (excluding dividend).

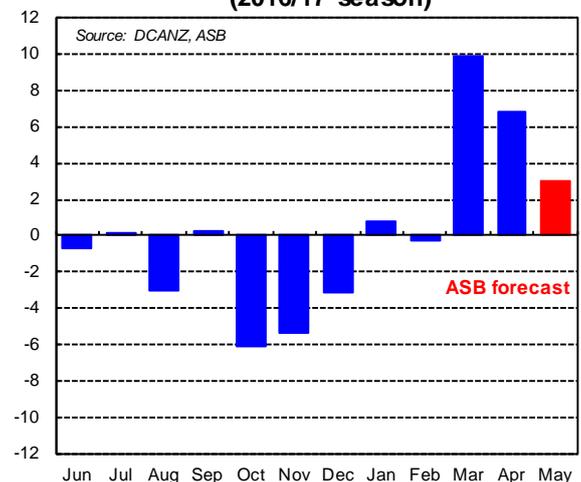
#### Key Auction Results

Product	% change in index since last auction	Annual % change in index	Weighted Average Price US\$/MT
Whole Milk Powder (WMP)	-2.9%	46.5%	3,143
Skim Milk Powder (SMP)	7.9%	17.9%	2,156
Anhydrous Milk Fat (AMF)	-1.2%	92.7%	6,569
Butter	3.3%	106.4%	5,631
GDT Price Index	0.6%	57.3%	n.a.

#### GLOBAL DAIRY TRADE AUCTION RESULTS



#### NZ MILK SOLIDS PRODUCTION (2016/17 season)



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