

### Lack of direction may be deceiving

- Overall dairy prices were effectively unchanged overnight.
- This result continues the recent holding pattern for WMP and overall prices.
- However, we suspect milk fat prices may yet get a second wind and drag overall prices higher.

#### Summary

Overnight prices dipped a touch, but in the grand scheme of dairy price movements, effectively prices were unchanged. In fact, looking at whole milk powder (WMP) and overall price changes over recent months and results have bobbed around either side of zero.

**We suspect that may be deceiving.** Overnight, milk fat prices fell around 1%, after a 5% fall in the auction prior. But in the context of milk fat's record setting run over 2017, this pullback is modest. **In turn, this modest pullback hints that milk fat prices may be poised for another push higher.** Milk fat demand continues to surge and global inventories are now very tight.

**With that in mind, early season NZ production is shaping as key.** The expected production lift, if it arrives may be enough to head off further price rises. However, any signs of weakness could see milk fat prices, if not WMP as well, head higher.

**Indeed, it may simply come down to NZ weather over the coming month or two.** As it stands, key NZ dairying regions are wet (see chart). More rain is likely to put a damper on production similar to last year's poor spring. Mild and dry weather would see the opposite. In short, looking to the heavens may provide more insight than usual.

#### Implications

With auction prices effectively unchanged, **this result reaffirms our 2017/18 milk price forecast of \$6.75/kg.**

#### Auction Results

**Overall dairy auction prices dipped ever so slightly overnight (down 0.4%).** Milk fat prices again led the fall, with butter and AMF falling 1.3% and 1.2%, respectively. WMP also fell 0.6%. In addition, price falls shaded prices rises by four to three.

**Notably, the WMP price fall contrasted with futures prices that had indicated a price lift.** On the eve of the auction futures prices suggested a price lift in the 3% to 5% range.

**Taking a step back, it's not altogether surprising that milk fat prices took a second breather, given the price explosion over recent months.** Butter prices, for example, have surged over 34% this year, while AMF prices have lifted a more modest, but still robust, 17%. Moreover, both butter and AMF have set multiple auction record highs over 2017.

**However, we suspect that the slowdown in milk fat prices may be temporary.** Demand continues to surge and inventories are now very tight. Indeed as supply struggles to keep up, we expect that any further lift in milk fat prices will lift dairy prices more generally.

Meanwhile, **WMP prices remain in an effective holding pattern.** For example, over the last 3 months, three price rises have offset three price falls.

#### Season-end Forecasts

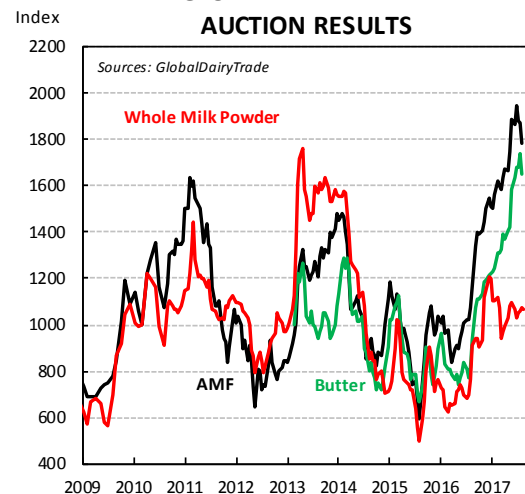
	2016/17	2017/18		Long Run
	Fonterra/ASB	Fonterra	ASB	ASB
Milk Price*	\$6.15	\$6.75	\$6.75	\$6.50-\$7.00

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

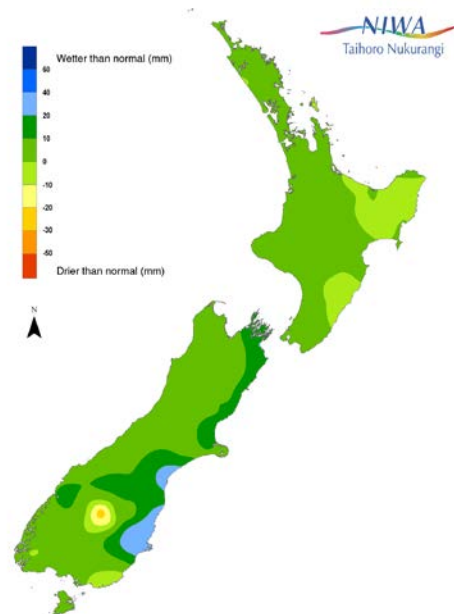
#### Key Auction Results

Product	% change in index since last auction	Annual % change in index	Weighted Average Price US\$/MT
Whole Milk Powder (WMP)	-0.6%	17.5%	3,143
Skim Milk Powder (SMP)	0.3%	-0.7%	1,968
Anhydrous Milk Fat (AMF)	-1.2%	51.7%	6,199
Butter	-1.3%	74.5%	5,735
GDT Price Index	-0.4%	27.6%	n.a.

#### GLOBAL DAIRY TRADE AUCTION RESULTS



Soil moisture anomaly (mm) at 9am on 15/08/2017



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