

Prices lift at final auction of 16/17, eyes turn to the outlook for 17/18

- Dairy prices lifted at the latest GlobalDairyTrade Event overnight, with AMF and butter lifting the most.
- The Whole Milk Powder lift contrasts with futures pricing, and provides a chance of a lift for this season’s \$6 milk price.
- Fonterra’s opening milk price forecast for the 2017/18 season is made next week, bringing a focus on the year ahead.

Summary

Prices lifted at the final GlobalDairyTrade event of the current season, which took place overnight. The lift contrasts with prior indications from dairy futures, and provides a chance of a lift for this season’s \$6 milk price. Butter led the charge (with the weighted average price up 11.2%), but powders also posted gains. **The whole milk powder index lifted 1.3%**, taking the weighted average price to \$US 3,312/MT.

The dairy focus now shifts to Fonterra’s meeting next week, when the opening milk price forecast for the 2017/18 season is also expected to be released.

We think there is a possibility of a modest lift to this season’s \$6.00/kg milk price, and have \$6.75/kg forecast for the 2017/18 season.

Auction Results

Dairy prices lifted again overnight, which was unexpected. In contrast to indicative futures prices in the lead-up to the event, whole milk powder prices lifted 1.3% and skim milk powder prices rose 1%. WMP prices are up nearly 20% since March. That’s a nice way to end the season for this key dairy product.

Those powder gains trailed the solid lift for Butter (up 11%) and Butter Milk Powder (up 7%). Anhydrous milk fat prices rounded out the gains, lifting 8.2%. We’ve seen real strength in anhydrous milk fat and butter prices over the past season. Prices for both products have doubled from where they were a year ago. Cheddar and Casein prices softened 0.6% and 3.7% respectively at last night’s event, but like all other products, prices are up significantly on year-ago levels.

Implications

This lift in auction prices at the tail end of the season provides a possibility of a slightly higher milk price this season. We are reviewing our forecast now, and will update over the coming days. **Turning to the year ahead, we expect prices to remain firm.** Current whole milk powder prices in the early \$3,000s level, in our opinion, point to a market that is fairly well balanced. In terms of next season’s milk price, this means we are comfortable to stick with our \$6.75/kg forecast. Fonterra will soon provide its first forecast for the 2017/18 season (timing to be confirmed).

It is very early days for forecasting next season, and a wide range of prices are possible at this point in time. Nonetheless, futures prices and auction contracts are starting to stretch out into the key part of the season, and Fonterra’s opening view will be an important scene-setter for the industry as we head into winter. **We will publish a full preview note for the season ahead, and our expectations for next week’s meeting over the coming days.**

Season-end Forecasts

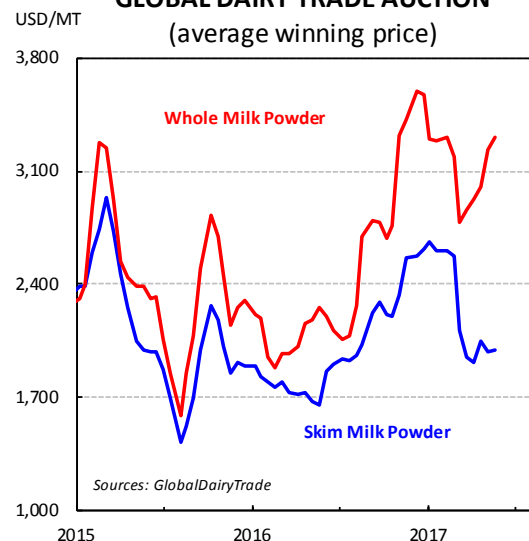
	2016/17		2017/18	Long Run
	Fonterra	ASB	ASB	ASB
Milk Price*	\$6.00	\$6.00	\$6.75	\$6.50-\$7.00

* per kg of milk solids (excluding dividend).

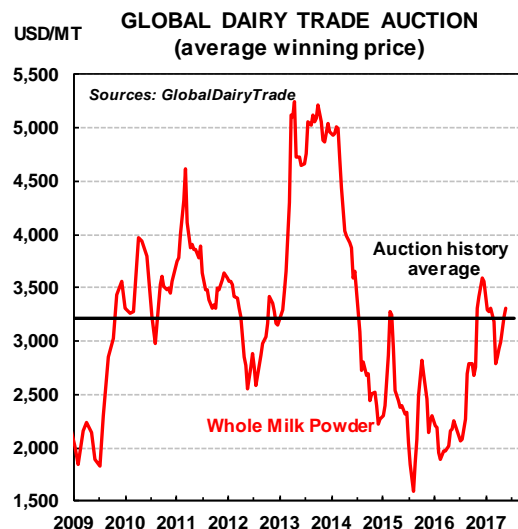
Key Auction Results

Product	% change in index since last auction	Annual % change in index	Weighted Average Price US\$/MT
Whole Milk Powder (WMP)	1.3%	48.4%	3,312
Skim Milk Powder (SMP)	1.0%	22.4%	1,998
Anhydrous Milk Fat (AMF)	8.2%	100.6%	6,631
Butter	11.2%	106.2%	5,479
GDT Price Index	3.2%	61.6%	n.a.

GLOBAL DAIRY TRADE AUCTION
(average winning price)



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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

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