

Butter butters better

- Overall dairy prices were largely unchanged overnight.
- While WMP prices rose a touch, this was marginally less than expected.
- Notably, butter prices set a fresh record high, surpassing US\$6,000/MT for the first time.

Summary

Butter prices set a fresh record high overnight. In fact, butter prices have surpassed US\$6,000/MT for the first time in auction history. Moreover, last night's fresh record was the 10th time butter has set a new record high this year!

While butter prices will eventually fall, generally higher butter or milk fat prices are here to stay. Demand has fundamentally shifted higher as consumers now accept that butter is no longer bad for you.

This is good news for dairy producers globally, NZ included. In particular, Fonterra is now spoiled for choice. Fonterra's recent added production flexibility means it can more easily optimise its production mix. In layman's terms, it can now sell more higher-priced butter and AMF and less lower-priced WMP.

The end result should be a higher milk price. And if WMP prices rise or milk fat prices fall, Fonterra can always switch back again.

Auction Results

Dairy prices were largely unchanged overnight; more precisely overall prices rose 0.2%. Similarly, WMP rose 0.3%. The WMP rise was marginally less than that indicated by futures prices prior to the auction; futures prices had pointed to a 1% to 3% WMP lift.

Meanwhile, butter prices set a fresh record high, surpassing US\$6,000/MT for the first time. Notably, this is the 10th time that butter has set a new record high this year. Indeed, milk fat prices are surging generally on the back of their "renewed health status", with AMF prices having set 4 record highs this year as well.

All up, prices continue to be in a holding pattern. The 0.3% WMP price lift and last auction's 2.6% rise follow two price falls in the two auctions prior. Moreover, looking over the past 3 months or so, prices for the longer-dated contracts have been well-anchored in a tight range (see chart). The chart shows that demand is strong at the US\$3,000/MT level, and begins to wane as prices approach US\$3,200/MT.

Moreover, **recent WMP price movements have been very small; as a result, it's not surprising that futures price indicators and auction prices have not always agreed.** The WMP average auction price movement over the last 3 months has been 0.5%. In comparison the average movement over the auction history is around 5.5%.

From here, we expect prices to hold in the low US\$3,000s/MT range over coming months. In particular, meaningful NZ production data will be thin on the ground over July and August as production is very low over winter.

Implications

All up, last night's auction result reinforces our 2017/18 milk price forecast of \$6.75/kg.

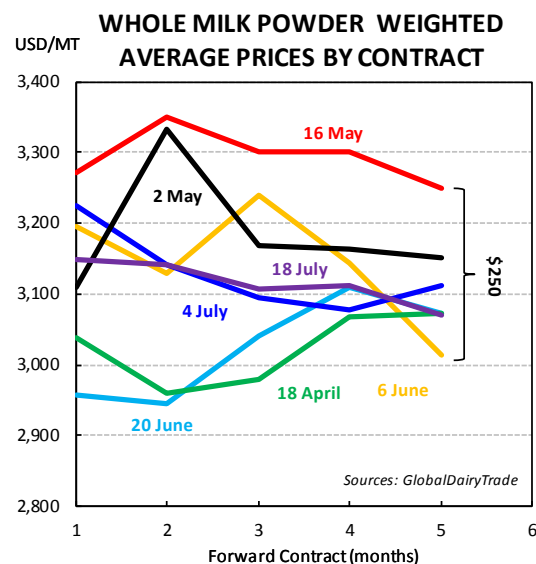
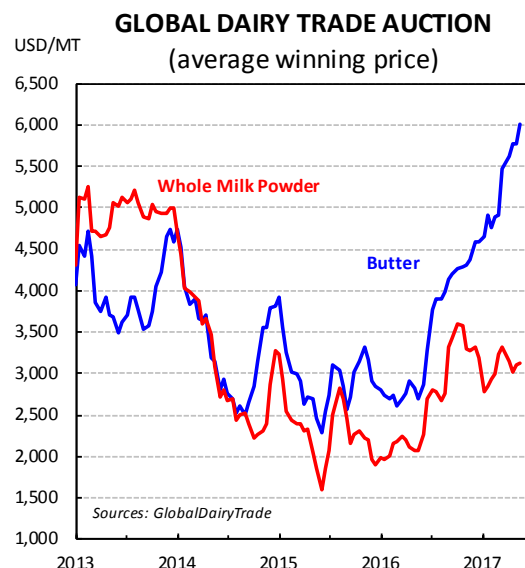
Season-end Forecasts

	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)	0.3%	52.2%	3,114
Skim Milk Powder (SMP)	-3.2%	7.3%	2,024
Anhydrous Milk Fat (AMF)	-0.2%	83.1%	6,577
Butter	3.4%	126.3%	6,004
GDT Price Index	0.2%	56.4%	n.a.



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