

# Rural Economic Note

Fonterra Milk Price Forecast Update

22 July 2020

## Prices moving in the right direction

- Last week Fonterra revised both its 2019/20 and 2020/21 milk price forecast ranges.
- ASB adopts the \$7.15 midpoint Fonterra's f/c range for the milk price for the season gone.
- We have lifted our 2020/21 forecast farmgate milk price to \$6.75 to reflect some of the improvement we have seen in dairy prices at the last two Global Dairy Trade events.

### Milk Price Forecast Update

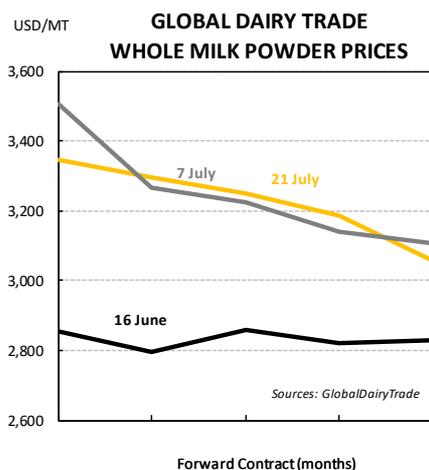
	2019/20		2020/21	Long Run
	Fonterra	ASB	ASB	ASB
Milk Price*	\$7.10-\$7.20	\$7.15	\$6.75	\$6.50-\$7.50

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

Last week Fonterra revised both its 2019/20 and 2020/21 milk price forecast ranges. The 2019/20 forecast range has narrowed to \$7.10 - \$7.20 per kgMS, a 5c drop for the midpoint. Within the press release Fonterra Chairman John Monaghan said the narrowing and lowering of the 2019/20 milk price forecast is the result of a strengthening NZD/USD over the past two months. Over recent months the NZD/USD has risen from the high-50's to the mid-60's, and trades just above 0.6600 at the time of writing. At this time of the year, **ASB adopts the midpoint \$7.15 as our forecast for the milk price for the season gone.**

Turning to the upcoming season, Fonterra's 2020/21 forecast range has narrowed from \$5.40 - \$6.90 to \$5.90 - \$6.90. The mid-point, off which farmers are initially paid, has increased to \$6.40 from \$6.15, an encouraging development.

Following the latest GDT result overnight, we have lifted ASB's forecast for the 2020/21 season from \$6.50 to \$6.75. We are encouraged by the prices at recent GDT events, but are putting some of the strength down to buyers adding some padding to stocks as a risk management strategy given the acceleration in global COVID-19 cases and increased potential for logistics disruption. This behaviour is evidenced by the strength in near-term WMP prices, which are significantly higher than the longer-dated prices at the last two GDT events (shown in the chart above).



### GlobalDairyTrade Auction Results - 21 July 2020

Product	% change in index since last auction	Annual % change in index	Weighted Average Price US\$/MT
Whole Milk Powder (WMP)	0.6%	5.9%	3,218
Skim Milk Powder (SMP)	-0.5%	6.1%	2,680
Anhydrous Milk Fat (AMF)	-2.8%	-30.8%	3,870
Butter	-4.9%	-21.1%	3,533
GDT Price Index	-0.7%	11.4%	n.a.

If this proves to be the case, we'd expect a price adjustment lower in the coming months, and our forecast takes this into account. In addition, we think the risk is the NZD firms over the year ahead. Although Fonterra will have significant hedging in place already, our bias for the NZD is another reason to keep our forecast slightly lower than the latest dairy prices imply.

Fonterra's media release pointed to encouraging signs that Chinese dairy demand is recovering. And last week's Chinese data releases also point to China getting back onto its feet after its lockdown at the start of the year. Q2 GDP rebounded 11.5% for the quarter (after falling 9.8% in Q1), putting the economy 3.2% up from its year-ago level. While this is encouraging, there are still risks to the Chinese outlook, as well as the outlooks for other key economies.

Accordingly, although we have lifted our forecast, we concur with Fonterra advising its farmers to continue budgeting with caution. Recent developments have been encouraging, but it is still very early days in the season, and there is even more uncertainty about the outlook than usual.

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