

Rural Economic Note

Fonterra Milk Price Forecast Update

21 July 2021

ASB revises 21/22 milk price forecast to \$7.90 kgms

Milk Price Forecast Update

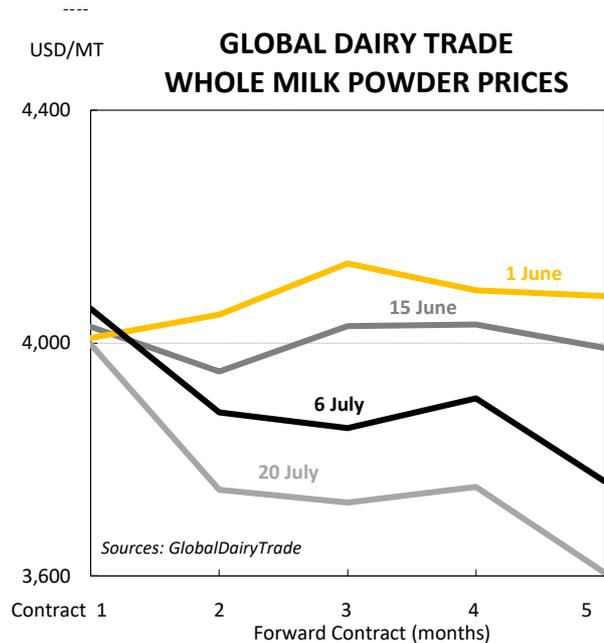
	2020/21		2021/22	
	ASB	Fonterra	ASB	Fonterra
Milk Price*	\$7.60	\$7.45-\$7.65	\$7.90	\$7.25-\$8.75

* per kg of milk solids (excluding dividend).

Prices wrongfooted market expectations overnight, falling by 2.9%. The move contrasted with expectations ahead of the event, with the futures market anticipating a modest lift following the news on Friday that Fonterra intended to lower the volumes on offer on the GDT platform. Importantly for farmers, the decline in milk powder prices was particularly marked, with WMP prices down 3.7% and SMP prices down 2.9%.

Beyond the headline moves, the shape of the contract curve is a clearly bearish signal. Over the course of just two auctions, the curve has shifted from being broadly flat (meaning prices are similar across future delivery dates), to showing a marked downward slope. It's a clear sign that prices are now losing momentum as we get deeper into the season and may reflect the fact that stockpiles are now much better covered after the frenzy earlier in the year.

We knew dairy prices wouldn't sustain these heights forever, but prices are falling a bit faster than we'd anticipated. This is now the fourth consecutive auction where WMP prices have fallen between 1.5%-3.5%. And the fact that prices have continued to fall even as Fonterra has reduced the amount of product on offer clearly shows that the demand and supply balance is shifting in the direction of buyers rather than sellers.



The key question is where prices will find their floor, and on that front we are still positive. The surge in delta variant cases overseas has added a bit of uncertainty into the economic outlook, but we still expect the uptick in global demand and ongoing supply chain issues will keep commodity prices supported across the board. And for farmers, the faster-than-anticipated fall in auction prices will be partially offset by a couple of other trends – namely

the favourable moves in forward exchange rates over recent months (a positive for Fonterra’s hedging) and reports of stronger prices off the auction platform. **All-up, we have lowered our farmgate milk price forecast for the 21/22 season to a still-lofty \$7.90 – but highlight the high margin of error given the menagerie of moving parts.**

GlobalDairyTrade Auction Results

Stream	Product	% change in index since last event	Annual % change in index	Weighted Average Price US\$/MT
Milk Powder Stream	Whole Milk Powder (WMP)	-3.7%	15.6%	3,730
	Skim Milk Powder (SMP)	-5.2%	10.7%	2,971
	Anhydrous Milk Fat (AMF)	-0.2%	46.4%	5,615
Mixed Stream	Butter	-0.8%	24.8%	4,419
	Butter Milk Powder (BMP)	0.0%	0.0%	n.a.
Cheese	Cheddar	1.3%	18.1%	4,022
	GDT Price Index	-2.9%	32.8%	n.a.

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