

# Rural Economic Note

Fonterra Milk Price Forecast Update

19 May 2021

## ASB revises 21/22 milk price forecast to \$8.20/kgms

### Milk Price Forecast Update

	2020/21		2021/22
	ASB	Fonterra	ASB
Milk Price*	\$7.60	\$7.30-\$7.90	\$8.20

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

Prices broadly held their ground at last night's dairy auction. The overall GDT price index fell a shade (-0.2%), as did WMP index (also -0.2%).

Still the real story is that prices are holding onto their gains and we find ourselves increasingly bullish about the next season. We always felt the odds were against a sharp correction in prices after March's mammoth auction, but the resilience in prices has exceeded our expectations. Notably, this is the fifth consecutive auction in which WMP prices have held above the USD\$4,000/tonne mark.

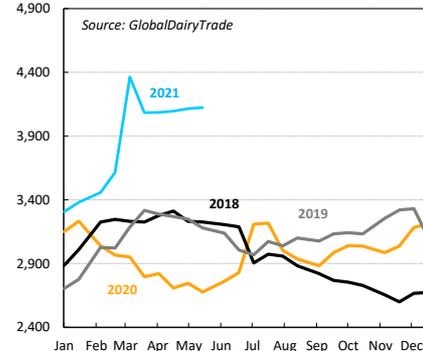
Consequently, we've changed our view and now forecast a farmgate milk price of \$8.20 per kgms for 21/22. That's a full 70 cents higher than our previous forecast and a remarkably strong result. Indeed, an \$8.20 price would be the second-best result on record.

Once again, there is no change to our \$7.60 per kgms forecast for the current season – it's late in the day now, and something pretty dramatic would need to happen for us to make a change here.

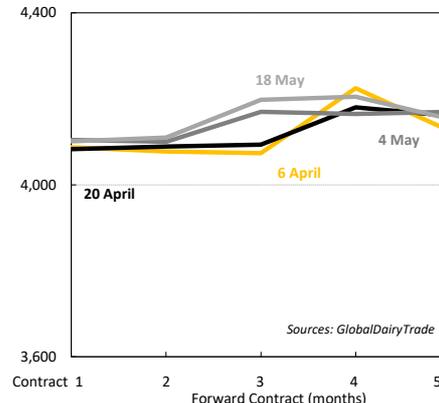
So why the change in our 21/22 view, isn't it pretty bold to lift a forecast by 70c after a single, uneventful auction? Well yes, but there are a combination of factors we think justify such a move.

- All WMP contract terms continue to trade north of USD\$4,000 a tonne, with the September contract trading at a premium. The indications suggest that prices will hold their momentum well into next season, particularly during the crucial months when Fonterra does most of its shipping. The upshot is we reckon WMP prices hold up higher for longer.

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- Our prior forecasts saw shipping fears starting to ease from Q3, reducing the need for buyers to secure supply through aggressive purchasing and in turn taking some of the heat out of prices. However, freight indicators show few signs of easing, and high prices for the later contracts might imply buyers are still worried about securing supply further into the future than we anticipated.
- Chinese economic data undershot expectations a little in April, but we still expect consumer spending there to recover further over the course of the year.
- Our model sees a supply response starting to put downward pressure on prices toward the end of the season, but we are still confident demand will outstrip supply.
- We've adjusted our forecast for Fonterra's effective NZD/USD conversion rate. We reckon the co-op's about 56% hedged for the season, and could end up with a rate around the 71 US cents mark – much, much more favourable than it did last time USD dairy prices were this lofty.

As ever, there is an element of educated guesswork for a forecast this far in the future, and we caution that prices could still end up closer to the \$7.50 mark than the \$8.20 mark. There are all sorts of swing factors to consider – an unexpected move by China to ease purchases, or a faster-than-expected supply response. **Still, we feel farmers can be increasingly confident of another strong season.**

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)	-0.2%	51.7%	4,123
	Skim Milk Powder (SMP)	0.7%	35.4%	3,447
	Anhydrous Milk Fat (AMF)	-0.1%	41.0%	5,730
Mixed Stream	Butter	-2.2%	29.5%	4,929
	Butter Milk Powder (BMP)	0.0%	0.0%	n.a.
Cheese	Cheddar	1.0%	27.1%	4,321
	GDT Price Index	-0.2%	59.6%	n.a.

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