

Rural Economic Note

Fonterra Milk Price Forecast Update

22 September 2021

Mea Culpa: ASB lifts milk price forecast to \$8.20 kgms

Milk Price Forecast Update

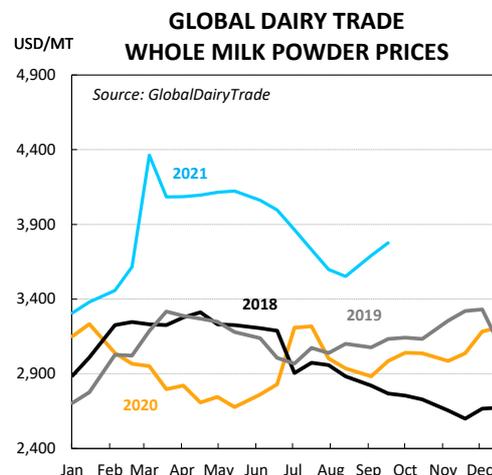
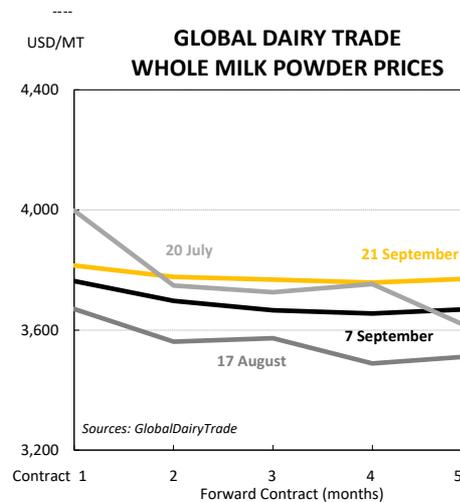
	2020/21		2021/22	
	ASB	Fonterra	ASB	Fonterra
Milk Price*	\$7.60	\$7.45-\$7.65	\$8.20	\$7.25- \$8.75

* per kg of milk solids (excluding dividend).

Dairy prices have made further gains at the latest GlobalDairyTrade auction overnight. WMP prices rose a 2.3%, building on last auction’s gains and up to a new two-month high. It was a shade ahead of futures market pricing, which was pointing to a 1.5% increase.

Global dairy demand continues to look healthy, while supply trends have been mixed. While Chinese buyers are taking a bit of a breather after their massive buying WMP frenzy earlier in the year, buyers elsewhere are stepping into the breach. And Chinese demand for SMP continues to look healthy. That resilience in demand contrasts with the latest global dairy production data which has been a bit more variable – lower in some of the big powerhouses like Europe, North America and Australia.

We were premature in lowering our Fonterra milk price forecast to \$7.90kgms back in July. We were spooked by series of softer auctions in July and August where prices began falling and the GDT contract curve began to develop a steep downward slope (see our chart above). The last couple of dairy auctions have seen prices in more settled territory. It’s not uncommon for prices to show a bit of volatility over the NZ winter, so it’s a good lesson in waiting for the spring before adjusting your core view. **We admit our mistake, say ‘mea culpa’ and return our 2021/22 forecast to \$8.20 kgms.**



It's still relatively early in the season and NZ spring production is now the big swing factor from here on out. Signs are mixed thus far, with pasture growth looking good in the Waikato and cows reportedly milking well, but Canterbury has been hit by some more extreme weather. **While we think a farmgate milk price closer to \$8.20 kgms is the likelier outcome, there's plenty of scope for a slightly lower (but still strong) figure.** As we've noted over recent publications, Fonterra's sales volumes outside the auction platform account for the bulk of their production and remain another big source of uncertainty. After all, the last couple of months are a reminder to keep an open mind.

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)	2.3%	26.4%	3,777
	Skim Milk Powder (SMP)	1.0%	15.5%	3,302
	Anhydrous Milk Fat (AMF)	0.0%	53.0%	5,962
Mixed Stream	Butter	-1.8%	47.9%	4,857
	Butter Milk Powder (BMP)	0.0%	0.0%	n.a.
Cheese	Cheddar	-1.2%	28.5%	4,274
	GDT Price Index	1.0%	38.8%	n.a.

ASB Economics & Research

Chief Economist
 Senior Economist
 Senior Economist
 Senior Economist, Wealth
 Senior Economist
 Economist
www.asb.co.nz/economics

Nick Tuffley nick.tuffley@asb.co.nz
 Jane Turner jane.turner@asb.co.nz
 Mark Smith mark.smith4@asb.co.nz
 Chris Tennent-Brown chris.tennent-brown@asb.co.nz
 Mike Jones mike.jones@asb.co.nz
 Nat Keall nathaniel.keall@asb.co.nz

Phone

(649) 301 5659
 (649) 301 5853
 (649) 301 5657
 (649) 301 5915
 (649) 301 5661
 (649) 301 5720

[@ASBMarkets](https://twitter.com/ASBMarkets)

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