

Rural Economic Note

Fonterra Milk Price Forecast Update Preview & Global Dairy Trade Auction

22 May 2019

Starting on the front foot

- Tomorrow we expect Fonterra to lift its 18/19 milk price towards the upper end of its current \$6.30 to \$6.60/kg range.
- In addition, we expect Fonterra to set its opening 19/20 forecast at or around \$7.00/kg.
- Meanwhile, overall dairy prices fell modestly overnight, breaking a run of 11 consecutive rises.

Fonterra 2018/19 Milk Price Forecast Update

We expect Fonterra to upgrade its 2018/19 milk price forecast in its announcement tomorrow morning (due at 8:30am). We anticipate a lift towards the top end of its current forecast range of \$6.30 to \$6.60/kg. For our part, we have penciled in \$6.60/kg.

This likely lift follows an overall lift in dairy auction prices since Fonterra's last update in February. Overall dairy auction prices and whole milk powder prices have both lifted over 5% in USD terms. Moreover, this auction price lift has been further boosted by the NZD/USD weakening by around 5% over the same period.

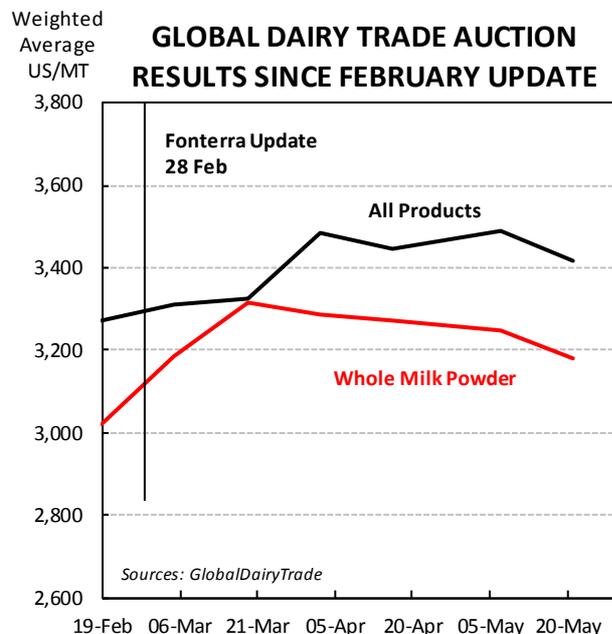
Opening 2019/20 Milk Price Forecast

Looking towards the new 2019/20 season, we expect Fonterra to set its opening forecast at a healthy level somewhere near the \$7.00/kg mark. Indeed, the current 'spot milk price' is in the high \$7.00/kg range, implying the new season is starting solidly on the front foot.

Moreover, the global dairy price outlook is strong. Global dairy supply is tight, with all major exporters struggling to grow supply. We anticipate that NZ 2019/20 season production will be unchanged from 2018/19. Meanwhile, global demand is firm, with Asian, including Greater China, demand robust.

We have set our own 2019/20 forecast at a bullish \$7.00/kg.

Looking at other forecasters, the market median forecast is actually higher at \$7.15/kg, indicating some upside potential to our already bullish forecast.



Farmgate Milk Price Forecasts*			
	Fonterra	ASB	Informal Market Median**
2019/20	Due 23 May	\$7.00	\$7.15

* per kg of milk solids

** Market forecasts as at 14 May

Auction results, 21 May

Overall dairy auction prices fell a touch overnight as we expected. The fall broke a run of 11 consecutive rises going back to November 2018.

Whole milk powder (WMP) and milk fat prices accounted for all of the fall. Despite last night's falls, prices for milk fats remain high, with AMF and butter prices still up 24% and 38%, respectively, since the start of the year.

Product	% change in index since last auction	Annual % change in index	Weighted Average Price US\$/MT
Whole Milk Powder	-2.1%	-0.9%	3,180
Skim Milk Powder	0.5%	22.4%	2,529
Anhydrous Milk Fat	-1.4%	-2.8%	6,140
Butter	-3.2%	-6.3%	5,297
GDT Price Index	-1.2%	0.8%	n.a.

We suspect that the overall price fall reflects weaker Chinese demand, resulting from the recent fall in the Chinese currency. Since the last auction the CNY has dipped around 2% against the USD, matching the WMP price fall.

Given we are moving into the NZ offseason, we anticipate that dairy prices may continue to bobble along near current levels over the next few months until markets learn more about the production outlook for the new season. At this early stage, we expect new season NZ production levels to be modest. In particular, spring production is unlikely to match the record production levels recorded last year. All up, we anticipate production for the 2019/20 season will be unchanged on the previous year.

As we have noted in our previous reports, the modest NZ production outlook and already soft production in other dairy exporters', combined with firm demand, all point to dairy prices moving towards a cyclical peak over 2019.

Implications

As mentioned on the previous page, we maintain our 2018/19 milk price forecast at \$6.60/kg. Also, we continue to see upside risks to our already-bullish 2019/20 milk price forecast of \$7.00/kg. However, we point out the obvious in that the 2019/20 season has yet to begin. Hence, this forecast comes with a very wide range.

Farmgate Milk Price Forecasts

	2018/19		2019/20	Long Run
	Fonterra	ASB	ASB	ASB
Milk Price*	\$6.30-\$6.60	\$6.60	\$7.00	\$6.50-\$7.00

* per kg of milk solids (excluding dividend).

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