

Rural Economic Note

Global Dairy Trade Auction

03 January 2019

Fats grease the start to 2019

- Dairy prices up in first auction for 2019, making 3 rises in a row.
- Prices rose for all key products, albeit in the lightest sales volumes since July.
- NZ production is looking strong, which we expect will constrain prices in the near term.

Summary

The first GlobalDairyTrade auction of the year continued the positive finish to 2018 with a 2.8% overall lift. All the key product types showed price increases. Auction volumes were, however, light for this holiday period auction. Notably, whole milk powder (WMP) prices were the laggard in making gains. NZ is the dominant WMP exporter, and NZ production is in healthy shape thanks to good growing conditions.

We do expect the strength of NZ production over the peak part of the season to constrain dairy prices in the near term. And we continue to hold our milk price forecast at \$6.00/kg of milk solid.

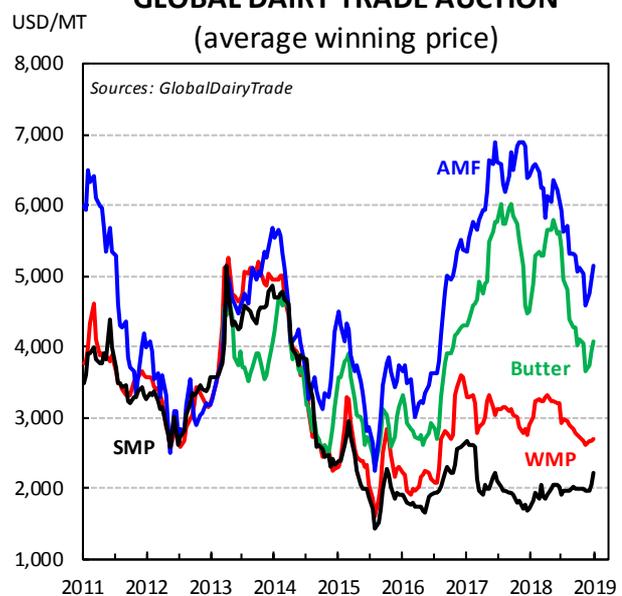
Auction Results, 2 January

Dairy auction prices gained a further 2.8%, the third auction gain in a row. The pattern of gains followed recent outcomes: solid rebounds in various milk fat prices and in skim milk powder (SMP) prices. WMP prices recovered more weakly, and are still lower than the prices traded back in September.

The consistent underperformance of WMP prices will be related to the strength of NZ dairy production, with weather conditions a boon over the peak production months. We expect production will remain firm through the rest of the key parts of the season, with the full season likely to be up 5% from the 2017/18 season.

The only cautionary tale with this auction outcome is that the volume sold was around 20% down on the previous two auctions, while the number of participating bidders was down only slightly compared to the typical numbers seen

GLOBAL DAIRY TRADE AUCTION
(average winning price)



Product	% change in index since last auction	Annual % change in index	Weighted Average Price US\$/MT
Whole Milk Powder	1.2%	-4.2%	2,705
Skim Milk Powder	7.9%	22.3%	2,201
Anhydrous Milk Fat	3.9%	-19.5%	5,137
Butter	3.9%	-9.0%	4,076
GDT Price Index	2.8%	-5.3%	n.a.

in recent months.

Implications

We maintain our 2018/19 milk price forecast at \$6.00/kg. And, for comparison with Fonterra’s forecast range, our 30-cent forecast range would be \$5.85-\$6.15/kg.

Farmgate Milk Price Forecasts

	2018/19		Long Run
	Fonterra	ASB	ASB
Milk Price*	\$6.00-\$6.30	\$6.00	\$6.50-\$7.00

* per kg of milk solids (excluding dividend).

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