

Rural Economic Note

Global Dairy Trade Auction

02 May 2018

It's all about the dollar

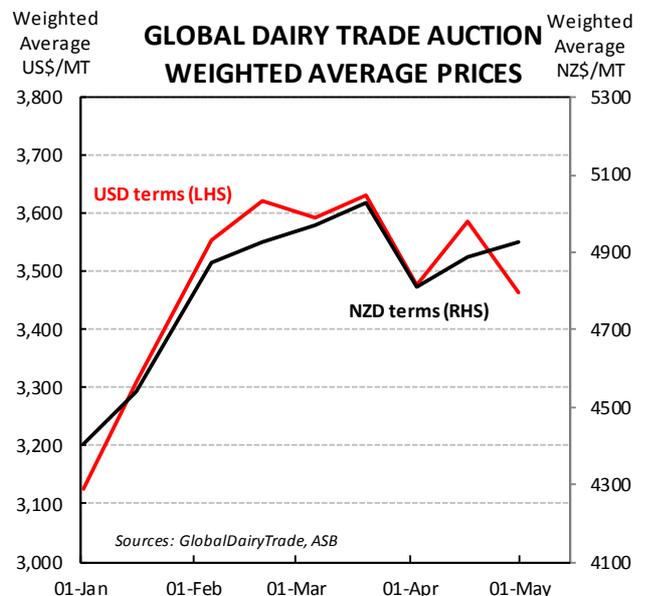
- Headline dairy auction prices fell a touch overnight.
- However, the sharp move lower in the NZD has more than trumped the price fall.
- As a result, we continue to see upside to both our 2017/18 and 2018/19 milk price forecasts.

Summary

Headline dairy auction prices were weak overnight. The overall index fell 1.1%, while key whole milk powder prices fell 1.5%. Moreover, the whole milk powder price fall was in contrast to our expectations for a rise.

However, **the sharp move lower in the NZD more than trumps the price fall overnight.** Indeed, since the last auction the NZD/USD has fallen by around 4.6%. The net effect of the two moves sees the overall dairy auction prices circa 3% higher in NZD terms since the last auction. And of course, it's auction prices in NZD terms that matter for the farmgate milk price.

With this in mind, **there is potential for our milk price forecasts to move higher.** However, the sharp move lower in the NZD could prove temporary. We'll wait and see on that front. For now, we keep our 2017/18 and 2018/19 milk price forecasts under review (see over page for our forecast table).



Auction Results, 1 May

Dairy auction prices were weaker than expected overnight. Overall prices fell 1.1%, while whole milk powder prices fell 1.5%. In contrast, we had anticipated a 2.0% whole milk powder price rise.

By product, the auction result was more mixed. All up, there were three price rises, three price falls and one product was unchanged. Casein posted the largest fall of 10.5%, although that followed rises of a combined 15.6% over the two auctions prior. Meanwhile, skim milk powder and cheddar posted solid price gains of 3.6% and 3.1%, respectively.

Product	% change in index since last auction	Annual % change in index	Weighted Average Price US\$/MT
Whole Milk Powder (WMP)	-1.5%	2.2%	3,231
Skim Milk Powder (SMP)	3.6%	-2.6%	1,999
Anhydrous Milk Fat (AMF)	-1.9%	-2.5%	6,032
Butter	0.0%	12.7%	5,647
GDT Price Index	-1.1%	-0.9%	n.a.

However, the sharp decline in the NZD has more than trumped the auction price decline. Indeed, since the last auction the NZD/USD has fallen by around 4.6%. The net effect of the two moves sees the overall dairy auction prices circa 3% higher in NZD terms since the last auction.

Looking at other key market factors, **NZ supply remains weak**. March production was 2.2% below March 2017, and as a result, we lowered our 2017/18 production growth forecast to -1%. Moreover, the seasonal lull in NZ production is upon us, with April, May and June accounting for just 6% for annual production.

With the above in mind, **we see potential to lift both our 2017/18 and 2018/19 milk price forecasts**. However, we do tread cautiously with regard to the sharp decline in the NZD/USD as the decline could prove temporary. For now, we stick with our current forecasts of \$6.55/kg and \$6.50/kg for 2017/18 and 2018/19, respectively, but continue to keep both forecasts ‘under review’.

Farmgate Milk Price Forecasts

	2017/18		2018/19	Long Run
	Fonterra	ASB	ASB	ASB
Milk Price*	\$6.55	\$6.55	\$6.50	\$6.50-\$7.00

* per kg of milk solids (excluding dividend).

ASB Economics & Research

Chief Economist
Senior Rural Economist
Senior Economist
Senior Economist
Senior Economist, Wealth
Economist
Data & Publication Manager

Nick Tuffley
Nathan Penny
Jane Turner
Mark Smith
Chris Tennent-Brown
Kim Mundy
Judith Pinto

nick.tuffley@asb.co.nz
nathan.penny@asb.co.nz
jane.turner@asb.co.nz
mark.smith4@asb.co.nz
chris.tennent-brown@asb.co.nz
kim.mundy@asb.co.nz
judith.pinto@asb.co.nz

Phone

(649) 301 5659
(649) 448 8778
(649) 301 5853
(649) 301 5657
(649) 301 5915
(649) 301 5661
(649) 301 5660

www.asb.co.nz/economics

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

Disclaimer

This document is published solely for informational purposes. It has been prepared without taking account of your objectives, financial situation, or needs. Before acting on the information in this document, you should consider the appropriateness and suitability of the information, having regard to your objectives, financial situation and needs, and, if necessary seek appropriate professional or financial advice.

We believe that the information in this document is correct and any opinions, conclusions or recommendations are reasonably held or made, based on the information available at the time of its compilation, but no representation or warranty, either expressed or implied, is made or provided as to accuracy, reliability or completeness of any statement made in this document. Any opinions, conclusions or recommendations set forth in this document are subject to change without notice and may differ or be contrary to the opinions, conclusions or recommendations expressed elsewhere by ASB Bank Limited. We are under no obligation to, and do not, update or keep current the information contained in this document. Neither ASB nor any person involved in the preparation of this document accepts any liability for any loss or damage arising out of the use of all or any part of this document.

Any valuations, projections and forecasts contained in this document are based on a number of assumptions and estimates and are subject to contingencies and uncertainties. Different assumptions and estimates could result in materially different results. ASB does not represent or warrant that any of these valuations, projections or forecasts, or any of the underlying assumptions or estimates, will be met.