

Rural Economic Note

Global Dairy Trade Auction

2 October 2019

Dairy rolls with the punches

- Dairy auction prices were largely unchanged as expected overnight.
- Global dairy prices remain relatively resilient in the wake of the increasingly shambolic geo-political backdrop and slowing global growth.
- The result overnight reaffirms our 2019/20 milk price forecast of \$7.00/kg while we wait for NZ spring production data to provide further direction for global dairy prices.

Auction results, 1 October

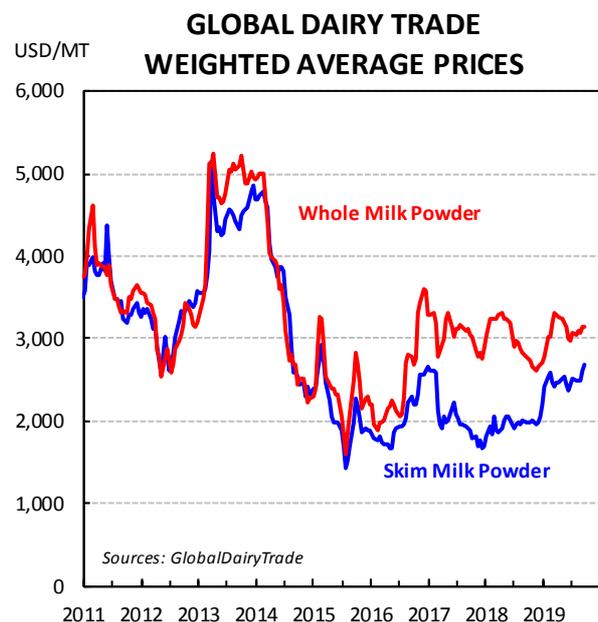
Overall dairy auction prices were mostly unchanged at the auction overnight. For the record, overall prices lifted 0.2%.

Key whole milk powder (WMP) prices were in line with our expectations. We had expected no change in whole milk powder prices, while futures pricing had pointed to a 1% lift. We also noted ahead of the auction that a weaker Chinese currency since the last auction was likely to hold back WMP prices.

Skim milk powder prices led the price gains, rising 2.7%. Cheddar headed the other way, dipping 3.4%. Meanwhile, most other products posted small price movements either side of zero.

Global dairy prices remain relatively resilient in the wake of the increasingly shambolic geo-political backdrop and slowing global growth. China is the world’s biggest dairy importer and home to the largest group of participants on the dairy auction platform. Its growth has been slowing over 2019 and the purchasing power of its currency has also weakened recently as the US-China tariff tit-for-tat has snowballed. Nonetheless, the Chinese household sector and its food purchases are faring better than other parts of the economy. The relative strength of the Chinese household sector appears one key factor underpinning global dairy prices.

Product	% change in index since last auction	Annual % change in index	Weighted Average Price US\$/MT
Whole Milk Powder	-0.2%	14.4%	3,141
Skim Milk Powder	2.7%	34.7%	2,674
Anhydrous Milk Fat	0.0%	-0.2%	4,997
Butter	-0.2%	3.5%	4,125
GDT Price Index	0.2%	20.8%	n.a.



Meanwhile, **global dairy supply remains tight, particularly in the northern hemisphere and Australia**. Looking ahead, NZ spring production will be key in determining the direction for global dairy prices. At this stage, we expect flat production for the 2019/20 season. Notably, winter has been relatively kind to farmers, with production to date running ahead of this this time last season. On the other hand, production last spring was very strong, so a kind winter may still not be enough for production to match last year’s levels.

Implications

Following the auction overnight, we reaffirm our 2019/20 milk price forecast of \$7.00/kg. Meanwhile, the Fonterra forecast range is \$6.25/kg to \$7.25/kg. Applying a similar range as Fonterra puts our forecast in a \$6.50/kg to \$7.50/kg range. As noted above, a wide forecast range remains appropriate for now as it is still early in the NZ production season and global risks remain high.

Farmgate Milk Price Forecasts

	2019/20		Long Run
	Fonterra	ASB	ASB
Milk Price*	\$6.25-\$7.25	\$7.00	\$6.50-\$7.00

* per kg of milk solids (excluding dividend).

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