

Rural Economic Note

Global Dairy Trade Auction

03 April 2019

Finishing strong

- Overall dairy prices consolidate recent gains overnight.
- Beneath the relatively modest headlines, we note that butter, casein and cheese prices continued to surge.
- All up, the auction result reinforces our \$6.60/kg and \$7.00/kg milk price forecasts for 2018/19 and 2019/20, respectively.

Summary

Dairy auction prices consolidated recent gains overnight.

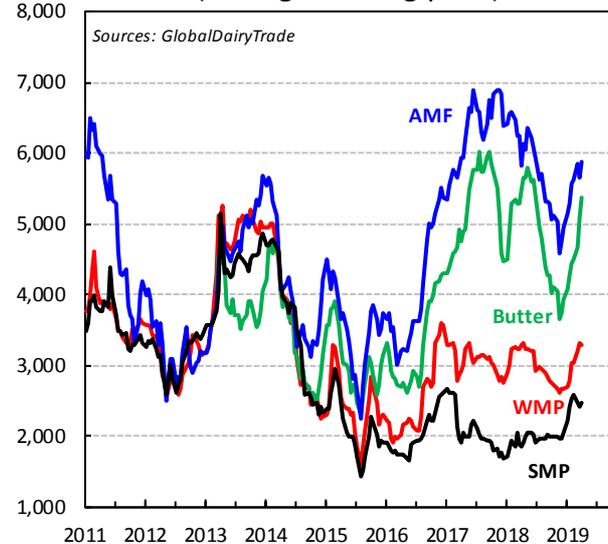
Overall prices lifted 0.8%, which translates into a very healthy 22.4% gain so far this year.

Whole milk powder (WMP) prices did take a breather though. But even after the 1.3% price dip overnight, WMP prices, too, are up a healthy 23.3% for the year.

Looking beyond the normal headlines reveals additional price strength. In particular, butter, casein and cheese prices continued their surge. Butter prices, for example, have jumped a whopping 37.5% so far this year.

This broader dairy price strength is indicative of the tightness that has crept into global dairy markets this year. Indeed, with NZ production growth now passed its peak and production offshore already weak, we expect dairy prices to continue to move towards a cyclical peak over 2019. **As a result, this move bodes well for the milk price to finish strong this season and similarly bodes well for strong start to the 2019/20 season.**

GLOBAL DAIRY TRADE AUCTION
(average winning price)



Auction results, 2 April

Overall dairy auction prices lifted a touch overnight, posting their ninth successive price gain. The price lift was also broad-based, with six out of the seven products that we monitor, posting gains.

However, **key whole milk powder (WMP) prices bucked the positive trend**, dipping 1.3%. That said, the fall was

Product	% change in index since last auction	Annual % change in index	Weighted Average Price US\$/MT
Whole Milk Powder	-1.3%	2.0%	3,287
Skim Milk Powder	1.8%	30.6%	2,468
Anhydrous Milk Fat	3.7%	1.9%	5,867
Butter	5.8%	-1.5%	5,374
GDT Price Index	0.8%	4.5%	n.a.

broadly in line with expectations and comes after prices had surged nearly 25% from the end of 2018.

Butter and casein prices led the gains, surging 5.8% and 7.5% overnight. Indeed, butter, casein and cheese prices have been on a tear so far over 2019, positing gains of between 28% and 38%.

At this juncture, we note that the impact of dry NZ weather now appears largely factored into prices by dairy markets. Recall that last month we cut our nationwide 2018/19 milk production growth forecast to 3% from 5% previously.

Looking further ahead, **we note that NZ production growth has passed its cyclical peak, while production growth for other dairy exporters is already soft.** In addition, global dairy stocks are now much lower than in previous years. Lower stocks mean less of a buffer for dairy markets in the event of any supply shock. Meanwhile, global demand is also firm.

All up and as we have noted in our previous reports, the combination of these factors point to dairy prices moving towards a cyclical peak over 2019.

Implications

The auction result reinforces our 2018/19 milk price forecast of \$6.60/kg. Similarly, 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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