

Rural Economic Note

Global Dairy Trade Auction

03 July 2019

Treading water

- Dairy prices largely trod water overnight.
- Milk fat prices continued their recent weak run, while key WMP prices were unchanged.
- All up, the auction result is consistent with our \$7.00/kg milk price forecast for 2019/20.

Auction results, 2 July

Overall dairy auction prices fell 0.4% overnight, the fourth consecutive decline. Prices for six out of the eight categories on offer fell, with milk fat prices posting the largest falls.

Key whole milk powder (WMP) prices, however, were flat. This result was better than our expectation for a 2% fall and better than futures market pricing, which had indicated a circa 3% fall. Nonetheless, WMP prices have fallen around 10% since March.

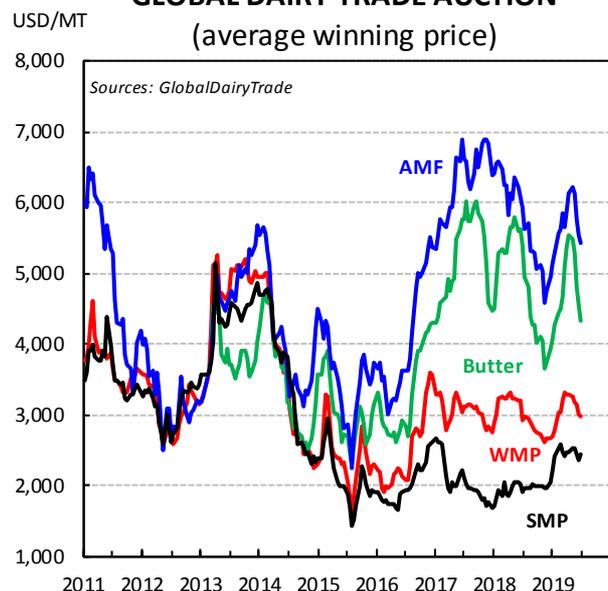
Milk fat prices continued their downward slide overnight. Butter prices slipped 4.8%, while anhydrous milk fat prices dipped 1.9%. Both product prices have now fallen for four consecutive auctions.

Meanwhile, **skim milk powder (SMP) prices bucked the trend, lifting 3.2%.** Moreover, SMP prices have lifted over 23% in annual terms, with this change consistent with weak offshore supply growth, including from the EU and the US.

Stepping back from the recent auction results, we still see global dairy markets, as on the whole, tight. NZ production growth is past its cyclical peak, while production growth in the other major dairy exporters is soft. On this basis, we anticipate that dairy prices can push towards cyclical highs later in the season.

Product	% change in index since last auction	Annual % change in index	Weighted Average Price US\$/MT
Whole Milk Powder	0.0%	3.0%	2,969
Skim Milk Powder	3.2%	23.6%	2,430
Anhydrous Milk Fat	-1.9%	-7.8%	5,433
Butter	-4.8%	-19.2%	4,339
GDT Price Index	-0.4%	4.9%	n.a.

GLOBAL DAIRY TRADE AUCTION
(average winning price)



Accordingly, the NZ spring will be important for setting the direction for prices. If we are right that domestic

production is soft this year compared to 2018, dairy buyers are likely to be caught short given many buyers appear to be currently living hand-to-mouth.

Implications

The result overnight is consistent with our 2019/20 milk price forecast of \$7.00/kg. However, we again highlight that it is very early days for the 2019/20 season. Accordingly, our forecasts at this time of the season always come with a very wide range of error. Our \$1.00/kg range, for example, would be \$6.50/kg to \$7.50/kg at this juncture (note Fonterra’s forecast range is \$6.25/kg to \$7.25/kg as per below).

Farmgate Milk Price Forecasts

	2018/19	2019/20		Long Run
	Fonterra/ASB	Fonterra	ASB	ASB
Milk Price*	\$6.30-\$6.40	\$6.25-\$7.25	\$7.00	\$6.50-\$7.00

* per kg of milk solids (excluding dividend).

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