

# Rural Economic Note

Global Dairy Trade Auction

04 October 2017

## Prices ease off recent highs

- Dairy prices eased overnight, as very large volumes of product sold at the latest event.
- Butter prices eased modestly off the record high set at the previous event.
- We continue to see potential for a combination of recent wet NZ weather and surging global butter demand to support prices over coming months.

### Summary

Although prices were off modestly overnight, we remain comfortable with our 2017/18 milk price forecast of \$6.75/kg. Volumes sold at the event were the highest in over a year. We continue to see a risk that prices spike higher over coming months, if conditions for production don't improve soon.

### Details

Overall dairy auction prices eased modestly overnight, with the GDT Price index down 2.4% on the previous event. The result is in contrast to recent futures pricing, which pointed to gains.

NZ production was weak over August as the impact of very wet weather has been starting to slow spring production.

We are continuing to keep an eye on the wet NZ spring which has been saturating most of the country including the key dairy regions. As long as the wet spring weather continues, it creates the risks that prices spike higher over coming months, if production at this important time of the year is impacted.

Butter prices set a fresh record high at the previous event in September, but eased modestly off that high at last night's event. That decline was repeated for other milk fat prices. Despite the declines, Butter and Anhydrous Milk fat prices remain extremely high compared with a year ago. Global butter demand continues to surge, while supply is struggling to keep pace. With this dynamic in mind, we remain upbeat on the outlook.

Despite the dip in prices overnight, we see potential for overall prices, particularly for WMP, to push higher over coming months. Firstly, NZ weather has been poor (very wet) and production is reportedly back on last season in key regions at this juncture.

Secondly as mentioned above, global milk fat (butter) demand continues to surge, while supply struggles to keep pace.

### Key auction results

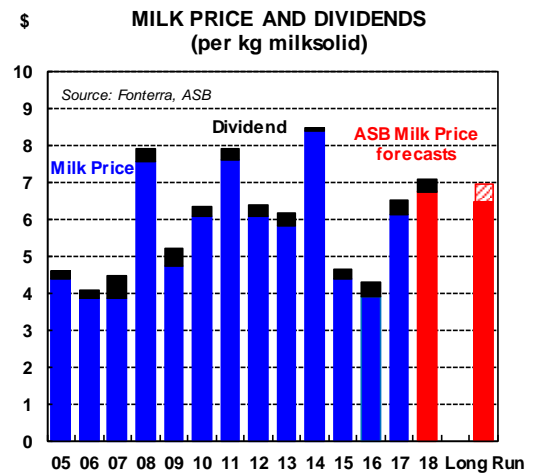
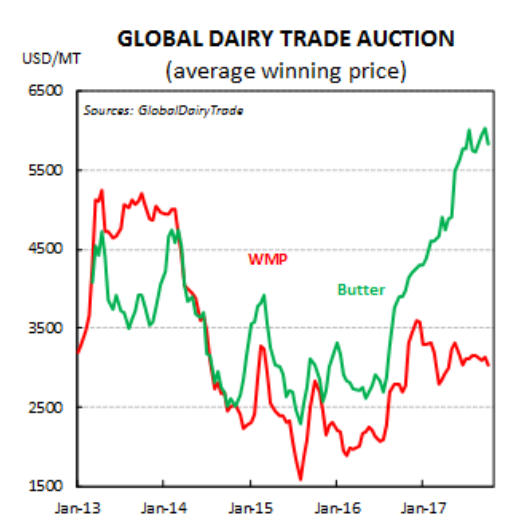
Product	% change in index since last auction	Annual % change in index	Weighted Average Price US\$/MT
Whole Milk Powder (WMP)	-2.7%	13.7%	3,037
Skim Milk Powder (SMP)	-1.4%	-12.2%	1,895
Anhydrous Milk Fat (AMF)	-3.4%	33.7%	6,504
Butter	-3.6%	48.8%	5,837
GDT Price Index	-2.4%	18.6%	n.a.

### Farmgate Milk Price Forecasts

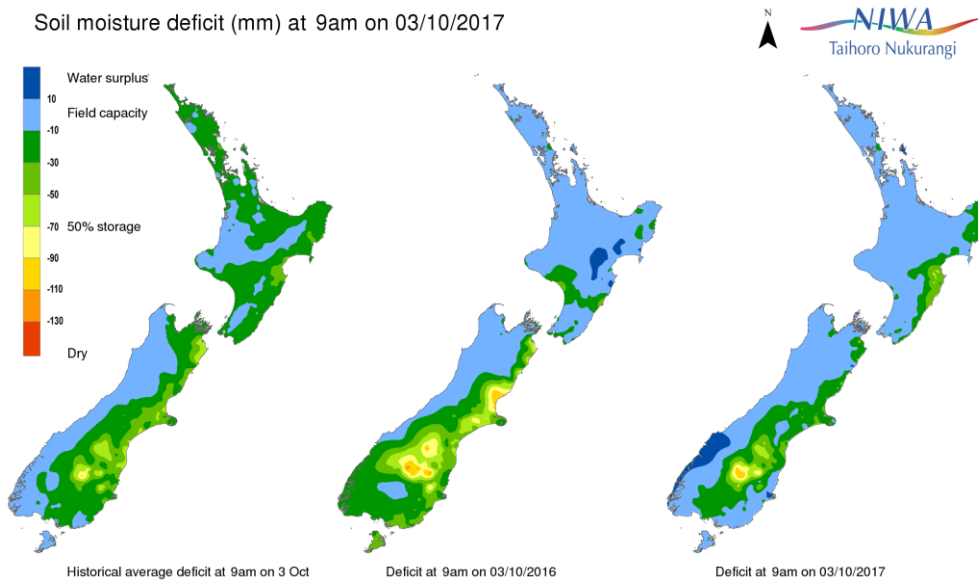
	2015/16	2016/17		Long Run
	Final	Fonterra	ASB	ASB
Milk Price*	\$6.12	\$6.75	\$6.75	\$6.50-\$7.00

\* per kg of milk solids (excluding dividend).

Stream	Product	% change in index since last event	Annual % change in index	Weighted Average Price US\$/MT
Milk Powder Stream	Whole Milk Powder (WMP)	-2.7%	13.7%	3,037
	Skim Milk Powder (SMP)	-1.4%	-12.2%	1,895
	Anhydrous Milk Fat (AMF)	-3.4%	33.7%	6,504
Mixed Stream	Butter	-3.6%	48.8%	5,837
	Butter Milk Powder (BMP)	-10.3%	-11.6%	1,804
Cheese & Casein Stream	Cheddar	2.0%	14.3%	4,109
	Casein	0.9%	-7.7%	6,123
GDT Price Index		-2.4%	18.6%	n.a.



Soil moisture deficit (mm) at 9am on 03/10/2017



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