

Rural Economic Note

Global Dairy Trade Auction

04 April 2018

Business as usual, for now

- Dairy prices were a mixed bag overnight.
- Notably, there were no signs of dairy market panic from the US-China trade skirmish.
- For now, global dairy markets remain well-balanced with prices at a healthy level.

Summary

Dairy prices were a mixed bag at auction overnight.

Key whole milk powder (WMP) prices posted a modest gain, but overall prices fell a touch.

Probably of more note was the fact **there were no**

signs of market panic from the trade skirmish between the US and China. Indeed, if anything, the WMP price lift was a positive surprise.

Nonetheless, **we remain wary of the trade skirmish between the US and China.** This week China imposed tariffs of up to 25% on 128 US imports in the first tit-for-tat move following US tariff increases last month. Notably, the Chinese measures included tariffs on some agricultural goods, including items such as pork and fruit (this contrasts with US measures, which focused more on high-tech products).

At this stage, **these measures are relatively minor and so have little or no impact on dairy markets and thus dairy prices.** However, if tensions escalate further and lead to an all-out trade war, then all industries stand to lose, including dairy. Essentially, a trade war would lead to lower incomes in both the US and China. In turn, lower incomes would lead to lower demand for products like dairy, and thus would likely translate into lower global dairy prices.

However, there is still a good chance that President Trump moderates his stance or that the measures are short-lived. That said, **the threat of a full-blown trade war cannot be ruled out and is something that should be kept in mind.**

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).

Auction Results, 3 April

Dairy prices were a mixed bag overnight. While WMP prices lifted by 1.6%, overall prices drifted 0.6% lower.

Meanwhile, the WMP result was stronger than expected. We had expected prices to fall by around 1%, while futures pricing had pointed to a similar fall.

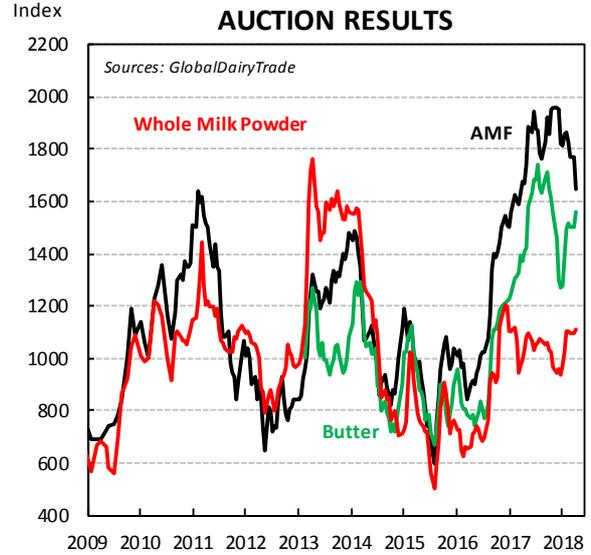
Product	% change in index since last auction	Annual % change in index	Weighted Average Price US\$/MT
Whole Milk Powder (WMP)	1.6%	12.0%	3,278
Skim Milk Powder (SMP)	-1.8%	-3.7%	1,849
Anhydrous Milk Fat (AMF)	-7.0%	-1.8%	5,806
Butter	4.1%	14.0%	5,494
GDT Price Index	-0.6%	4.3%	n.a.

Milk fat prices were similarly mixed. AMF prices slid 7.0%, whereas butter prices jumped 4.0%. Remember that AMF and butter are essentially variants of the same thing. Also looking through the price movements, milk fat prices remain very high.

From here, **we expect prices to remain at or around current levels until end of the season.** While NZ production is improving, the recovery from weak production earlier in the season is progressing only gradually. With global demand also firm, we expect the global dairy market will remain largely balanced and for prices to track sideways as a result.

Note however, this view is contingent on the impact of the US and Chinese trade measures having little or no impact on global dairy markets.

GLOBAL DAIRY TRADE AUCTION RESULTS



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