

# Rural Economic Note

Global Dairy Trade Auction

4 September 2019

## Steady prices, higher volumes

- Whole milk powder prices were down marginally, as expected, with overall dairy prices roughly flat.
- Meanwhile, auction volumes are lifting as spring production looms.
- We maintain our 2019/20 milk price forecast of \$7.00/kg.

**GDT auction prices were down 0.4% with key whole milk powder (WMP) prices down 0.8%.** The WMP outcome was very much in line with what futures pricing had been indicating, and movements in a number of product prices were relatively muted. It is reassuring that – to date – the escalating US-China trade tensions and recent weakness in the Chinese renminbi are not having a material impact on dairy prices.

**The season is still young with the extent of spring’s milk flush yet unknown.** The extent of NZ’s spring production will be an important guide to prices over the coming months. **Until more information comes to light we maintain our 2019/20 milk price forecast of \$7.00/kg.** And yesterday Fonterra maintained its \$6.25 - \$7.25/kg forecast.

Product	% change in index since last auction	Annual % change in index	Weighted Average Price US\$/MT
Whole Milk Powder	-0.8%	9.2%	3,076
Skim Milk Powder	0.7%	25.0%	2,500
Anhydrous Milk Fat	-1.5%	-5.7%	4,988
Butter	0.0%	-5.2%	4,029
GDT Price Index	-0.4%	15.0%	n.a.

## Auction results, 3 September

**Dairy auction prices were essentially flat in the latest auction,** although there has been a slow bleed since the second half of May. Prices are 7% lower over the past 3 months compared to the preceding 3 months, though still up 15% from a year ago.

**Product prices were mixed, though generally muted.** The slight fall in WMP prices was offset by a slight lift in skim milk prices, butter prices were flat and cheese prices edged down. Butter milk powder and rennet/casein prices, in contrast, made gains of 3-5%.

**Even though dairy prices have been edging down slightly in recent auctions, they remain fairly 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 GDT auction platform. Its growth has been slowing slightly and the purchasing power of its currency has also been weakening recently as the US-China tariff tit-for-tat has

snowballed. Continued resilience of Chinese demand will be one key influence on dairy prices, along with NZ weather and production.

Auction volumes stepped up as NZ production heads into its seasonal peak over coming months, though the amount sold at the latest auction was in keeping with that sold in early September last year.

## Implications

**We remain with our 2019/20 milk price forecast of \$7.00/kg.** And just yesterday Fonterra reconfirmed that its 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. A wide range remains appropriate for the time being: it is early in the NZ production season and global risks are rising.

## 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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