

# Rural Economic Note

Global Dairy Trade Auction

4 December 2019

## Catching breath

- After a good run, overall dairy auction prices dipped a touch overnight.
- However, we anticipate that prices will lift again over coming months.
- With this in mind, we reconfirm our 2019/20 milk price forecast at \$7.50/kg.

### Auction results, 4 December

**Overall dairy auction prices took a breather overnight, falling 0.5%.** However, the overnight fall follows price gains over the previous five consecutive auctions, with prices lifting 8.3% during that period.

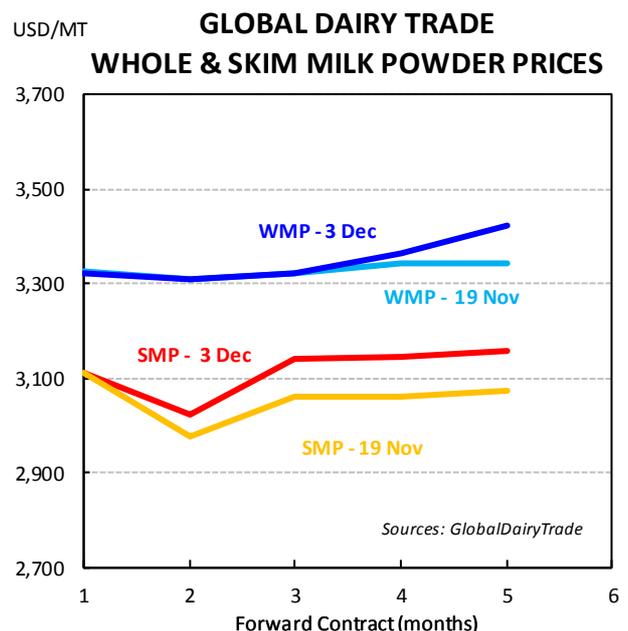
**Whole milk powder (WMP) prices were essentially flat overnight (up 0.1%).** The result was a touch softer than our expected 1% price rise. Nonetheless, WMP are a healthy 25.1% up on this time last year.

**Meanwhile, skim milk powder (SMP) prices continued their strong recent run.** SMP prices have recorded seven consecutive gains, jumping 23% since the end of August. Moreover, the WMP-SMP premium has narrowed from over 30% at the start of the year to under 10% at the auction overnight.

**In contrast, milk fat prices posted their second consecutive fall.** Both butter and anhydrous milk fat prices fell by around 5%. That said, prices are near their seasonal lows and we anticipate that milk fat prices will lift as we head into summer and the accompanying seasonal fall in production. With this in mind, it is interesting to note that milk fat prices are higher than a year ago.

**Looking ahead, we suspect that auction prices may lift once again after the pause overnight.** Recall that NZ October production was 1.5% down on October 2018 and, anecdotally, production weakness has intensified over November. Meanwhile, Northern Hemisphere production growth is also soft, with annual production growth only marginally above flat in both the EU and the US. In short, production growth in the key dairy exporters is insufficient

Product	% change in index since last auction	Annual % change in index	Weighted Average Price US\$/MT
Whole Milk Powder	0.1%	25.1%	3,331
Skim Milk Powder	1.9%	55.1%	3,068
Anhydrous Milk Fat	-5.1%	2.8%	4,840
Butter	-4.9%	3.7%	3,983
GDT Price Index	-0.5%	32.8%	n.a.



to meet growth in global demand. It also appears that dairy markets are anxious that NZ supply will be soft over coming months as evidenced by the circa \$100/MT premium for later dated WMP contracts (see chart on previous page).

## Implications

**We reconfirm our 2019/20 milk price forecast of \$7.50/kg.**

## Farmgate Milk Price Forecasts

	2019/20		2020/21	Long Run
	Fonterra	ASB	ASB	ASB
Milk Price*	\$6.55-\$7.55	\$7.50	\$7.50	\$6.50-\$7.50

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

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