

Rural Economic Note

Global Dairy Trade Auction

05 June 2019

Cheesy Dip

- Last night's GDT auction saw a sharp correction in cheese and butter prices
- WMP prices continued to consolidate, broadly in line with expectations
- We retain our \$7.00/kg milk price forecast for 2019/20.

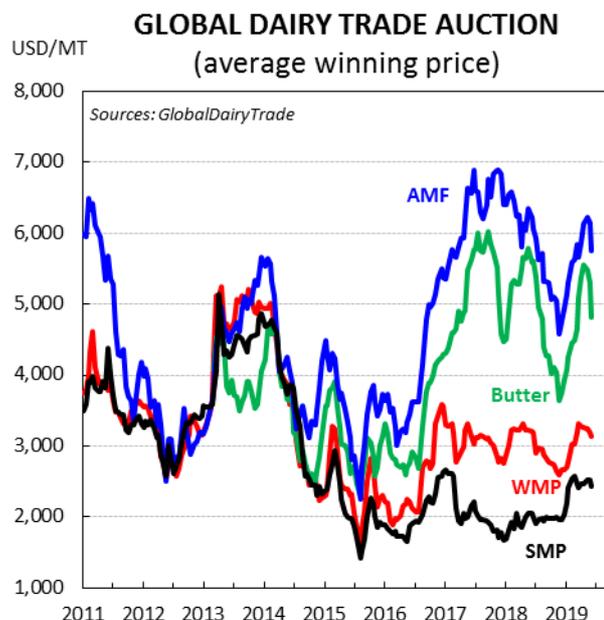
Summary

Butter prices checked recent gains. Having surged through the first half of 2019, butter prices fell 10.3% overnight. Still, prices remain around 23% higher than end-2018 levels.

This may indicate an easing in global milk fat (butter) markets. The sudden slowdown in NZ production given the hot and dry summer weather had previously put the squeeze on milk fat markets. Last night's result suggests some pullback.

WMP prices are treading water. WMP prices fell 1.5% at last night's auction, shooting through the middle of futures pricing (-1%) and our own expectations (-2%). This result is neither here nor there for our Milk Price forecasts, given the low volumes on offer. How prices fare during the spring flush will be the next key test.

We retain our bullish 2019/20 milk price forecast of \$7.00/kg. We continue to expect dairy prices to move towards a cyclical peak later in the year.



Auction results, 4 June

Overall dairy auction prices fell 3.4% overnight, the second consecutive decline. Prices for six of the eight categories on offer fell, with large falls concentrated in products with higher fat content.

However, **key whole milk powder (WMP) prices held up relatively well, falling just 1.5%.** This was

broadly in line with our own expectations for a circa 2% decline. Overall, WMP prices appear to be consolidating as

Product	% change in index since last auction	Annual % change in index	Weighted Average Price US\$/MT
Whole Milk Powder	-1.5%	-1.2%	3,138
Skim Milk Powder	-4.0%	17.1%	2,436
Anhydrous Milk Fat	-5.7%	-6.8%	5,752
Butter	-10.3%	-12.9%	4,805
GDT Price Index	-3.4%	-1.4%	n.a.

the market awaits the usual lift in spring milk volumes.

Butter and cheese prices slumped, falling 10.3% and 14% respectively. For butter in particular, this brings to an abrupt halt the surge in prices we had witnessed over the first half of 2019.

Despite last night's dip, we anticipate that dairy prices should continue to push towards cyclical highs. NZ production growth has passed its cyclical peak, and production growth for other major dairy exporters is also soft.

We anticipate that the NZ spring will be a key flashpoint for dairy prices this year. If domestic production is soft compared to 2018, as we expect, dairy buyers are likely to be caught short given many buyers appear to be currently living hand-to-mouth.

Implications

We continue to hold our bullish 2019/20 milk price forecast of \$7.00/kg. However, we again highlight that it is very early days for the 2019/20 season. Hence, this forecast comes with a very wide range of error. Indeed, last night's auction highlights the volatility inherent in dairy markets.

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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