

Rural Economic Note

Global Dairy Trade Auction

05 September 2018

Seasonal drift

- Dairy prices drifted lower overnight as NZ production nears its seasonal peak.
- Overall prices are at their lowest since October 2016.
- All up, we maintain our 2018/19 milk price forecast of \$6.50/kg, but note downside risks.

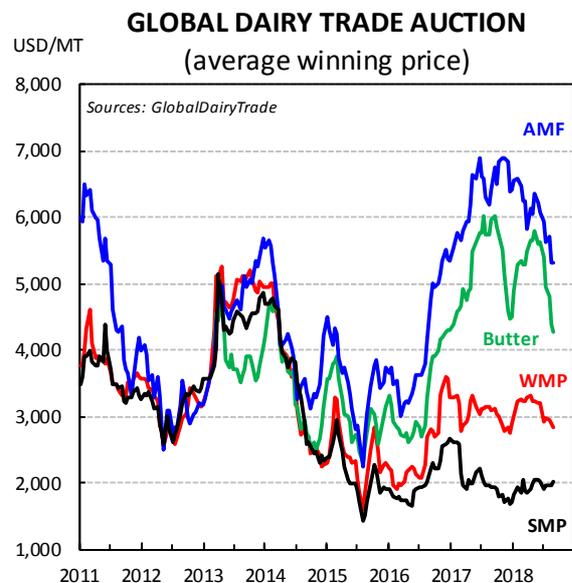
Summary

Dairy auction prices drifted lower overnight. Key whole milk powder prices fell, while butter prices also continued their recent decline. Other product prices, however, fared better.

The modest overall decline fits with the price weakness we normally see at this time of the year. NZ production will peak next month, and the extra availability of NZ product usually dampens prices through the spring.

Looking beyond seasonal factors, global dairy markets appear largely balanced. NZ production is set to lift this season, albeit moderately – we expect a 2% lift this season compared to last. However, dry weather offshore means exports from other producers are likely to be more scarce than usual over coming months. Meanwhile, global demand is mixed, but overall remains relatively positive.

With these relatively positive market fundamentals in mind and the supportive NZD/USD, **we stick with our 2018/19 milk price forecast of \$6.50/kg, but continue to note downside risks.**



Auction Results, 4 September

Dairy auction prices dipped 0.7% overall overnight.

Overall prices have now fallen in six out of the last seven auctions, and now are at their lowest since October 2016.

Whole milk powder (WMP) and butter prices led the decline, dipping 2.2% and 2.8%, respectively. The WMP price fall was also a touch weaker than the fall signalled by the futures market ahead of the auction.

Product	% change in index since last auction	Annual % change in index	Weighted Average Price US\$/MT
Whole Milk Powder	-2.2%	-6.9%	2,821
Skim Milk Powder	2.2%	-1.9%	2,005
Anhydrous Milk Fat	0.2%	-17.0%	5,316
Butter	-2.8%	-28.3%	4,271
GDT Price Index	-0.7%	-12.9%	n.a.

However, other products fared better. Cheddar and casein led the gains, lifting 4.2% and 3.7%, respectively. Skim milk powder also posted a 2.2% rise, while anhydrous milk fat and butter milk powder were largely unchanged.

We interpret the overall fall as largely driven by seasonal factors. NZ is approaching its seasonal production peak in October, and auction volumes are lifting as per the normal seasonal pattern. For example September WMP auction volumes are scheduled to be over a quarter higher than August volumes.

With this in mind, **we anticipate dairy prices are likely to remain soft until the seasonal peak passes.** Also at this juncture, weather plays an important role in determining NZ production levels. So far this season, weather has been largely favourable – we anticipate a 2% lift in NZ production this season compared to last.

Implications

We stick with our 2018/19 milk price forecast of \$6.50/kg, but continue to note the downside risks.

Farmgate Milk Price Forecasts

	2017/18	2018/19		Long Run
	Fonterra/ASB	Fonterra	ASB	ASB
Milk Price*	\$6.70	\$6.75	\$6.50	\$6.50-\$7.00

* per kg of milk solids (excluding dividend).

ASB Economics & Research

Chief Economist
Senior Rural Economist
Senior Economist
Senior Economist
Senior Economist, Wealth
Economist
Data & Publication Manager

Nick Tuffley
Nathan Penny
Jane Turner
Mark Smith
Chris Tennent-Brown
Kim Mundy
Judith Pinto

nick.tuffley@asb.co.nz
nathan.penny@asb.co.nz
jane.turner@asb.co.nz
mark.smith4@asb.co.nz
chris.tennent-brown@asb.co.nz
kim.mundy@asb.co.nz
judith.pinto@asb.co.nz

Phone

(649) 301 5659
(649) 448 8778
(649) 301 5853
(649) 301 5657
(649) 301 5915
(649) 301 5661
(649) 301 5660

www.asb.co.nz/economics

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