

Rural Economic Note

Global Dairy Trade Auction

6 March 2019

Dairy prices march on

- Dairy prices post the seventh consecutive price gain overnight.
- NZ production growth has peaked, while global demand is strong.
- These factors bode well for the farmgate milk price for this season and next.

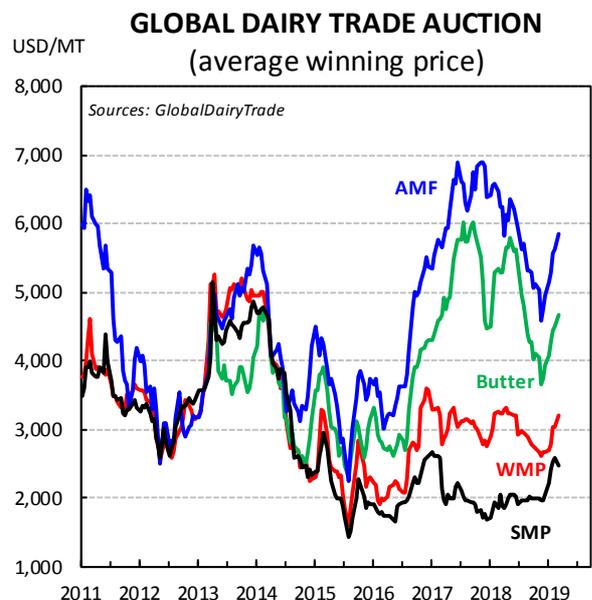
Summary

A fortnight ago, we introduced the idea that the conditions were emerging for a new dairy price cycle. The key implication was, at least initially, higher dairy prices.

The dairy auction result overnight was consistent with that emerging story. Prices rose over 3%, with whole milk powder prices lifting 6.0%.

However, it is still early days. Dairy prices are just now getting back near to their recent historical averages in USD terms. In other words, we need to see further price increases before we can confirm that the new cycle has actually kicked in.

Nonetheless the signs are promising. We continue to see upside to our 2018/19 milk price forecast of \$6.25/kg (this forecast formally “under review”). More importantly, recall that we have set our 2019/20 milk price forecast at a bullish \$7.00/kg.



Auction results, 5 March

Dairy auction prices were firm overnight, posting the seventh successive price gain. Key whole milk powder (WMP) prices jumped 6.0%, while overall prices lifted 3.3%. Overall prices have lifted 19.1% since the start of the year.

The price lift was reasonably broad-based, with five out of the seven products we monitor posting gains. Butter milk powder prices posted the largest increase, surging 11.0%.

Anhydrous milk fat (up 3.9%) and butter prices (up 3.7%) were also firm, while skim milk powder fell (down 4.3%).

Product	% change in index since last auction	Annual % change in index	Weighted Average Price US\$/MT
Whole Milk Powder	6.0%	1.1%	3,186
Skim Milk Powder	-4.3%	18.0%	2,462
Anhydrous Milk Fat	3.9%	-5.8%	5,837
Butter	3.7%	-11.4%	4,657
GDT Price Index	3.3%	-0.1%	n.a.

Some of the price lift can be put down to recent dry and hot NZ weather. The latest data show that production is 5.6% ahead of last season on a season to January basis – however we think this is as good as it gets for NZ production. Production has slowed in the Waikato over February and now early March given the hot and dry weather.

Peaking NZ production adds to sluggish production offshore. Dairy production is falling in Australia, while EU and US production growth is a modest 1% per annum or so. Moreover, **global dairy stocks are now much lower than in previous years.** Lower stocks means less of a buffer for dairy markets in the event of any supply shock.

Meanwhile, **global demand is also firm.** Fonterra noted last week that “global demand has strengthened. This is driven predominantly by stronger demand from Asia, including Greater China.”

The combination of these factors point to the start of a new dairy price cycle. And as mentioned above, the initial implication is higher dairy prices. With this in mind, **we expect global dairy prices to lift over 2019.**

Implications

This auction result means **we continue to see upside risk to our 2018/19 Fonterra milk price forecast of \$6.25/kg and place this forecast “under review”.** Meanwhile, the result is consistent with our **2019/20 milk price forecast of \$7.00/kg.** We should point out, however, that it is very early days for this forecast and that this forecast comes with a very wide range.

Farmgate Milk Price Forecasts

	2018/19		2019/20	Long Run
	Fonterra	ASB	ASB	ASB
Milk Price*	\$6.30-\$6.60	\$6.25	\$7.00	\$6.50-\$7.00

* per kg of milk solids (excluding dividend).

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