

Rural Economic Note

Global Dairy Trade Auction

6 May 2020

Calm after oil storm

- Dairy auction prices largely stabilised overnight.
- The result is consistent with the recent rebound in oil prices after their earlier plunge.
- We maintain our cautiously optimistic milk price view, but note that risks remain very high.

Auction results, 5 May

Dairy auction prices largely stabilised overnight. Key whole milk powder (WMP) prices were effectively flat (up 0.1%), while milk fat price falls meant overall prices were down a modest 0.8%.

The WMP price result was notably stronger than the circa 4% fall indicated by the futures market. Moreover, the result indicates no lingering spillover the earlier plunge in oil prices, which have strongly rebounded of late, with prices for West Texas Intermediate having roughly doubled over the past week to around USD25 per barrel. Dairy prices fell around 4% at the last auction following oil's dramatic dip a fortnight ago.

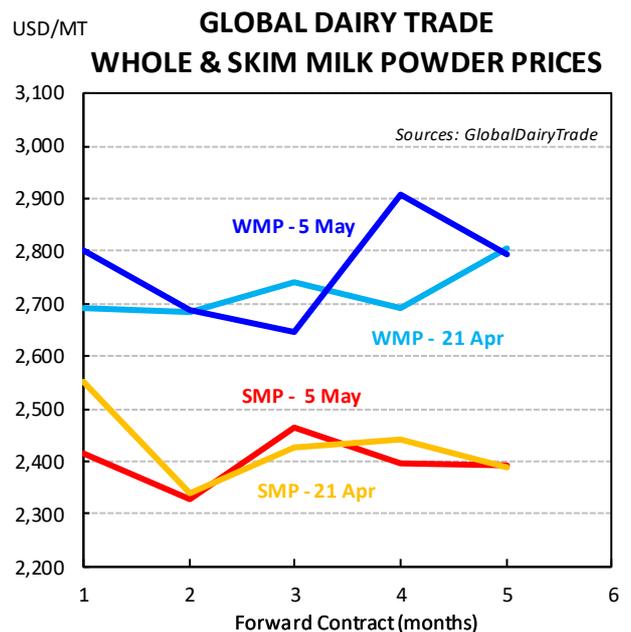
Otherwise **the auction result produced mixed signals for the global dairy price outlook.** WMP prices by contract were varied. Contract 1 (for shipment next month) prices firmed, but that was countered by softer prices for Contracts 2 and 3. Prices Contracts 4 and 5 lifted and remained firm, respectively. The strength of the later-dated contracts may indicate some potential rebound in market strength and pricing over the coming months.

Ultimately, **dairy market uncertainty remains high.** And this uncertainty is likely to prevail until global lockdowns are fully lifted and a clearer sense of global demand becomes evident. Indeed, this may still be many months away.

Implications

Given the 19/20 season has nearly ended, we expect minor movements in the 19/20 milk price from here. For now,

Product	% change in index since last auction	Annual % change in index	Weighted Average Price US\$/MT
Whole Milk Powder	0.1%	-14.9%	2,745
Skim Milk Powder	0.1%	-6.3%	2,373
Anhydrous Milk Fat	-2.4%	-36.4%	3,973
Butter	-5.8%	-31.3%	3,867
GDT Price Index	-0.8%	-12.1%	n.a.



we have adopted the midpoint of Fonterra’s forecast (\$7.30/kg) and will continue to align with their forecast as they make further updates. However, a much wider range of milk price results is possible for the 20/21 season. For now, we retain our cautiously optimistic \$6.50/kg forecast, but note the downside risks and continue to suggest that farmers start contingency planning for the possibility of a sub-\$6.00/kg milk price for the 20/21 season.

Farmgate Milk Price Forecasts

	2019/20		2020/21
	Fonterra	ASB	ASB
Milk Price*	\$7.00-\$7.60	\$7.30	\$6.50

* per kg of milk solids (excluding dividend).

ASB Economics & Research

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

Nick Tuffley
 Nathan Penny
 Jane Turner
 Mark Smith
 Chris Tennent-Brown
 Mike Jones
 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
mike.jones@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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