

Rural Economic Note

Global Dairy Trade Auction & Fonterra Milk Price Forecast Update Preview

06 December 2017

Trimming Fonterra's sails

- Tomorrow, we expect Fonterra to revise down its 2017/18 milk price forecast from \$6.75/kg.
- At this juncture, we expect a 2017/18 milk price of \$6.50/kg, while the market consensus is around \$6.30/kg.
- Meanwhile, dairy auction prices consolidated overnight.

Fonterra Milk Price Forecast Update

Tomorrow, we expect Fonterra to trim its 2017/18 milk price forecast from the current level of \$6.75/kg, set back in September.

Dairy prices have weakened since the last update. Both overall and whole milk powder prices have dipped by a little over 9% since then.

Farmgate Milk Price*				
Season	Fonterra**	ASB	Informal Market Median	Informal Market Range (sample n=6)
2017/18	\$6.75	\$6.50	\$6.33	\$6.19 to \$6.50

* per kg of milk solids

** Fonterra as at 25 September, Market as at 6 December

Meanwhile, **the weaker NZD has offset some of the dairy price fall.** Over the same period, the NZD has fallen by around four cents or 5% against the USD. However, the full benefit of the NZD is unlikely to be reflected in this season's milk price, however next season's stands to gain more fully.

The dairy market outlook has also weakened over the same period. In particular, global production has improved. Moreover, NZ weather and production have recovered somewhat after the very wet spring. That said, dry weather is starting to pose a risk to NZ production.

For our part, **we expect Fonterra to trim the milk price to around \$6.50/kg.** In particular, we anticipate that Fonterra is benefitting from its ability to switch production into higher paying products such as butter and anhydrous milk fat. Other analysts expect a larger cut, with an informal market consensus sitting at \$6.33/kg.

Auction Results, 5 December

Dairy prices lifted a touch overnight.

Overall prices lifted 0.4%, with WMP and SMP up 1.7% and 4.7%, respectively. Milk fat prices were weak however, with butter dipping 11.1% and AMF also falling.

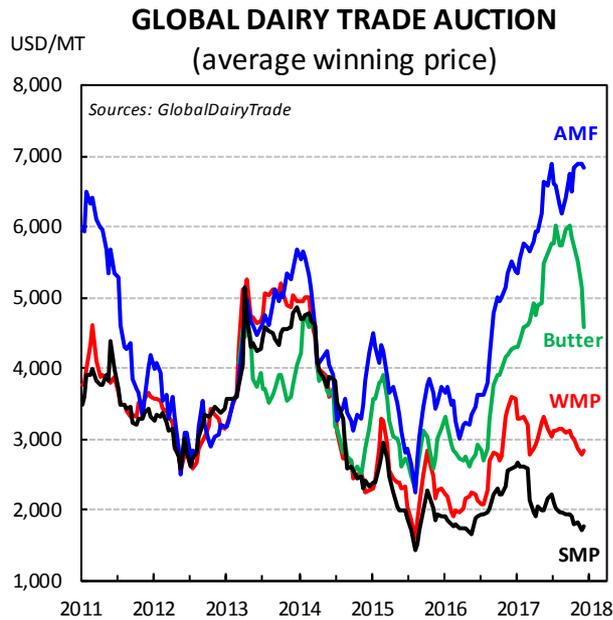
The rise was more in line with futures pricing ahead of the auction than has been

Product	% change in index since last auction	Annual % change in index	Weighted Average Price US\$/MT
Whole Milk Powder (WMP)	1.7%	-20.7%	2,852
Skim Milk Powder (SMP)	4.7%	-30.6%	1,818
Anhydrous Milk Fat (AMF)	-0.6%	25.8%	6,894
Butter	-11.1%	6.8%	5,516
GDT Price Index	0.4%	-10.1%	n.a.

the recent experience. Notably though futures pricing still overstated the magnitude of the lift in WMP prices (4.5% vs. the 1.7% actual rise).

The price lift breaks a run of four consecutive falls. However, auction volumes were down around 20% compared to previous auction, so in this context a lift was expected and actually quite modest.

For now, **we expect prices over to consolidate further over coming auctions.** Meanwhile, short-term price risks are largely evenly balanced, with dry NZ weather on one hand and improving global production on the other.



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