

Rural Economic Note

Global Dairy Trade Auction

07 March 2018

As one storm cloud passes, another one gathers

- In a quiet auction overnight, dairy prices were down a touch as expected.
- And for once, all was quiet on the weather front.
- However, another storm cloud is gathering in the form of Donald Trump.

Summary

The dairy auction overnight was relatively quiet affair.

While prices were mostly down a touch, the direction of price movements was generally as expected.

Also for once, **the weather was not the main topic of**

discussion. With the passing of Cyclone Gita a fortnight ago, the weather has been more normal of late. Indeed, with warm weather and rain about, growing conditions have generally been favourable over the past week or two.

However, while one storm cloud has passed, another one is gathering. **US President, Donald Trump, has announced an increase in import tariffs on steel and aluminium.** Now while this announcement alone is not a direct threat to dairy markets, the potential for retaliatory measures by US's trade partners is. And any tac for tac measures may prompt the fear of an all-out trade war between the likes of the US, the EU and China, in particular.

In that way, **dairy markets could get caught in the crossfire.** That is, in the event of an all-out trade war, all industries lose, including dairy. At this stage, there is still a good chance that President Trump backs down on his threats. Nonetheless, the threat of a trade war is something that bears keeping in mind.

Farmgate Milk Price Forecasts

	2017/18		2018/19	Long Run
	Fonterra	ASB	ASB	ASB
Milk Price*	\$6.40	\$6.50	\$6.50	\$6.50-\$7.00

* per kg of milk solids (excluding dividend).

Auction Results, 6 March

Dairy prices dipped a touch overnight. Overall prices fell 0.6%, while key WMP prices slipped 0.8%. Milk fat prices were a touch weaker, with butter and AMF prices falling 1.0% and 3.2%, respectively. SMP prices bucked the trend, lifting 5.5%, while cheddar and casein also posted price gains.

Product	% change in index since last auction	Annual % change in index	Weighted Average Price US\$/MT
Whole Milk Powder (WMP)	-0.8%	16.0%	3,232
Skim Milk Powder (SMP)	5.5%	-4.2%	2,051
Anhydrous Milk Fat (AMF)	-3.2%	11.6%	6,245
Butter	-1.0%	13.1%	5,280
GDT Price Index	-0.6%	9.8%	n.a.

The fall wasn't quite as steep as that indicated by

futures pricing ahead of the auction. Late yesterday, futures had indicated a circa 2% WMP price fall.

The biggest auction surprise was the jump in SMP prices. Indeed, when we weight the auction results on a milk price basis, prices actually posted a small lift. Note the milk price is weighted roughly at 60% for WMP, 20% for SMP and

20% for milk fats.

From here, **we expect prices to ease further through to the end of the season.** We expect NZ production to improve on the back of the increased rainfall. In turn, this improved production should put modest downward pressure on prices.

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

 [@ASBMarkets](https://twitter.com/ASBMarkets)

Disclaimer

This document is published solely for informational purposes. It has been prepared without taking account of your objectives, financial situation, or needs. Before acting on the information in this document, you should consider the appropriateness and suitability of the information, having regard to your objectives, financial situation and needs, and, if necessary seek appropriate professional or financial advice.

We believe that the information in this document is correct and any opinions, conclusions or recommendations are reasonably held or made, based on the information available at the time of its compilation, but no representation or warranty, either expressed or implied, is made or provided as to accuracy, reliability or completeness of any statement made in this document. Any opinions, conclusions or recommendations set forth in this document are subject to change without notice and may differ or be contrary to the opinions, conclusions or recommendations expressed elsewhere by ASB Bank Limited. We are under no obligation to, and do not, update or keep current the information contained in this document. Neither ASB nor any person involved in the preparation of this document accepts any liability for any loss or damage arising out of the use of all or any part of this document.

Any valuations, projections and forecasts contained in this document are based on a number of assumptions and estimates and are subject to contingencies and uncertainties. Different assumptions and estimates could result in materially different results. ASB does not represent or warrant that any of these valuations, projections or forecasts, or any of the underlying assumptions or estimates, will be met.