

# Rural Economic Note

Global Dairy Trade Auction

08 November 2017

## Dairy prices drop more than expected

- Dairy prices eased more than expected overnight, with the GDT index down 3.5%.
- Prices were down for four of the eight products on offer. Whole Milk Powder prices were down 5.5%.
- The weakness is at odds with weak NZ spring production, and poses a downside risk to our Fonterra Milk Price Forecast.

### Summary

For now we stick with our 2017/18 Fonterra milk price forecast of \$6.75/kg, but the latest weak auction poses a downside risk to our view. The lower NZD is providing some offset to the current softening in prices.

We expect weak NZ production to translate into higher prices by the end of the year, but will be monitoring prices carefully over coming auctions.

### Details

Dairy auction prices were weaker than expected overnight, with overall prices from the auction down 3.5%. The result was softer than indicated by futures pricing ahead of the auction, which had pointed to a more modest dip.

The price fall was broad-based, with prices down for four of the eight products on offer, with rises for three. Prices rose for **SMP (+1.2%)**, but SMP prices had been on the slide over the past few months, and are 18% off peaks earlier in the season. **WMP prices dropped 5.5% at this event**, a greater decline than futures had suggested prior to the auction. That leaves WMP prices down nearly 10% on where they were in August. The prices for fats was mixed, with prices up for AMF (+0.5%) and BMP (+7.2%), but prices down for butter (-3.6%) and cheddar (-2.8%).

**We maintain the view that prices can push higher over coming months because of the supply impact of a very wet NZ spring.**

### Key auction results

Product	% change in index since last auction	Annual % change in index	Weighted Average Price US\$/MT
Whole Milk Powder (WMP)	-5.5%	-13.3%	2,852
Skim Milk Powder (SMP)	1.2%	-21.0%	1,818
Anhydrous Milk Fat (AMF)	0.5%	36.1%	6,894
Butter	-3.6%	31.2%	5,516
GDT Price Index	-3.5%	0.2%	n.a.

### Farmgate Milk Price Forecasts

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

\* per kg of milk solids (excluding dividend).



Related to this, Fonterra has cut its production growth forecast for the season, and we have cut our nationwide (for all processors) production forecast for the season. **But we are not seeing these constraints impacting prices yet.** Rather, some of the longer dated contract prices are lower than the near-term contracts.

**We have attributed recent price weakness to the seasonal peak in auction volumes.** The increases to auction volumes contrasts to the production outlook. For now we stick with our 2017/18 milk price forecast of \$6.75/kg, but the latest weak auction poses a downside risk to our view. The lower NZD is providing some offset to the current softening in prices, but we need to see weak NZ production translate into higher prices over the season. We will be monitoring prices and production carefully over the month ahead.

Stream	Product	% change in index since last event	Annual % change in index	Weighted Average Price US\$/MT
Milk Powder Stream	Whole Milk Powder (WMP)	-5.5%	-13.3%	2,852
	Skim Milk Powder (SMP)	1.2%	-21.0%	1,818
	Anhydrous Milk Fat (AMF)	0.5%	36.1%	6,894
Mixed Stream	Butter	-3.6%	31.2%	5,516
	Butter Milk Powder (BMP)	0.0%	0.0%	1,931
Cheese & Casein Stream	Cheddar	-2.8%	14.2%	4,001
	Casein	-4.0%	-10.9%	5,465
GDT Price Index		<b>-3.5%</b>	<b>0.2%</b>	<b>n.a.</b>

#### 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](mailto:nick.tuffley@asb.co.nz)  
[nathan.penny@asb.co.nz](mailto:nathan.penny@asb.co.nz)  
[jane.turner@asb.co.nz](mailto:jane.turner@asb.co.nz)  
[mark.smith4@asb.co.nz](mailto:mark.smith4@asb.co.nz)  
[chris.tennent-brown@asb.co.nz](mailto:chris.tennent-brown@asb.co.nz)  
[kim.mundy@asb.co.nz](mailto:kim.mundy@asb.co.nz)  
[judith.pinto@asb.co.nz](mailto: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

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