

Rural Economic Note

Global Dairy Trade Auction

8 January 2020

2020 starts with a hiss and a growl

- Dairy auction prices started 2020 on a positive note.
- Notably, skim milk powder prices have continued their purple patch.
- All up, we remain positive on the dairy outlook and maintain our 2019/20 milk price forecast at \$7.50/kg.

Auction results, 7 January

Dairy auction prices started 2020 positively. Overall prices lifted 2.8%, while key whole milk powder (WMP) prices posted a more modest 1.7% increase.

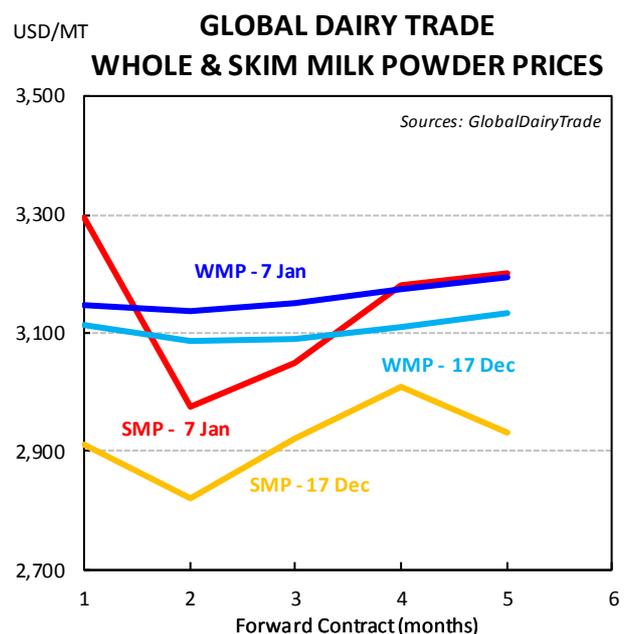
The price lift was also broad-based. All seven products we monitor posted price gains. Casein and butter milk powder prices led the gains, jumping 8.6% and 7.4%, respectively.

Notably, **skim milk powder (SMP) prices also continued their purple patch.** SMP was the best-performing product over 2019, surging around 40% over the year. Weighted average SMP prices lifted 5.4% at this auction and are now snapping at the heels of WMP prices. Indeed, for Contracts 1, 4 and 5 SMP prices exceeded the respective whole milk powder prices (see chart). The Contract 1 SMP price has been below WMP since Mar 2016, for example.

The SMP and broader global dairy price strength is consistent with ongoing tight global dairy supply. With respect to SMP prices, the recent hot run owes to the absence of global stockpiles, which previously had been keeping a lid on prices.

As expected, **auction prices rebounded from the preceding weak previous auction.** We had put the previous price weakness down to a surprise lift in planned auction volumes by Fonterra, signalling a greater proportion of dairy product would be channelled through the auction platform. The price rise at this auction confirms that a knee-jerk reaction to the volume announcement was the driver of the recent price fall rather than any fundamental change in global dairy market dynamics.

Product	% change in index since last auction	Annual % change in index	Weighted Average Price US\$/MT
Whole Milk Powder	1.7%	16.9%	3,150
Skim Milk Powder	5.4%	37.2%	3,026
Anhydrous Milk Fat	2.3%	-3.0%	4,929
Butter	3.7%	-3.7%	4,029
GDT Price Index	2.8%	20.5%	n.a.



Implications

With the above in mind, we remain positive on the dairy outlook and **maintain our 2019/20 milk price forecast at \$7.50/kg.**

Farmgate Milk Price Forecasts

	2019/20		2020/21	Long Run
	Fonterra	ASB	ASB	ASB
Milk Price*	\$7.00-\$7.60	\$7.50	\$7.50	\$6.50-\$7.50

* per kg of milk solids (excluding dividend).

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