

No news is good news

- Dairy prices continued to consolidate overnight.
- And we expect prices to remain firm at or near these levels over coming months.
- All up, the auction result reconfirms our 2016/17 milk price forecast of \$6.50/kg.

Summary

Looking over recent months, **dairy market fundamentals have not changed much.** Supply remains tight, although NZ summer production so far has fared better than the very weak spring. Meanwhile, demand is firm, although risks remain in play. Dairy, like other markets, will continue to fret over the 'Trump factor' and the potential for protectionism impacting on dairy trade.

However at this juncture, no news is good news. **For dairy markets 'no news' is likely to translate into one of those rare periods where prices hold steady at or near current levels.** Of course given that this level is a relatively healthy one by historical standards, this is 'good news' for this year's milk price.

As a result, we reconfirm our 2016/17 milk price forecast of \$6.50/kg. Also, the current market dynamics bode well for a relatively strong start to the 2017/18 season. With that in mind, we note our 2017/18 forecast remains \$6.75/kg.

7 February auction comments

Dairy prices posted a small rise overnight, in contrast to our expectations of a modest fall. For example, WMP prices increased 1%, whereas based on futures pricing we had pencilled in a fall in the 1% to 3% range leading into the auction.

Overall prices ticked up by 1.3%, with milk fat prices pacing the rise; butter and AMF lifted 4.9% and 4.0%, respectively. Meanwhile, SMP prices were flat (up 0.1%).

Since the surge in prices from July to November 2016, prices have consolidated at these higher levels. For example, since the 6 December auction, overall prices have posted two rises and two falls, meaning the majority of the 56% surge remains intact.

From here, we expect prices to track largely sideways. The auction overnight showed good buying interest from key regions such as North Asia (read China), consistent with firm demand at current price levels. Looking at NZ supply, while production has stabilised over recent months, we expect nationwide production to still post a chunky fall this season (of up to 5%).

However, weather remains a production wild card as we move further into the rain scarce months of the season. An official drought has been declared for Northland, though the impact on NZ dairy production is manageable, given Northland's small share of total production (5.6%).

Implications

All up, the auction result reconfirms our 2016/17 milk price forecast of \$6.50/kg. Also, the current market dynamics bode well for relatively strong start to the 2017/18 season. With that in mind, we note our 2017/18 forecast sits at \$6.75/kg.

Season-end Forecasts

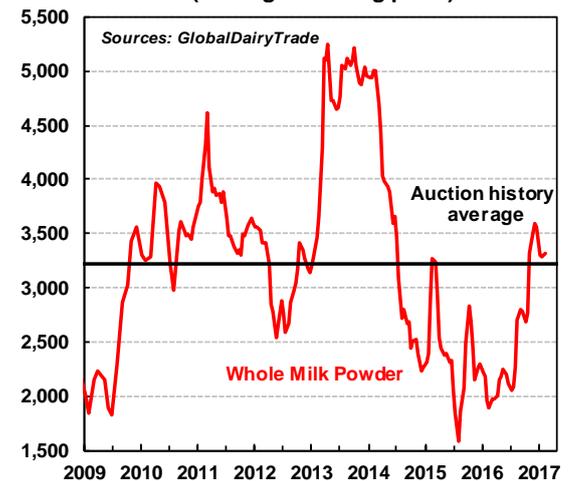
	2016/17		2017/18	Long Run
	Fonterra	ASB	ASB	ASB
Milk Price*	\$6.00	\$6.50	\$6.75	\$6.50-\$7.00

* per kg of milk solids (excluding dividend).

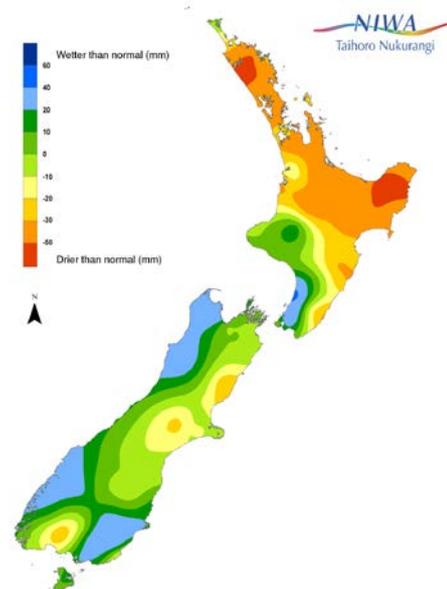
Key Auction Results

Product	% change in index since last auction	Annual % change in index	Weighted Average Price US\$/MT
Whole Milk Powder (WMP)	1.0%	72.4%	3,314
Skim Milk Powder (SMP)	0.1%	47.0%	2,608
Anhydrous Milk Fat (AMF)	4.0%	67.9%	5,765
Butter	4.9%	57.9%	4,593
GDT Price Index	1.3%	60.6%	n.a.

GLOBAL DAIRY TRADE AUCTION (average winning price)



Soil moisture anomaly (mm) at 9am on 07/02/2017



ASB Economics & Research

			Phone
Chief Economist	Nick Tuffley	nick.tuffley@asb.co.nz	(649) 301 5659
Senior Economist	Jane Turner	jane.turner@asb.co.nz	(649) 301 5853
Senior Rural Economist	Nathan Penny	nathan.penny@asb.co.nz	(649) 448 8778
Economist	Kim Mundy	kim.mundy@asb.co.nz	(649) 301 5661
Economist	Daniel Snowden	daniel.snowden@asb.co.nz	(649) 301 5657
Publication & Data Manager	Judith Pinto	judith.pinto@asb.co.nz	(649) 301 5660

<https://reports.asb.co.nz/index.html>

[@ASBMarkets](#)



ASB Economics

ASB North Wharf, 12 Jellicoe Street, Auckland

Important Disclosures

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.