

Rural Economic Note

Global Dairy Trade Auction

8 April 2020

Jury's still out

- Dairy auction prices lifted overnight, breaking a run of four consecutive price falls.
- However, it took a large (seasonal) fall in auction quantities sold to generate the price lift.
- While we won't look a gift horse in the mouth, we remain cautious on the global market outlook as evidenced by recent our 20/21 milk price forecast revision down to \$6.50/kg.

Auction results, 7 April

Dairy auction prices rose overnight, breaking a run of four consecutive price falls over February and March.

Key whole milk powder (WMP) prices posted a 2.1% lift, while overall prices rose 1.2%.

The WMP price lift was notably higher than the circa 3% fall indicated by the futures market and a touch higher than our pick ahead of the auction for unchanged prices.

Nonetheless, **dairy prices in USD terms remain materially lower than prior to the COVID-19 virus outbreak.** On a weighted-average basis, overall and WMP prices remain 13.5% and 12.8% lower (respectively) than prior to the outbreak impacting dairy markets (i.e. since late January).

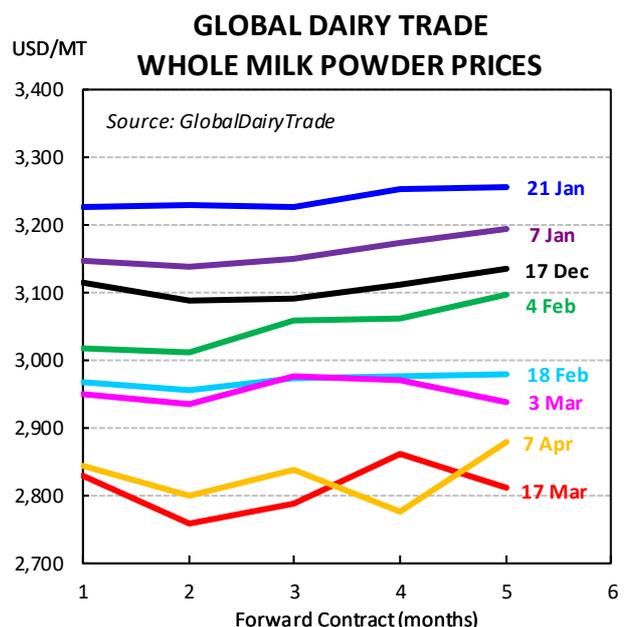
We also take the price lift overnight with a grain of salt.

We argue that the overnight lift was most likely due to the seasonal decline in volumes on top of the recent drought rather than any potential stabilisation of global dairy demand. Indeed, total auction volumes sold were 16.1% lower than at the auction prior. And on the basis of the large volumes fall, the 1.2% overall price lift was noticeably modest.

With the above in mind, **we remain relatively cautious on the global dairy market outlook in light of the COVID-19 developments.**

In other words, we will need to see further price gains or at least no further price falls, before we start to gain confidence that the worst of the outbreak impacts is behind us and that global dairy has stabilised.

Product	% change in index since last auction	Annual % change in index	Weighted Average Price US\$/MT
Whole Milk Powder	2.1%	-12.6%	2,820
Skim Milk Powder	-0.8%	1.6%	2,514
Anhydrous Milk Fat	0.4%	-26.0%	4,345
Butter	4.5%	-21.7%	4,263
GDT Price Index	1.2%	-7.9%	n.a.



Implications

We reflected our relatively cautious view last week in the revision to our 20/21 milk price forecast. Recall that we lowered our forecast to \$6.50/kg, from \$7.50/kg previously (click [here](#) for more details). Note our 19/20 remains set at \$7.30/kg.

Farmgate Milk Price Forecasts

	2019/20		2020/21
	Fonterra	ASB	ASB
Milk Price*	\$7.00-\$7.60	\$7.30	\$6.50

* per kg of milk solids (excluding dividend).

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