

# Rural Economic Note

Global Dairy Trade Auction

16 May 2018

## Double happy

- Butter prices are spiking higher as the global butter shortage becomes acute.
- Meanwhile, the falling NZD/USD is giving dairy prices an additional boost in NZD terms.
- As a result, we see upside to both our 2017/18 and 2018/19 milk price forecasts.

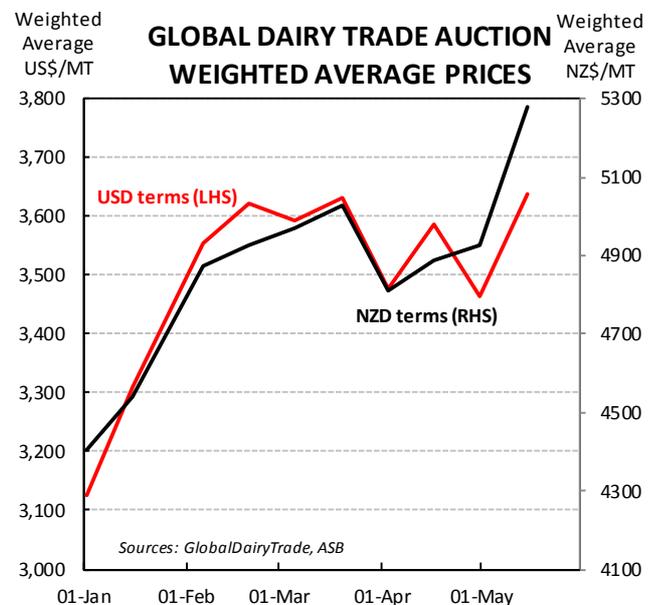
### Summary

Two auctions ago, we highlighted the potential for butter prices to spike over the coming months. Last auction, we focused on the slide in the NZD/USD and the boost that was giving to dairy prices in NZD terms. In this auction, **the two have combined for double the effect.**

First up, **as we anticipated a month ago global butter prices have spiked higher.** The global butter shortage has become more acute on the back of soft NZ production this season. Recall that NZ exports nearly double the amount of butter than the other major exporters combined. Accordingly, butter prices have spiked by around 30% so far this year and are only 4% below the record levels set back in September 2017.

**The recent slide in the NZD/USD has been smaller, but nonetheless significant.** As at the time of writing, the NZD has dipped over 5 cents (7%) against the USD since the April high. **The net effect of the two moves sees has pushed dairy prices in NZD terms to their highest level this year.**

With this in mind, **there is clear potential for our milk price forecasts to move higher (see table on page 2).** While the sharp move lower in the NZD could partially reverse, we are more confident that butter prices will rise further and potentially take other key dairy prices like whole milk powder with it. Meanwhile, Fonterra announces its opening 2018/19 milk price forecast next week. With the above dynamics in mind, **we expect Fonterra to front foot the new season with a healthy forecast of \$6.50/kg or better.**



### Auction Results, 15 May

**Dairy auction prices were firm overnight.** Overall prices rose 1.9%, while whole milk (WMP) powder prices rose a touch (up 0.2%). The WMP price rise was roughly in line with our expectations for no change.

**Meanwhile, milk fat prices were strong overnight as the global butter shortage becomes acute.** Anhydrous Milk Fat

prices jumped 5.8%, while butter prices rose 2.4%. Moreover, both prices are now within striking distance of last year’s record highs. Indeed, we expect fresh record highs over the winter months.

Looking at other products, skim milk powder rose 3%, while cheddar posted a solid 4.4% gain. In contrast, casein dipped 6.1%. All up, five out of the six products we monitor posted gains. Butter milk powder was not offered this auction.

Looking at other key market factors, **NZ production has been soft this season**. Our 2017/18 production growth forecast is -1%. Moreover, the seasonal lull in NZ production is upon us, with May, June and July accounting for just 6% for annual production.

With this in mind, **there is clear potential for our milk price forecasts to move higher**. While the sharp move lower in the NZD could partially reverse, we are more confident that butter prices will rise further and potentially take key dairy prices like whole milk powder with it. Notably, Fonterra announces its opening 2018/19 milk price forecast next week. With the above in mind, **we expect Fonterra to front foot the new season with a healthy forecast of \$6.50/kg or better**. We will preview the Fonterra announcement next week and update our own milk price forecasts for 2017/18 and 2018/19.

### Farmgate Milk Price Forecasts

	2017/18		2018/19	Long Run
	Fonterra	ASB	ASB	ASB
Milk Price*	\$6.55	\$6.55	\$6.50	\$6.50-\$7.00

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

#### ASB Economics & Research

Chief Economist  
Senior Rural Economist  
Senior Economist  
Senior Economist  
Senior Economist, Wealth  
Economist  
Data & Publication Manager

Nick Tuffley [nick.tuffley@asb.co.nz](mailto:nick.tuffley@asb.co.nz)  
Nathan Penny [nathan.penny@asb.co.nz](mailto:nathan.penny@asb.co.nz)  
Jane Turner [jane.turner@asb.co.nz](mailto:jane.turner@asb.co.nz)  
Mark Smith [mark.smith4@asb.co.nz](mailto:mark.smith4@asb.co.nz)  
Chris Tennent-Brown [chris.tennent-brown@asb.co.nz](mailto:chris.tennent-brown@asb.co.nz)  
Kim Mundy [kim.mundy@asb.co.nz](mailto:kim.mundy@asb.co.nz)  
Judith Pinto [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

[www.asb.co.nz/economics](http://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.