

Rural Economic Note

Global Dairy Trade Auction

16 October 2019

Nearing the nitty gritty

- Overall dairy auction prices firmed a touch overnight.
- We wait for NZ spring production data to provide further direction for global dairy prices.
- We suspect that spring production growth may underwhelm global dairy markets, putting upward pressure on prices over the remainder of 2019.

Auction results, 15 October

Overall dairy auction prices firmed a touch auction overnight. For the record, overall prices lifted 0.5%.

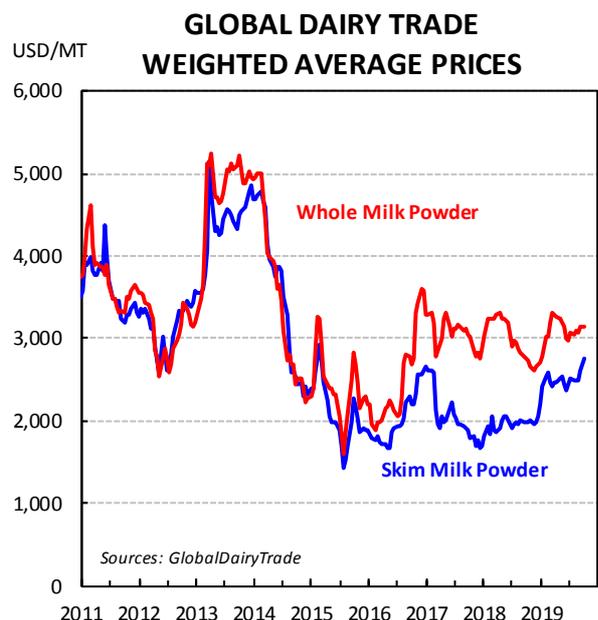
Flat whole milk powder (WMP) prices were a touch softer than our expectations. We had expected a 1% WMP price lift, while futures pricing had pointed to a similar lift.

Skim milk powder and casein prices led the price gains, rising 2.4% and 3.6%, respectively. Cheddar headed the other way, dipping 2.2%. Most other products posted small price movements either side of zero.

Global dairy supply remains tight, particularly in the EU, US and Australia. Looking ahead, NZ spring production will be key in determining the direction for global dairy prices. At this stage, we expect flat production for the 2019/20 season. This season's production to August running 3.8% ahead of this time last season. However, more recent evidence indicates that production is slowing on annual growth basis in line with our expectations.

If our production forecast proves close to the mark, **then global dairy prices are likely to firm over the remainder of 2019.** September production data will be available next week, with October following the same time next month. It's likely that these data will set the tone for dairy markets over coming auctions.

Product	% change in index since last auction	Annual % change in index	Weighted Average Price US\$/MT
Whole Milk Powder	0.0%	15.4%	3,133
Skim Milk Powder	2.4%	38.0%	2,743
Anhydrous Milk Fat	0.8%	-0.4%	5,065
Butter	-0.4%	0.6%	4,105
GDT Price Index	0.5%	21.0%	n.a.



Meanwhile, global dairy prices remain relatively resilient in the wake of the increasingly shambolic geo-political

backdrop and slowing global growth. China is the world’s biggest dairy importer and home to the largest group of participants on the dairy auction platform. Its growth has been slowing over 2019 and the purchasing power of its currency has also weakened recently as the US-China tariff tit-for-tat has snowballed. Nonetheless, the Chinese household sector and its food purchases are faring better than other parts of the economy. The relative strength of the Chinese household sector appears one key factor underpinning global dairy prices.

Implications

Following the auction overnight, we reaffirm our 2019/20 milk price forecast of \$7.00/kg. Meanwhile, the Fonterra forecast range is \$6.25/kg to \$7.25/kg. Applying a similar range as Fonterra puts our forecast in a \$6.50/kg to \$7.50/kg range. As noted above, a wide forecast range remains appropriate for now as it is still early in the NZ production season and global risks remain high.

Farmgate Milk Price Forecasts

	2019/20		Long Run
	Fonterra	ASB	ASB
Milk Price*	\$6.25-\$7.25	\$7.00	\$6.50-\$7.00

* per kg of milk solids (excluding dividend).

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