

Rural Economic Note

Global Dairy Trade Auction

17 April 2019

Butter up

- Butter prices have skyrocketed this year.
- This price lift reflects the sudden slowdown in NZ production and robust demand.
- The very tight butter (milk fat) market suggests upside to our \$7.00/kg milk price forecasts for 2019/20.

Summary

Butter prices are surging. Since the start of the year, butter prices have jumped a whopping 42%. In fact, in the auction overnight, butter recorded its tenth consecutive price gain.

The lift reflects an abrupt tightening in global milk fat (butter) markets. NZ is the largest butter exporter and the sudden slowdown in NZ production has put the squeeze on milk fat markets. Indeed, hot and dry weather over late summer and autumn slammed the brakes on NZ production growth.

In addition, global milk fat demand is robust. Over the past few years, demand for butter has lifted as the perception that it is 'unhealthy' has changed. Also, NZ butter has found new markets, with muddy buns one popular product in the now large Chinese butter market.

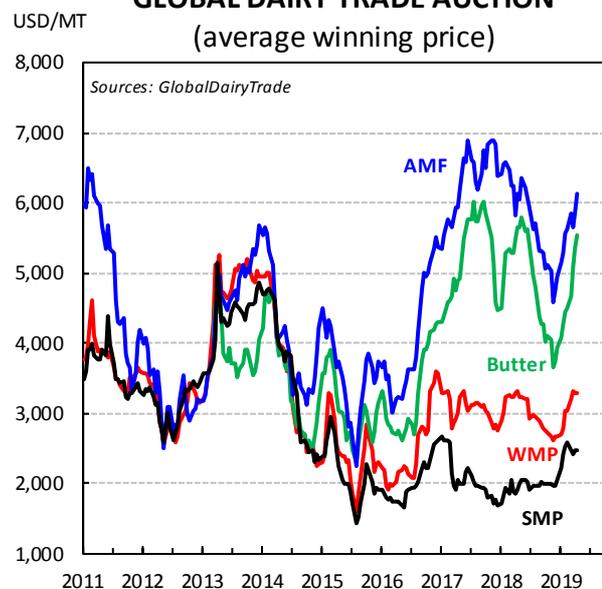
This butter price surge is another indicator of the tightness in global dairy markets. Indeed, with NZ production growth now well passed its peak and production offshore already weak, we expect dairy prices to continue to move towards a cyclical peak over 2019. **All up, this suggests a strong start to the 2019/20 season and upside to our \$7.00/kg milk price forecast.**

Auction results, 16 April

Overall dairy auction prices lifted a touch overnight. The price lift was fairly broad-based, with five out of the seven products that we monitor posting gains.

However, **key whole milk powder (WMP) prices bucked the positive trend**, dipping 0.7%. That said, the fall was

GLOBAL DAIRY TRADE AUCTION
(average winning price)



Product	% change in index since last auction	Annual % change in index	Weighted Average Price US\$/MT
Whole Milk Powder	-0.7%	0.4%	3,269
Skim Milk Powder	0.2%	26.4%	2,462
Anhydrous Milk Fat	4.2%	0.9%	6,126
Butter	3.5%	-0.9%	5,544
GDT Price Index	0.5%	2.3%	n.a.

broadly in line with expectations and despite this week’s result, prices have lifted over 20% this year.

Butter and anhydrous milk fat prices led the gains, jumping 3.5% and 4.2% overnight. Indeed, butter, and anhydrous milk fat prices have been on a tear so far over 2019, posting gains of between 24% and 42%. Indeed, while the whole milk powder market has largely factored in the sudden slowdown in NZ dairy production, butter and milk fat markets have been slower to react.

Looking further ahead, **we note that NZ production growth has passed its cyclical peak, while production growth for other dairy exporters is already weak.** Moreover, the spike in butter prices indicates that overall dairy demand remains robust and likely to underpin prices over the year.

All up and as we have noted in our previous reports, the combination of these factors point to dairy prices moving towards a cyclical peak over 2019.

Implications

The auction result reinforces our **2018/19 milk price forecast of \$6.60/kg.** Similarly, we continue to see upside risks to our **already-bullish 2019/20 milk price forecast of \$7.00/kg.** However, we point out the obvious in that the 2019/20 season has yet to begin. Hence, this forecast comes with a very wide range.

Farmgate Milk Price Forecasts

	2018/19		2019/20	Long Run
	Fonterra	ASB	ASB	ASB
Milk Price*	\$6.30-\$6.60	\$6.60	\$7.00	\$6.50-\$7.00

* per kg of milk solids (excluding dividend).

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