

Rural Economic Note

Global Dairy Trade Auction

18 April 2018

Butter price squeeze back on

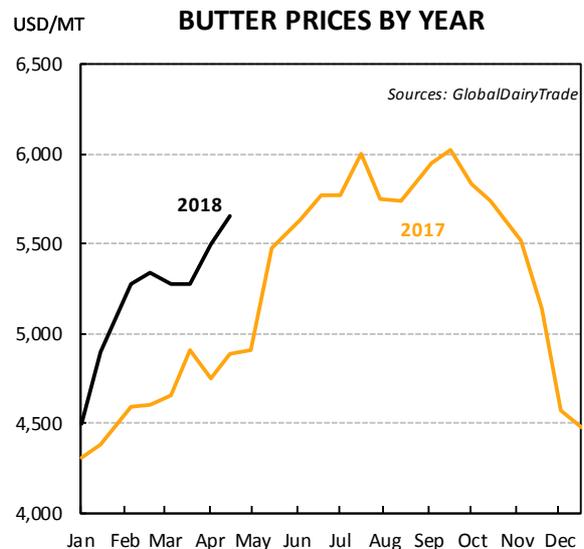
- The squeeze is back on butter prices.
- Butter prices are already ahead of where they were this time last season and the seasonal lull in NZ production is still to come.
- As a result, we anticipate that butter prices will set fresh record highs over coming months.

Summary

The squeeze is back on global butter prices. Butter prices have lifted 27% so far this year and are well ahead of the where they were this time last year. Moreover, butter prices are only 5% below the record levels set back in September 2017.

Indeed, **we anticipate butter prices will shatter last year's records over coming months.** This expectation is based on the fact that NZ is the world's leading butter exporter, exporting more than 1.5 times the amount of butter of other leading dairy exporters (EU, the US, Australia and Argentina) combined. With this in mind, it's no coincidence that butter prices peaked last year during the period where NZ production and exports are at their weakest i.e. over the NZ winter and early spring. All up, it still appears that the world faces an ongoing shortage of milk fat.

This milk fat price strength bodes well for our milk price forecasts. We see upside to our 2017/18 milk price forecast of \$6.55/kg. Moreover, the price strength also points to a solid start to the new season, with our 2018/19 milk price currently set at \$6.50/kg.



Auction Results, 17 April

Dairy prices were firm overnight. Prices rose across the board, with overall auction prices lifting 2.7%.

Meanwhile, the 0.9% whole milk powder price lift was bang in line with our expectations. We had expected prices to rise by around 1%, while futures pricing had pointed to a similar rise.

Looking at other products, milk fat prices were strong. AMF prices jumped 5.3% after last auction's fall, while butter prices rose 2.9%. Notably, milk fat prices remain very high, with butter prices fast closing in on last year's record

highs. Meanwhile, SMP prices lifted 3.6%.

All up, this auction result hints at strong global demand. And with NZ production still relatively weak heading into winter, **we expect prices, if anything, to creep a little higher over coming months.**

All up, **the result hints at upside to our \$6.55/kg milk price forecast for 2017/18 and also bodes well for a solid start to 2018/19.** At this stage, we have pencilled in \$6.50/kg for next season.

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).

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