

Rural Economic Note

Global Dairy Trade Auction

18 July 2018

It could be worse

- Overall dairy auction prices dipped modestly overnight.
- As dairy markets remain nervous around the US-China trade tensions.
- However, when you factor in currency movements the recent price moves could have been worse.

Summary

Dairy markets remain nervous about US-China trade tensions.

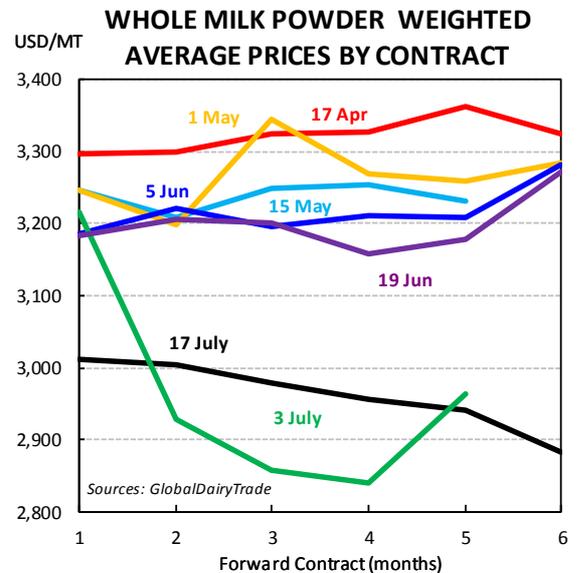
Last night's overall auction price fall was the fourth in a row. Moreover, the fall compounded the large 5% dip at the previous auction.

However, there were signs that the market was stabilising.

Both whole and skim milk powder prices rose. The 9% overall fall in the past two months is a modest move by historical auction standards where 20% is more akin to significant move.

All things considered, **this downward move to date could have been worse**. In particular, it seems that relatively healthy global dairy demand is still underpinning prices. In addition, a large chunk of the downward price move to date can be explained by lower currencies in key dairy markets. For example, the Chinese yuan is down over 5% against the USD over the 2-month period.

Nonetheless, **we expect that dairy market nervousness is likely to continue in the short term, particularly as the trade tensions could escalate further**. For now, though, watch this space!



Auction Results, 17 July

Dairy auction prices dipped overnight, posting the fourth consecutive price fall. The fall came on top of the 5.0% slide at the previous auction.

However, **by product the auction was more mixed**. Key whole milk powder (WMP) prices rose 1.5%, while skim milk powder prices rose 0.8%. The WMP price rise also contrasted with the small fall priced in by the futures market ahead of the auction.

Product	% change in index since last auction	Annual % change in index	Weighted Average Price US\$/MT
Whole Milk Powder	1.5%	-3.7%	2,973
Skim Milk Powder	0.8%	-6.4%	1,959
Anhydrous Milk Fat	-5.2%	-14.3%	5,629
Butter	-8.1%	-18.9%	4,953
GDT Price Index	-1.7%	-10.6%	n.a.

Meanwhile, milk fat prices continued to slide. Butter prices slid 8.1%, while anhydrous milk fat (AMF) prices dipped 5.2%. Butter prices are now 14.2% lower than back in late May.

In addition, some prices by contract hint at temporary uncertainty rather than a fundamental change in demand. For example, AMF contract prices were highest for later-dated contracts. This hints that medium-term demand remains firm.

Implications

We stick with our 2018/19 milk price forecast of \$6.50/kg, although note the increased risks around the US-China trade tensions. Indeed, we maintain a close watching brief on US-China trade developments and the potential for further fallout in dairy markets.

Farmgate Milk Price Forecasts

	2017/18	2018/19		Long Run
	Fonterra/ASB	Fonterra	ASB	ASB
Milk Price*	\$6.75	\$7.00	\$6.50	\$6.50-\$7.00

* per kg of milk solids (excluding dividend).

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