

Rural Economic Note

Global Dairy Trade Auction

18 September 2019

Dairy calm in the global storm

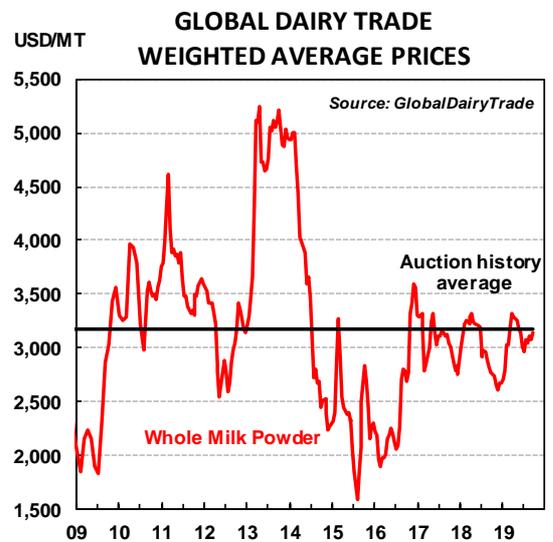
- Dairy auction prices posted modest price gains overnight.
- Notably, global dairy markets remain healthy despite slowing global growth and the US-China trade war.
- The result overnight reaffirms our 2019/20 milk price forecast of \$7.00/kg.

Dairy auction prices lifted modestly overnight. Key whole milk powder (WMP) prices gained 1.9%, while overall auction prices lifted 2%.

Notably, global dairy markets remain relatively healthy despite slowing global growth and the ongoing US-China trade war. Weighted average WMP prices, for example, effectively sit at their historical auction average. Furthermore, WMP prices have been above US\$3,000/MT in all but three of 18 auctions to date this year.

We anticipate that global dairy markets will remain relatively stable this season despite these global headwinds. Indeed, global dairy supply remains tight and supportive of dairy prices. In addition, we expect food markets like dairy to remain resilient, particularly in important markets like China – the Chinese household sector is growing faster than the rest of the Chinese economy, while food purchases (including for most dairy products) are less susceptible to general economic slowdowns.

With that in mind we maintain our relatively bullish 2019/20 milk price forecast of \$7.00/kg. That said, we note that it is still relatively early days in the season.



Auction results, 17 September

Overall dairy auction prices rose 2.0% at the auction overnight. The result provided a welcome offset to previous auction results, with overall prices having fallen at the last three auctions.

The price strength was broad-based. Five out of the six products we monitor posted gains. Skim milk powder prices led the gains, rising 3.4%, while butter prices also lifted

Product	% change in index since last auction	Annual % change in index	Weighted Average Price US\$/MT
Whole Milk Powder	1.9%	13.3%	3,133
Skim Milk Powder	3.4%	30.7%	2,599
Anhydrous Milk Fat	0.6%	-4.6%	5,030
Butter	2.7%	-2.5%	4,129
GDT Price Index	2.0%	18.7%	n.a.

2.7%. Meanwhile, key whole milk powder prices posted a 1.9% rise, more than reversing the fall at the previous auction.

Global dairy prices have remained 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 dairy prices.

Meanwhile, global dairy supply remains tight, particularly in the northern hemisphere 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. Notably, winter has been relatively kind to farmers. On the other hand, production last spring was very strong, so a kind winter may still not be enough for production to match last year’s levels.

Implications

Following the auction overnight, we reaffirm our 2019/20 milk price forecast of \$7.00/kg. Meanwhile, 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

	2018/19	2019/20		Long Run
	Fonterra/ASB	Fonterra	ASB	ASB
Milk Price*	\$6.30-\$6.40	\$6.25-\$7.25	\$7.00	\$6.50-\$7.00

* per kg of milk solids (excluding dividend).

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