

# Rural Economic Note

Global Dairy Trade Auction

19 September 2018

## NZD cushioning dairy drop

- Dairy prices posted a broad-based fall overnight.
- Although, the fall was less than expected.
- All up, we maintain our 2018/19 milk price forecast of \$6.50/kg, but note downside risks.

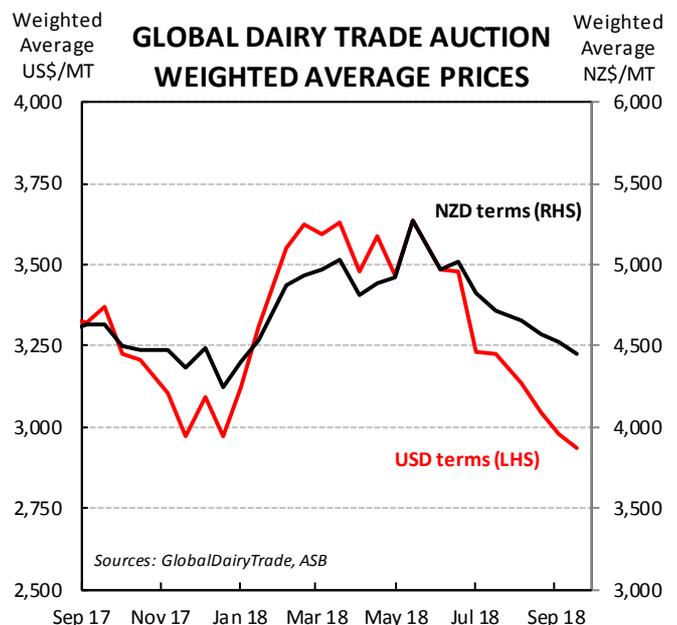
### Summary

**Dairy prices continue to drift lower.** Overnight prices fell for the seventh time in eight auctions. Moreover, in annual change terms, prices are 14.8% below this time last year.

For now though, **the weaker NZD is doing enough to offset the largest part of this fall.** Over the same period, prices in NZD terms are a modest 3.7% lower.

From here, **NZ production will be a key factor for the direction of dairy prices over the remainder of the season.** With that in mind, the weather has been favourable and early season production numbers have been positive so far.

**We anticipate production growth of 2% compared to last season.** Production growth in excess of this level would likely lead to additional price weakness and vice versa. Indeed, **our \$6.50/kg 2018/19 milk price forecast is also based on our 2% production growth forecast.**



### Auction Results, 18 September

**Dairy auction prices drifted 1.3% overall overnight.**

Overall prices have now fallen in seven out of the last eight auctions, and are down 14.1% over that period.

**The price weakness was broad-based, with five out of the six products we monitor posting falls.** Key whole milk powder (WMP) dipped 1.8%, while skim milk powder prices slipped 1.1%. The WMP price fall was more modest than the fall signalled by the futures market ahead of the auction – futures had pointed to a circa 5% fall.

Product	% change in index since last auction	Annual % change in index	Weighted Average Price US\$/MT
Whole Milk Powder	-1.8%	-9.2%	2,768
Skim Milk Powder	-1.1%	-1.8%	1,980
Anhydrous Milk Fat	-0.6%	-21.6%	5,294
Butter	-0.1%	-29.2%	4,270
GDT Price Index	-1.3%	-14.8%	n.a.

**In annual change terms, overall prices have fallen 14.8%.** Moreover, overall prices are now at their lowest since October 2016 in USD terms. **In NZD terms, however, the annual fall is much more modest 3.7%.**

**In the short-term, we expect dairy prices to remain soft.** NZ is approaching its seasonal peak in production in October and in line with this peak auction volumes are also increasing. This additional auction product will keep the downward pressure on prices.

Looking over the rest of the season, broader NZ production trends will be a key factor for prices. At this stage we anticipate NZ production growth of 2% for this season compared to last. Production growth in excess of this level would likely lead to additional price weakness and vice versa.

## Implications

**For now, we stick with our 2018/19 milk price forecast of \$6.50/kg, but continue to note the downside risks.**

## Farmgate Milk Price Forecasts

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

\* per kg of milk solids (excluding dividend).

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