

# Rural Economic Note

Global Dairy Trade Auction

19 December 2018

## Ending 2018 on a positive note

- Dairy prices end 2018 on a positive note.
- Despite the rise, dairy prices end 2018 weaker than where they started.
- Moreover, with the NZ production outlook still strong, dairy prices are likely to start 2019 soft.

### Summary

**Christmas pudding will taste just that little bit better following the positive dairy auction result overnight.** After all, prices rose across the board.

**Even so, dairy prices remain under pressure.** Despite the recent pick up, prices have fallen over 17% since the start of the 2018/19 season.

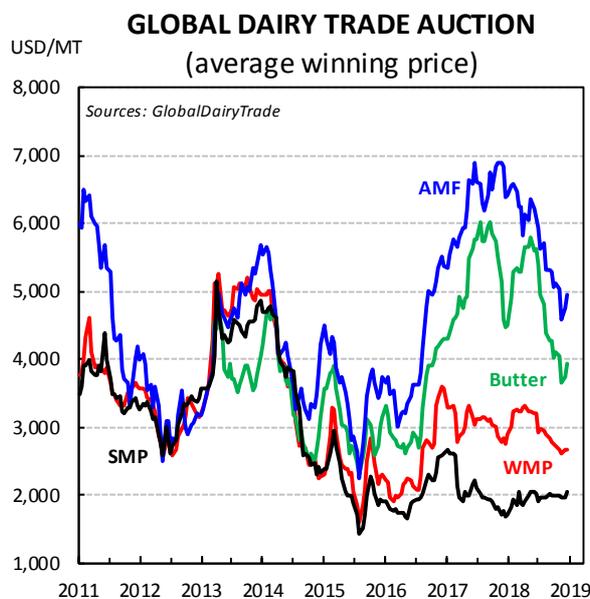
Moreover, **the catalyst for the fall so far this season remains in play.** That is, NZ dairy production remains very strong. And if anything, recent rain could mean that NZ production is particularly strong over this summer.

With that in mind, **farmers need to keep one eye on dairy prices over the holiday period.** Indeed, while we reconfirm our milk price forecast at \$6.00/kg, we also note that our 30-cent forecast range is \$5.85-\$6.15/kg.

### Auction Results, 18 December

**Dairy auction prices lifted 1.7% overall overnight.** The lift follows a similar lift at the previous auction, although that rise followed seven consecutive price falls. So despite the rise, overall prices remain 17.4% lower than as at the start of the 2018/19 season.

**The price lift was also broad-based.** Five out of the six products we monitor posted gains. Milk fat prices led the way, with butter and anhydrous milk fat jumping 4.9% and 4.0%, respectively. Skim milk powder prices were also firm, lifting 3.4%. Meanwhile, whole milk powder (WMP) prices were largely unchanged (up 0.3%), and only casein prices fell (down 2.1%).



Product	% change in index since last auction	Annual % change in index	Weighted Average Price US\$/MT
Whole Milk Powder	0.3%	-1.4%	2,674
Skim Milk Powder	3.4%	15.1%	2,042
Anhydrous Milk Fat	4.0%	-22.7%	4,936
Butter	4.9%	-11.8%	3,928
GDT Price Index	1.7%	-5.9%	n.a.

However, the auction result continued the recent pattern of undershooting futures pricing ahead of the auction. Futures had indicated a whole milk powder lift of 3% or above. Indeed, the 0.3% rise was much closer to our expectation for no change.

This “no change” WMP result is line with the unchanged NZ production outlook. Specifically, NZ production remains strong and we expect that this picture is unlikely to change in the short term.

Moreover, we expect that the strength of NZ production will continue to keep downward pressure on dairy prices (and in particular WMP prices) over next few months. We suspect that the recent rain and growing conditions mean that the risk is that production growth strengthens further from its already-strong position. Recall that October production was at an all-time high.

## Implications

We reconfirm our 2018/19 milk price forecast at \$6.00/kg. Also, for comparison with Fonterra’s forecast, our 30-cent forecast range would be \$5.85-\$6.15/kg.

## Farmgate Milk Price Forecasts

	2018/19		Long Run
	Fonterra	ASB	ASB
Milk Price*	\$6.00-\$6.30	\$6.00	\$6.50-\$7.00

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

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