

# Rural Economic Note

Global Dairy Trade Auction

20 May 2020

## Mixed bag

- Dairy auction prices were a mixed bag overnight.
- Overall, global dairy prices are largely directionless as markets wait for a clearer COVID-19 picture.
- We maintain our cautiously optimistic milk price view, but continue to note that risks remain very high.

### Auction results, 19 May

**Dairy auction prices were a mixed bag overnight.** Overall prices posted a 1.0% gain, while key whole milk powder (WMP) prices fell 0.5%. Out of the six products we monitor, there were two price rises and four price falls.

**Skim milk powder prices led the gains, jumping 6.7% overnight.** However, skim milk powder prices remain weak overall, falling over 20% since January. Meanwhile, cheese prices dipped 6.0%. Milk fat prices were mixed, with the anhydrous milk fat price lift of 2.7%, contrasting with butter’s 1.9% fall.

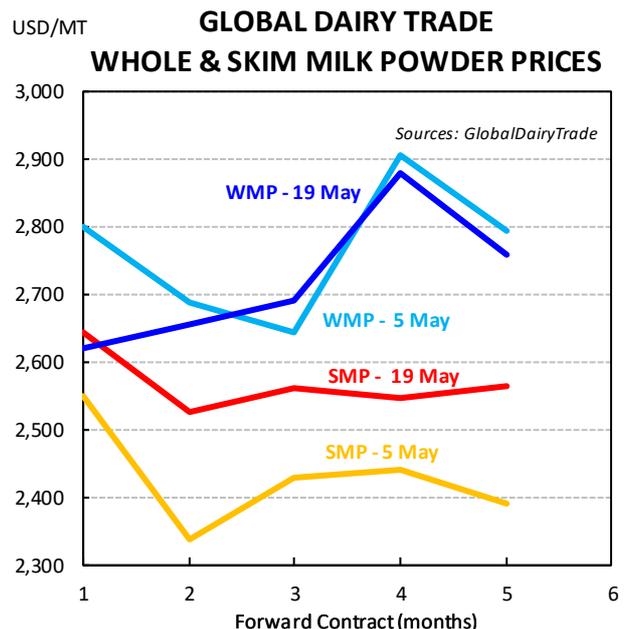
**The WMP price move was largely in line with our expectations.** We had expected a 1% fall. Meanwhile, the result was better than indicated by the futures market; ahead of the auction, WMP futures had pointed to a 6% fall.

At this juncture, **global dairy prices seem to be trading water as markets wait for a more definitive steer on the impacts of COVID-19.** There is some hint that prices may lift over coming months as the later dated contracts are still trading at a premium to near-dated ones (see chart). Nonetheless, markets remain wary and will look for stronger recovery signals before bidding prices higher (or lower).

### Implications

Given the 19/20 season has nearly ended, we expect minor movements in the 19/20 milk price from here. For now, we have adopted the midpoint of Fonterra’s forecast (\$7.30/kg) and will continue to align with their forecast as they

Product	% change in index since last auction	Annual % change in index	Weighted Average Price US\$/MT
Whole Milk Powder	-0.5%	-13.5%	2,677
Skim Milk Powder	6.7%	-0.4%	2,549
Anhydrous Milk Fat	2.7%	-33.8%	4,079
Butter	-1.9%	-30.3%	3,803
GDT Price Index	1.0%	-11.5%	n.a.



make further updates. However, a much wider range of milk price results is possible for the 20/21 season. For now, we retain our cautiously optimistic \$6.50/kg forecast, but note the downside risks and continue to suggest that farmers start contingency planning for the possibility of a sub-\$6.00/kg milk price for the 20/21 season.

### Farmgate Milk Price Forecasts

	2019/20		2020/21
	Fonterra	ASB	ASB
Milk Price*	\$7.00-\$7.60	\$7.30	\$6.50

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

#### ASB Economics & Research

Chief Economist  
Senior Rural Economist  
Senior Economist  
Senior Economist  
Senior Economist, Wealth  
Senior Economist  
Data & Publication Manager

Nick Tuffley  
Nathan Penny  
Jane Turner  
Mark Smith  
Chris Tennent-Brown  
Mike Jones  
Judith Pinto

[nick.tuffley@asb.co.nz](mailto:nick.tuffley@asb.co.nz)  
[nathan.penny@asb.co.nz](mailto:nathan.penny@asb.co.nz)  
[jane.turner@asb.co.nz](mailto:jane.turner@asb.co.nz)  
[mark.smith4@asb.co.nz](mailto:mark.smith4@asb.co.nz)  
[chris.tennent-brown@asb.co.nz](mailto:chris.tennent-brown@asb.co.nz)  
[mike.jones@asb.co.nz](mailto:mike.jones@asb.co.nz)  
[judith.pinto@asb.co.nz](mailto:judith.pinto@asb.co.nz)

#### Phone

(649) 301 5659  
(649) 448 8778  
(649) 301 5853  
(649) 301 5657  
(649) 301 5915  
(649) 301 5661  
(649) 301 5660

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