

# Rural Economic Note

Global Dairy Trade Auction

20 June 2018

## Late season production rally

- NZ 2017/18 production ends marginally down on 2016/17, helped by a late-season rally.
- The late-season rally and recent US dollar strength have taken some of heat out of dairy prices in USD terms.
- In particular, very supply-constrained global butter markets have welcomed the additional production.

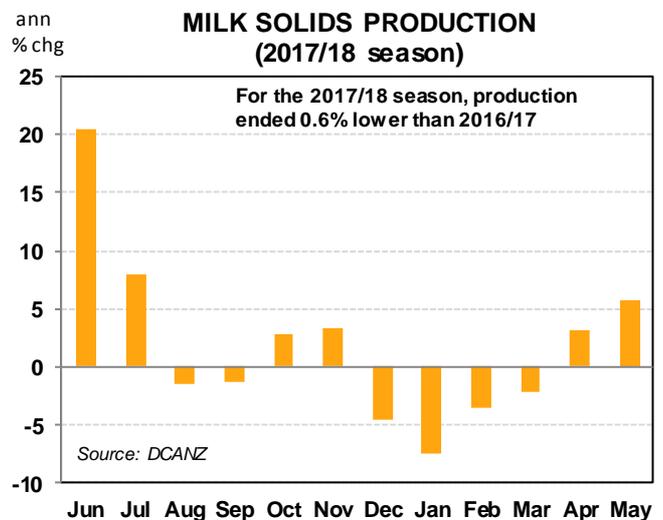
### Summary

**All things considered, this season's NZ production result could have been much worse.** Recall that the spring was marred by very wet weather, which was then followed by drought in some parts of the country over the summer months. Indeed, over the summer months production was particularly weak, with four consecutive months where production was negative in annual change terms.

However, a late rally in NZ production over April and May has seen 2017/18 production end only marginally lower than 2016/17. May production exceeded May 2017 by 5.7%. All up, this meant the season's production ended only 0.6% lower than 2016/17.

**This late production rally appears to have flowed through to a touch of price softness in recent auctions.** Indeed, auction prices have fallen over two consecutive auctions as April and May production data were firm on an annual change basis.

That all said, dairy prices have started the new season on a firm footing, while the NZD/USD has also helpfully dipped back below 0.70 over the last week or two. All up and at this early stage, this points to second successive firm milk price. **We maintain our \$6.50/kg 2018/19 forecast at this stage.**



### Auction Results, 19 June

**Dairy auction prices were soft overnight for the second consecutive auction.** Overall prices fell 1.2%. Similarly, whole milk powder prices fell 1.0%, which was near the fall indicated by futures pricing heading in.

**We suspect that this price weakness was driven a combination of the late season rally in production and a**

Product	% change in index since last auction	Annual % change in index	Weighted Average Price US\$/MT
Whole Milk Powder	-1.0%	5.3%	3,189
Skim Milk Powder	-1.1%	-9.9%	2,003
Anhydrous Milk Fat	-2.5%	-11.5%	6,060
Butter	0.8%	-5.0%	5,611
GDT Price Index	1.2%	-4.4%	n.a.

**stronger USD dollar.** As mentioned above, May production was firm on an annual basis, coming in 5.7% above 2016/17 level. In addition, the US Dollar Index has lifted around 1% since the last auction, making dairy more expensive in most buyers' local currency terms.

**Meanwhile, milk fat prices, including butter, were mixed.** Anhydrous milk fat prices dipped 2.5%, while butter prices rose 0.8%. Notably, butter prices, despite their rise, have dipped below their level at the same stage last year. That said, prices remain very high, indicative of the ongoing global shortage.

## Implications

For now, **we maintain our 2018/19 milk price forecast of \$6.50/kg.** Indeed, despite the auction price fall overnight, the 'spot milk price' remains above \$7.00/kg. This spot milk price highlights that the 2018/19 season has started on a solid footing. However, we anticipate prices will moderate over the course of the spring peak in NZ production.

## 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).

### ASB Economics & Research

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

Nick Tuffley  
Nathan Penny  
Jane Turner  
Mark Smith  
Chris Tennent-Brown  
Kim Mundy  
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)  
[kim.mundy@asb.co.nz](mailto:kim.mundy@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

[www.asb.co.nz/economics](http://www.asb.co.nz/economics)

[@ASBMarkets](https://twitter.com/ASBMarkets)

## Disclaimer

This document is published solely for informational purposes. It has been prepared without taking account of your objectives, financial situation, or needs. Before acting on the information in this document, you should consider the appropriateness and suitability of the information, having regard to your objectives, financial situation and needs, and, if necessary seek appropriate professional or financial advice.

We believe that the information in this document is correct and any opinions, conclusions or recommendations are reasonably held or made, based on the information available at the time of its compilation, but no representation or warranty, either expressed or implied, is made or provided as to accuracy, reliability or completeness of any statement made in this document. Any opinions, conclusions or recommendations set forth in this document are subject to change without notice and may differ or be contrary to the opinions, conclusions or recommendations expressed elsewhere by ASB Bank Limited. We are under no obligation to, and do not, update or keep current the information contained in this document. Neither ASB nor any person involved in the preparation of this document accepts any liability for any loss or damage arising out of the use of all or any part of this document.

Any valuations, projections and forecasts contained in this document are based on a number of assumptions and estimates and are subject to contingencies and uncertainties. Different assumptions and estimates could result in materially different results. ASB does not represent or warrant that any of these valuations, projections or forecasts, or any of the underlying assumptions or estimates, will be met.