

# Rural Economic Note

Global Dairy Trade Auction

20 December 2017

## Everything has its limit

- Dairy prices ended 2017 on a weak note.
- With price resistance to record high butter (milk fat) prices a likely culprit.
- From here, we expect lower butter prices to start attracting consumers back, stabilising prices as a result.

### Summary

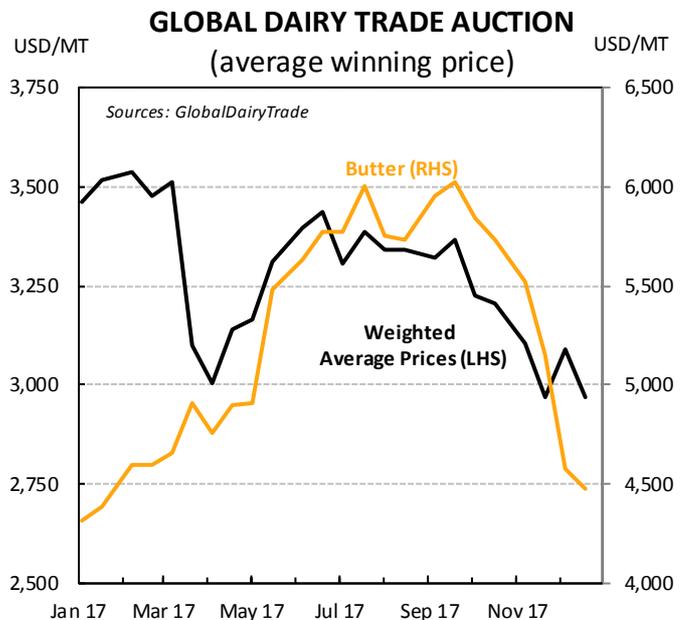
**Butter and milk fat prices had been on a tear over 2017.** Indeed, butter and anhydrous milk fat prices set ten and six auction record highs, respectively, over 2017.

**But there is a limit.** And it appears that this limit was reached over the last three months of 2017.

**In other words, butter and milk fat prices became too high for consumers to bear.** As a result, those consumers have reduced their demand. Some may have switched to butter substitutes like margarine, while others may have simply cut butter from their diets.

Whatever action consumers have taken, **demand appears to have retreated, taking prices with it.** Indeed, in the three months to end the year, butter prices have fallen by over a quarter. Moreover, we suspect that retreating butter prices have dragged general dairy prices lower too.

**From here, we anticipate that butter and general dairy prices will stabilise.** The 25% price fall is likely to encourage consumers to restart their butter purchases again. However, the exact timing of the stabilisation in prices is harder to predict. That said, given the magnitude of the price falls we expect that will occur in early 2018.



### Auction Results, 19 December

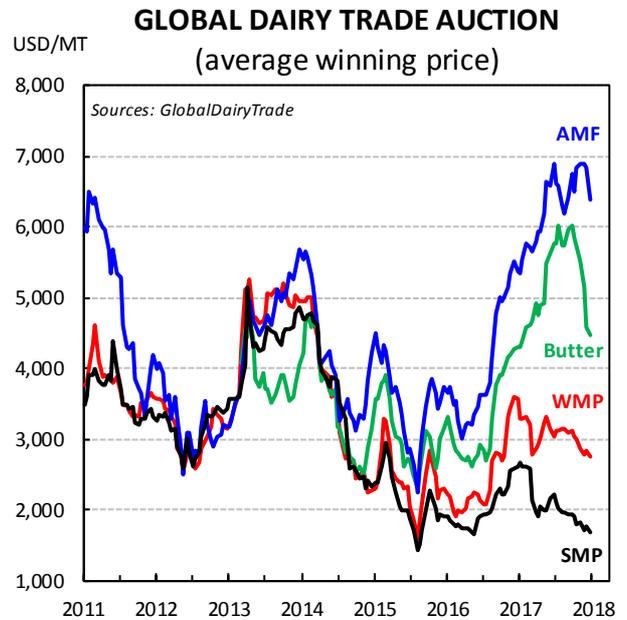
**Dairy prices fell across the board overnight.** Overall prices slid 3.9%, with whole milk powder (WMP) and skim milk powder down 2.5% and 4.8%, respectively. Milk fat prices also retreated further from earlier record highs, with butter dipping 2.3% and anhydrous milk fat (AMF) dipping 6.7%.

The weakness contrasted starkly with futures pricing ahead of the auction. Futures pricing for WMP had pointed to a price lift of around 5%.

**All up, dairy prices have ended 2017 on a weak note.** Overall prices are down 13.2% over the year, while WMP prices have fallen 22.1%. The last three months of the year have been notably weak, with price falls in five of the six auctions.

Meanwhile, **milk fat prices have had a remarkable year.** On top of setting multiple record highs, butter prices lifted 42% from the end of 2016 through to July, before falling 27% to end the year. AMF prices also lifted 30% at one stage.

For now, **we stick with our 2017/18 milk price forecast of \$6.50/kg.** As mentioned above, we expect dairy prices to stabilise in early 2018. That said, the timing of this stabilisation is hard to predict. With that in mind, we will review our milk price forecast in the New Year.



**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)

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