

# Rural Economic Note

Global Dairy Trade Auction

21 February 2018

## You can't keep a good cow down

- Dairy prices were largely unchanged overnight as expected.
- The result follows better NZ weather and an improved production outlook.
- All up, the result is consistent with our 2017/18 milk price forecast of \$6.50/kg.

### Summary

**2017/18's wild weather continued overnight, with the arrival of Cyclone Gita.** The aftermath has included flooding, particularly in northern parts of South Island and storm surges on western parts of the central NZ coasts.

However, **major dairying regions appear to have escaped the worst of the cyclone's impacts.** Assuming that that is the case, dairy market attention will soon switch back to what is an improving NZ production outlook.

Indeed, **the auction result overnight reflects dairy markets cottoning on to the fact that the NZ production outlook is not as bad as first feared.** The improved outlook follows on the back of widespread recent rain.

From here, **we expect prices to ease.** Further improvements in production should put downward pressure on prices. However, with recent price lifts in the bank and the season nearing its end, we reconfirm our 2017/18 milk price forecast of \$6.50/kg.

### Auction Results, 6 February

**Dairy prices were on balance largely unchanged overnight.**

Overall prices fell 0.5%, while key WMP rose 0.3%. Meanwhile, SMP and AMF prices fell 3.0% and 1.9%, respectively. Butter prices, in contrast, continued their recent pick up, rising 1.1% (see results table on page 2).

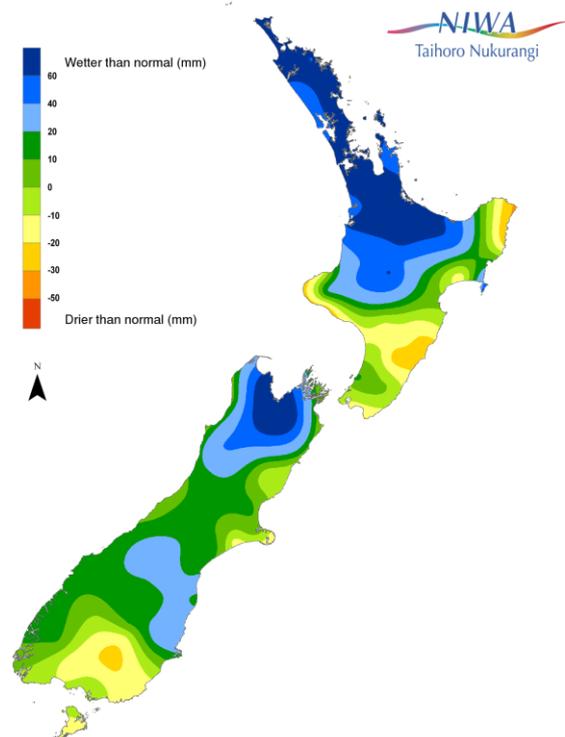
**The results were in line with futures pricing ahead of the auction.** As at yesterday afternoon, futures had indicated a circa 1% WMP price lift at the auction.

### Farmgate Milk Price Forecasts

	2017/18		2018/19	Long Run
	Fonterra	ASB	ASB	ASB
Milk Price*	\$6.40	\$6.50	\$6.50	\$6.50-\$7.00

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

Soil moisture anomaly (mm) at 9am on 20/02/2018



**The result follows better recent NZ weather.** Indeed, most parts of NZ have received rain during January and February.

From here, **we expect prices to ease.** We expect NZ production to improve on the back of the increased rainfall. In turn, this improved production should put downward pressure on prices. With this in mind, in our view is that Fonterra's -3% production growth forecast for this season is overly pessimistic.

Product	% change in index since last auction	Annual % change in index	Weighted Average Price US\$/MT
Whole Milk Powder (WMP)	0.3%	2.5%	3,246
Skim Milk Powder (SMP)	-3.0%	-23.2%	1,832
Anhydrous Milk Fat (AMF)	-1.9%	14.3%	6,458
Butter	1.1%	15.5%	5,334
GDT Price Index	-0.5%	3.5%	n.a.

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