

Rural Economic Note

Global Dairy Trade Auction

21 August 2019

WMP & cheddar prices up, others ease overnight

- Whole milk powder prices rose 2.1% at the latest GDT event overnight, with an average price of \$3,100.
- Cheddar prices also lifted 0.8%, to be up 12% on year-ago levels.
- Other prices eased, with Casein prices down 8.1%.
- All up, we maintain our 2019/20 milk price forecast of \$7.00/kg.

Early days

Gains for whole milk powder and cheddar couldn't quite offset falls in other products, and the GDT price index eased 0.2% overnight. Casein prices were down 8.1%, but even with that decline, prices are still up 25.6% on a year ago, at \$6,348 US\$/MT

The lift in whole milk powder prices is pleasing, given its importance for New Zealand exports. The weighted average price at the latest event was 3,100 US\$/MT.

It's still early days in the season, but following the latest result we maintain our 2019/20 milk price forecast of \$7.00/kg.

Stream	Product	% change in index since last event	Annual % change in index	Weighted Average Price US\$/MT
Milk Powder Stream	Whole Milk Powder (WMP)	2.1%	7.7%	3,100
	Skim Milk Powder (SMP)	-0.3%	26.9%	2,478
	Anhydrous Milk Fat (AMF)	-3.7%	-4.1%	5,061
Mixed Stream	Butter	-3.4%	-7.9%	4,025
	Butter Milk Powder (BMP)	n.a.	0.0%	n.a.
Cheese & Casein Stream	Cheddar	0.8%	12.0%	3,857
	Casein	-8.1%	25.6%	6,348
	GDT Price Index	-0.2%	15.1%	n.a.

Auction results, 20 August

Overall dairy auction prices dipped 0.2% overnight.

Key whole milk powder (WMP) prices lifted by 2.1%. This result was pleasing, given that futures market pricing earlier in the week were suggesting the risk of minor falls. Skim milk powder (SMP) was down 0.3% but is still up 27% for the year.

Butter and anhydrous milk fat declined again, down 3.4% and 3.7% respectively at the latest event. Butter prices have now fallen 28% since April, and are down 8% on a year ago. In contrast, **Casein** prices dipped 8% at the latest event, and are down 16% from highs in June, but are still up significantly on last year's lows.

We maintain our view that tight global dairy markets will continue to be the key driving force of global dairy markets. NZ production growth is past its cyclical peak, while production growth in the other major dairy exporters is soft. On this basis, we anticipate that dairy prices can push towards cyclical highs later in the season.

Accordingly, the NZ spring will be important for setting the direction for prices. If domestic production is soft in the coming season, dairy buyers are likely to be caught short, given many appear to be currently living hand-to-mouth.

Implications

We stick with our 2019/20 milk price forecast of \$7.00/kg. However, we again highlight that it is very early days for the 2019/20 season. Accordingly, our forecasts at this time of the season always come with a very wide range of error. Our \$1.00/kg range is \$6.50/kg to \$7.50/kg at present. Fonterra's forecast range is \$6.25/kg to \$7.25/kg. Also, as noted in earlier reports, we continue to keep a watching brief on the trade war escalation and any material impact on dairy markets beyond the modest impact to date.

Farmgate Milk Price Forecasts

	2018/19	2019/20		Long Run
	Fonterra/ASB	Fonterra	ASB	ASB
Milk Price*	\$6.30-\$6.40	\$6.25-\$7.25	\$7.00	\$6.50-\$7.00

* per kg of milk solids (excluding dividend).

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