

Rural Economic Note

Global Dairy Trade Auction

22 January 2020

Two in a row

- Dairy auction prices continued their positive start to 2020.
- Emerging dry weather could put further upward pressure on dairy prices.
- All up, we maintain our 2019/20 milk price forecast at \$7.50/kg.

Auction results, 21 January

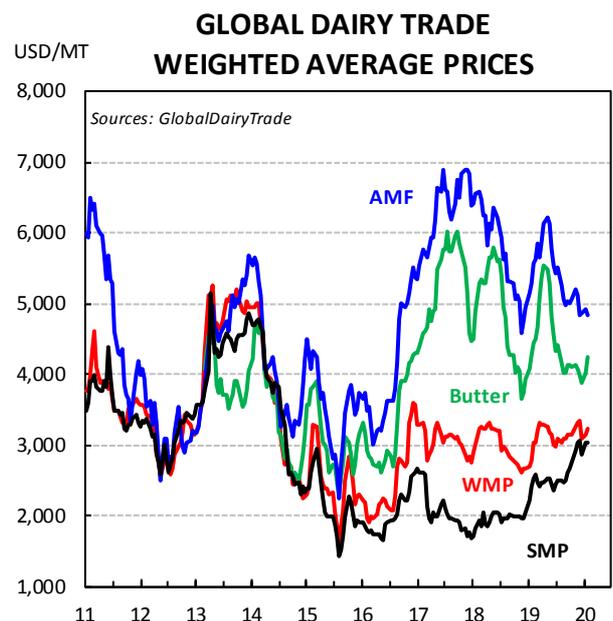
Dairy auction prices have continued their positive start to 2020. Overall prices lifted 1.7%, while key whole milk powder (WMP) prices were a touch firmer on the back of a 2.4% lift.

The auction price lift was also broad-based. Six of the seven products we monitor posted price gains (the exception was Anhydrous Milk Fat, down 2.6%). Butter and casein prices led the gains, jumping 5.5% and 4.7%, respectively. Meanwhile, skim milk powder (SMP) prices continued their strong run, rising 0.7% overnight, with this lift taking SMP prices up over 25% versus a year ago.

Auction prices have now largely recovered the lost ground at the end of 2019. We had put the previous price weakness down to a surprise lift in planned auction volumes by Fonterra, signalling a greater proportion of dairy product would be channelled through the auction platform. The price rise at this auction confirms that a knee-jerk reaction to the volume announcement was the driver of the recent price fall rather than any fundamental change in global dairy market dynamics.

Looking over February and March, **emerging dry weather could put further upward pressure on prices.** However, it's still early days in the NZ summer and we maintain our 2019/20 production growth forecast at 0%. In other words, we are noting the drought risks at this stage. Nonetheless, watch this space!

Product	% change in index since last auction	Annual % change in index	Weighted Average Price US\$/MT
Whole Milk Powder	2.4%	16.2%	3,233
Skim Milk Powder	0.7%	25.3%	3,036
Anhydrous Milk Fat	-2.6%	-8.5%	4,821
Butter	5.5%	-2.9%	4,250
GDT Price Index	1.7%	18.5%	n.a.



Implications

With the above in mind, we remain positive on the dairy outlook and **maintain our 2019/20 milk price forecast at \$7.50/kg.**

Farmgate Milk Price Forecasts

	2019/20		2020/21	Long Run
	Fonterra	ASB	ASB	ASB
Milk Price*	\$7.00-\$7.60	\$7.50	\$7.50	\$6.50-\$7.50

* per kg of milk solids (excluding dividend).

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