

Rural Economic Note

Global Dairy Trade Auction

22 April 2020

Oil spill

- Dairy auction prices dipped overnight as sentiment from the oil price plunge spilled over into dairy markets.
- The result was notably weaker than our and futures market expectations ahead of the auction.
- Notably, this result and the oil price plunge adds to downside risks for the 20/21 season milk price.

Auction results, 21 April

Dairy auction prices slid overnight, reversing price gains at the previous auction. Key whole milk powder (WMP) prices posted a 3.9% dip, while overall prices fell 4.1%.

The WMP price fall was notably weaker than the circa 2% fall indicated by the futures market and our pick ahead of the auction for unchanged prices.

The weak dairy auction result follows the plunge in oil prices this week. WTI oil prices fell into negative territory yesterday, trading as low as -US\$38/bbl. This result has seen global sharemarkets and commodity markets weaken, including now dairy markets overnight.

The oil price weakness essentially centres on a lack of immediate capacity to store oil, with futures pricing for June still positive. **This suggests that both some of the oil price weakness and the weak dairy auction result will prove temporary.**

Nonetheless, **these developments add to our caution on the global dairy market outlook.** Both WMP and overall dairy auction prices are down around 15% since the COVID-19 outbreak began to impact dairy markets from February.

Implications

The result overnight adds to the downside risks for our milk price forecasts. Given the season has nearly ended, we expect minor movements in the 19/20 milk price from here. However, a much wider range of milk price results is

Product	% change in index since last auction	Annual % change in index	Weighted Average Price US\$/MT
Whole Milk Powder	-3.9%	-15.5%	2,707
Skim Milk Powder	-4.9%	-3.7%	2,380
Anhydrous Milk Fat	-7.0%	-33.9%	4,083
Butter	-3.6%	-27.1%	4,117
GDT Price Index	-4.2%	-11.9%	n.a.



possible for the 20/21 season. For now, we retain our \$6.50/kg forecast, but note the increasing downside risks and suggest that farmers start contingency planning for the possibility of a sub-\$6.00/kg milk price for the 20/21 season.

Farmgate Milk Price Forecasts

	2019/20		2020/21
	Fonterra	ASB	ASB
Milk Price*	\$7.00-\$7.60	\$7.30	\$6.50

* per kg of milk solids (excluding dividend).

ASB Economics & Research

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

Nick Tuffley
 Nathan Penny
 Jane Turner
 Mark Smith
 Chris Tennent-Brown
 Mike Jones
 Judith Pinto

nick.tuffley@asb.co.nz
nathan.penny@asb.co.nz
jane.turner@asb.co.nz
mark.smith4@asb.co.nz
chris.tennent-brown@asb.co.nz
mike.jones@asb.co.nz
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

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