

Rural Economic Note

Global Dairy Trade Auction

22 November 2017

Turning on a dime

- We trim our 2017/18 milk price forecast by 25 cents to \$6.50/kg.
- As the weak run of dairy auction results extends to a fourth auction.
- And as NZ production rebounds from wet weather sooner than expected.

Summary

The wet NZ spring is over. The sun is out and temperatures in key NZ dairy regions have lifted, taking NZ production higher as a result.

Indeed, **October was a good month for NZ production.** So good, in fact, that NZ production has rebounded sooner than we expected from the very wet weather (we had expected the rebound to come over the summer and autumn). Nationwide production (i.e. for all processors) for October lifted 2.9% compared to October 2016, after August and September had been well behind 2016 levels. It seems that NZ weather and thus production can turn on a dime.

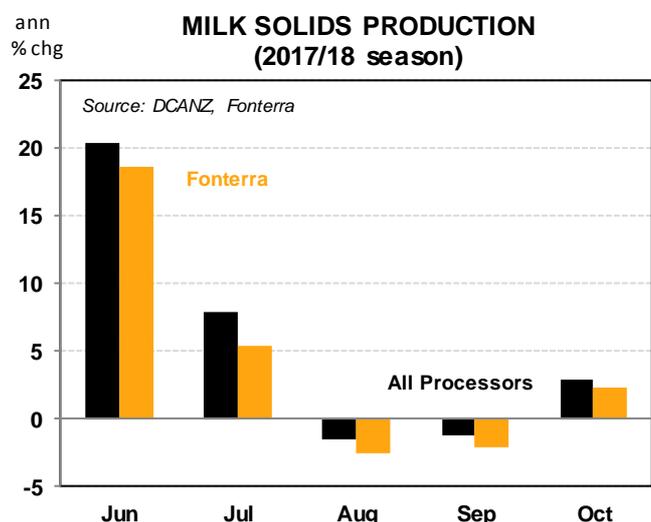
With NZ production much-improved and EU production already firm, we factor in this better global production outlook into our milk price forecast. All up and along with the weak run of recent auction results, **we trim our 2017/18 milk price forecast by 25 cents to \$6.50/kg.**

Details

Dairy prices were weaker than expected overnight, with overall prices down 3.4%. The result was softer than indicated by futures pricing ahead of the auction, which had pointed to a modest rise.

The auction price fall was broad-based, with six of the seven products we monitor posting falls, and the other, Anhydrous Milk Fat, unchanged. Key product, WMP, dipped 2.7%, while both butter and SMP declined by around 6%.

Auction prices have now fallen for four consecutive auctions. Over this period, overall and WMP prices have dipped by around 10%, while butter prices have eased nearly 15%. Anhydrous Milk Fat has been the lone holdout, rising around 2% over the same period.



At the same time, **the global production outlook has firmed**. In particular, EU production is now running well ahead of this time last year. And more recently, NZ nationwide production has rebounded from very wet weather, posting a 2.9% lift over October compared to October 2016.

Farmgate Milk Price Forecasts

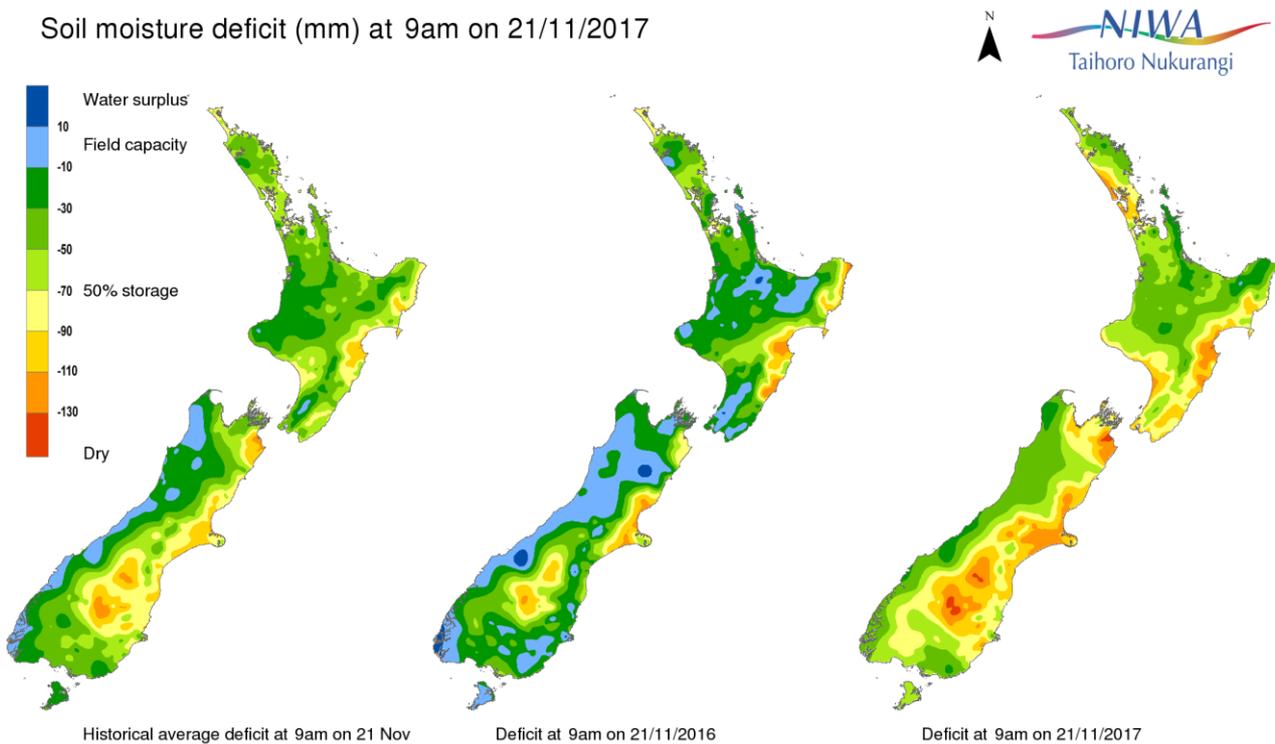
	2017/18		Long Run
	Fonterra	ASB	ASB
Milk Price*	\$6.75	\$6.50	\$6.50-\$7.00

* per kg of milk solids (excluding dividend).

The NZD is providing some offset to falling auction prices. Over the same four auction period, the NZD has dipped around 6% against the USD. However, not all of that gain will be captured in this season's milk price calculation.

All up, with the weak run of auction results and an improved production outlook, we revise down our milk price forecast. **We now expect a \$6.50/kg milk price for the 2017/18 season.**

Soil moisture deficit (mm) at 9am on 21/11/2017



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