

# Fortnightly Agri Update

6 September 2017



## Butter them up

### GlobalDairyTrade Auction Results, 6 September 2017

	Change since last auction	Price index USD/Tonne
Anhydrous Milk Fat (AMF)	3.6%	\$6,402
Butter	3.8%	\$5,954
Butter Milk Power (BMP)	-10.1%	\$2,026
Cheddar	2.5%	\$4,118
Lactose	5.1%	\$791
Rennet Casein	1.2%	\$6,316
Skim Milk Powder (SMP)	-1.2%	\$1,944
Whole Milk Powder (WMP)	-1.6%	\$3,100
GDT Price Index	0.3%	

Dairy prices rose by 0.3% overall in last night's GlobalDairyTrade auction, continuing the run of effectively flat prices over the last few months. Whole and skim milk powder prices were down in the auction, but there were solid gains for butter, anhydrous milkfat and cheese. Butter and AMF prices had declined in the previous few auctions, having reached record highs in June-July.

Butter in particular has been in severely short supply in Europe, partly due to a growing re-acceptance of butter in Western diets and partly due to a pullback in production last year. We had wondered whether butter prices had reached the 'pain point' for buyers, at which they would look for cheaper substitutes (though a common substitute, palm oil, is falling out of favour at the same time). However, butter prices in Europe have surged to new record highs this month, suggesting that this trend has further to run.

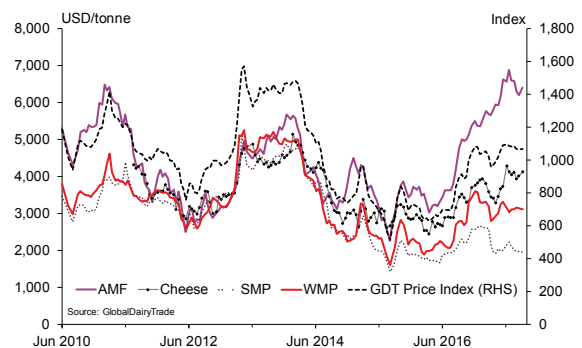
Notwithstanding the butter shortage, the global dairy industry remains geared towards stronger supply of dairy products this year. In particular, we see a risk that milk

collections in New Zealand could rise by substantially more than the 3% increase that Fonterra has signalled to the market. Milk collections in June and July were well ahead of any previous season on record. While these two months account for only a small fraction of total production for the season, they hint that the industry has the capacity for a strong lift in production during the peak of the season (weather permitting).

For that reason we have maintained our farmgate milk price forecast for this season at \$6.50/kg, compared to Fonterra's higher estimate of \$6.75/kg.

**Michael Gordon** - Senior Economist

### Dairy prices



### Payout Forecast Table

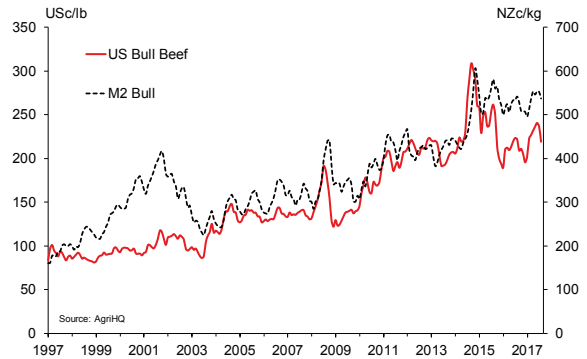
	2016/17	2017/18	
	Fonterra	Fonterra	Westpac
Milk Price	\$6.15	\$6.75	\$6.50

# Beyond the farm gate

## Beef

	Current price level compared to 10 year average	Next 6 months
Trend	Above Average	↘

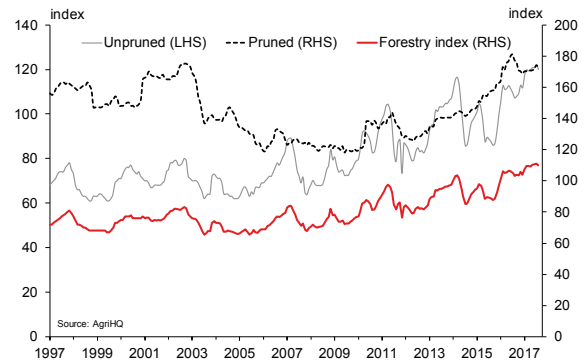
Beef prices are coming under some downward pressure as global supply levels lift. US production has continued to rise despite being past the peak summer demand period. Meanwhile, rising export volumes from Australia suggest that the industry's long period of herd rebuilding is coming to an end. Japan's recent increase in import tariffs has effectively closed that market for NZ and US beef exports in the near term.



## Forestry

	Current price level compared to 10 year average	Next 6 months
Trend	Above Average	→

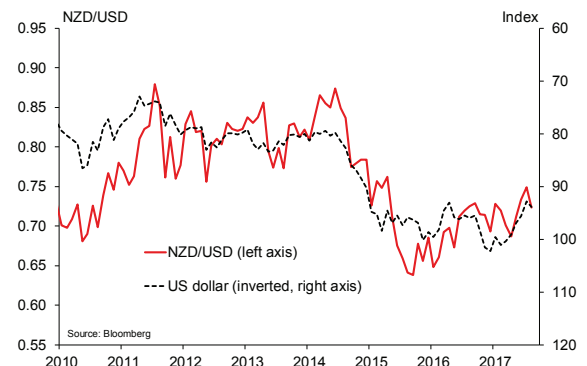
Log export prices edged down from their recent highs in August. There remains a strong pipeline of construction activity spread across various residential and non-residential projects in China, which will underpin log demand for some time. In contrast, domestic log prices have continued to creep higher on strong demand for timber. Capacity and funding constraints are an emerging issue for the local building industry, and we expect demand for building materials to grow at only a modest pace from here.



## NZ dollar

	Current price level compared to 10 year average	Next 6 months
Trend	Above Average	↘

The New Zealand dollar has been a relative underperformer in the last month, on the back of a stronger US dollar and uncertainty around the outcomes of the general election on 23 September. Our view remains that the NZ dollar will gradually fall over the next year or so. We see the OCR staying on hold until the end of 2019, while the US is likely to raise interest rates further in this time. This will help to narrow New Zealand's interest rate spread over the US and reduce the appeal of the NZD.



**Note:** Trend arrows indicate direction of change in world prices.

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