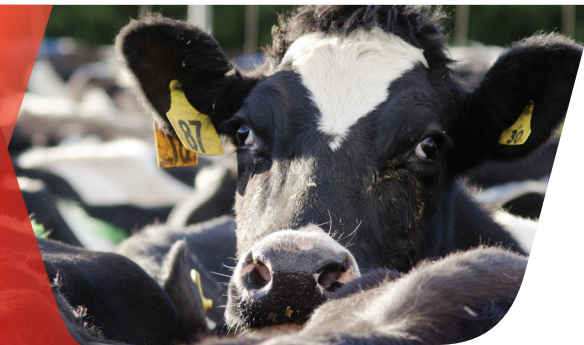


# Dairy Update.

18 September 2019



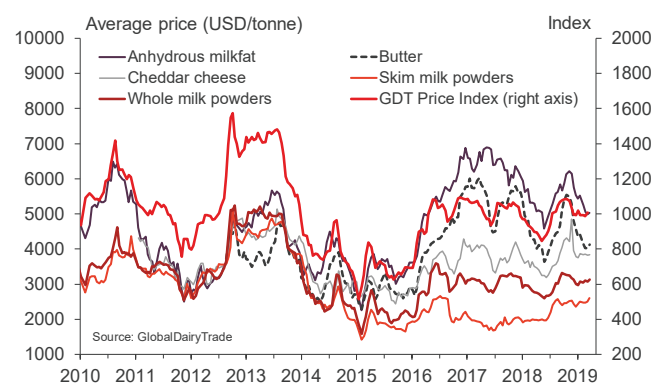
## GlobalDairyTrade Auction Results, 18 September 2019

	Change since last auction	Price index USD/Tonne
Anhydrous Milk Fat (AMF)	0.6%	\$5,030
Butter	2.7%	\$4,129
Butter Milk Power (BMP)	-	-
Cheddar	0.4%	\$3,846
Lactose	5.6%	\$770
Rennet Casein	-0.1%	\$6,636
Skim Milk Powder (SMP)	3.4%	\$2,599
Whole Milk Powder (WMP)	1.9%	\$3,133
GDT Price Index	2.0%	1,008

## Farmgate milk price forecasts

	2018/19		2019/20	
	Westpac	Fonterra	Westpac	Fonterra
Milk Price	\$6.40	\$6.30-\$6.40	\$6.50	\$6.25-\$7.25

## Dairy prices



Imre Speizer, Market Strategist

+64 9 336 9929

Last night's GlobalDairyTrade auction resulted in slightly higher prices, with the headline index up 2.0%. NZ's key export product, whole milk powder, rose 1.9%, which was close to the 1% gain predicted by WMP futures markets yesterday.

All major products recorded gains, with skimmed milk powder up 3.4%, butter up 2.7%, and anhydrous milk fats up 0.6%.

Prices have been fairly stable since the decline in June, the headline index currently sitting at the three-year average. Whole milk powder at \$3133 is close to the three-year average of \$3060.

Part of the explanation for this resilience is demand from China, which has remained firm despite its economic slowdown and the US-China trade war. At last night's auction North Asia (a reasonable proxy for China) again bought more than half of the total offering, with South East Asia/Oceania buying around a quarter.

We continue to expect a further loss in momentum in China's economy into year-end, which should constrain demand somewhat. However, over the longer term, its pro-active responses to recent adversities, via monetary policy stimulus, export diversification, and efficiency gains, should pay dividends.

On the supply side, NZ milk production this spring should be decent given soil moisture levels and warmer temperatures (the latter arriving slightly later than usual). Against that, global production remains subdued.

Our farm gate milk price forecast for 2019/20 remains at \$6.50 (we reduced it a few weeks ago from \$6.70). That leaves us toward the lower end of Fonterra's own milk price forecast for this season of \$6.25-7.25.

Fonterra has delayed its announcement about the milk payout from the 12th to the 26th of September (at the same time announcing its annual financial results and a new business strategy). We expect to see a finalised 2018/19 milk price, and a refreshed range for 2019/20.



# Contact the Westpac research team.

**Dominick Stephens, Chief Economist**

+64 9 336 5671

**Michael Gordon, Senior Economist**

+64 9 336 5670

**Satish Ranchhod, Senior Economist**

+64 9 336 5668

**Paul Clark, Industry Economist**

+64 9 336 5656

**Imre Speizer, Market Strategist**

+64 9 336 9929

**Any questions email:**

economics@westpac.co.nz

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