

# Dairy Update.

2 October 2019



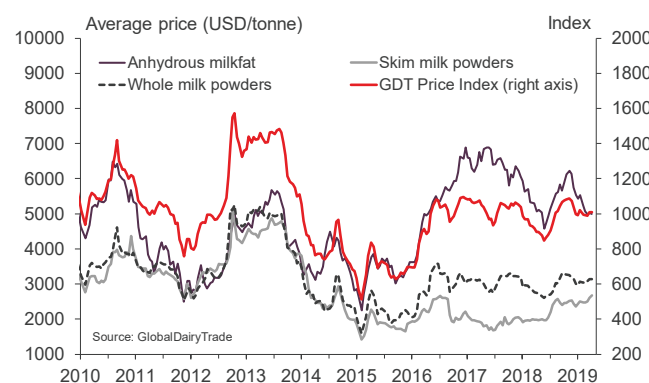
## GlobalDairyTrade Auction Results, 2 October 2019

	Change since last auction	Prices USD/Tonne
Anhydrous Milk Fat (AMF)	0.0%	\$4,997
Butter	-0.2%	\$4,125
Butter Milk Powder (BMP)	-	\$2,670
Cheddar	-3.4%	\$3,717
Lactose	1.8%	\$784
Rennet Casein	0.7%	\$6,683
Skim Milk Powder (SMP)	2.7%	\$2,674
Whole Milk Powder (WMP)	-0.2%	\$3,141
GDT Price Index	0.2%	1,010

## Farmgate milk price forecasts

	2018/19		2019/20
	Fonterra	Westpac	Fonterra
Milk Price	\$6.35	\$6.50	\$6.25-\$7.25

## Dairy prices



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Last night's GlobalDairyTrade auction resulted in little change to prices overall, the headline index up 0.2%.

NZ's key export product, whole milk powder, fell 0.2%, slightly shy of the 1% gain predicted by WMP futures markets yesterday. The multi-month trend in whole milk powder prices remains positive, though, with a total gain of 5.8% since bottoming in July.

Other major products were mixed, with skim milk powder up 2.7%, butter down 0.2%, anhydrous milk fats unchanged, and cheddar cheese down 3.4%.

Prices overall have been fairly stable since June, the headline index currently sitting at the three-year average. Whole milk powder at \$3141 is slightly above the three-year average of \$3060.

Chinese auction demand (proxied by the North Asian buyer category) remained solid, worth around 50% of the total offering, with South East Asia/Oceania buyers rising slightly to a 30% share.

The dominance of China as an export destination for NZ dairy products, in particular for whole milk powder, has been evident in official monthly trade data for some time. The latest release from Stats NZ for the month of August confirmed the trend of rising dairy export volumes since 2016, with China now importing about as much as it did at the previous peak in 2013.

The outlook for China's economy is mixed: over the remainder of 2019 we expect the pace of activity to slow further, but over the long term its various stimulatory initiatives should prove supportive. Against this backdrop, consumer activity has held up well, China so far successfully engineering a rebalancing of the economy towards domestic consumption.

Dairy supply globally has remained constrained, but in NZ milk collections were up around 2% in August (vs 2018). Growing conditions were favourable in September, and we'd expect that to be another decent production month.

Fonterra's annual financial update last week saw its 2019 milk payout affirmed at \$6.35, with 2020's forecast of \$6.25-\$7.25 unchanged. Our farm gate milk price forecast for the current season remains at \$6.50. Futures markets for the milk payout are currently pricing \$6.85, up from \$6.75 two weeks ago but around the middle of the \$6.65-\$6.95 range which has prevailed since June.



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