

# Dairy Update

21 August 2019



Last night's GlobalDairyTrade auction saw prices broadly flat (-0.2% change in the GDT index). Beneath the headline, whole milk powder prices were surprisingly strong, lifting 2.1%. This was contrary to futures market expectations of a 2% fall in prices.

Despite last night's marginally stronger than expected outturn, we have shaved a little more off our farm gate milk price forecast for 2019/20. We are now expecting a \$6.50 milk price (previously \$6.70). That leaves us toward the lower end of Fonterra's own milk price forecast for this season of \$6.25-7.25.

The change in view is down to our more pessimistic take on the international growth outlook.

As we noted a fortnight ago, we have become gloomier about the consequences of the US-China trade war. Our previous view that both sides would eventually step away from the conflict, as it was in neither side's best interests, appears to have been too optimistic. Not only have recent developments upped the stakes for both sides, dragging consumers into the crossfire, they also point to a much more enduring and longer lasting conflict than we had previously envisioned. Trade tensions will remain elevated for some time yet which will weigh on confidence, investment and hiring decisions in both countries. That has led us to downgrade our outlook for GDP growth in the US and China. GDP growth in China is now expected to fall to 5.8% in 2020 and on the ground conditions could feel even weaker.

On the back of this, we're expecting dairy prices to continue to ease modestly over the remainder of the year.

Of course demand is only half the story. Importantly, supply side factors continue to appear much more supportive of prices. Growth in milk supply in key exporting regions is still expected to be modest. In Europe milk collections were up just 0.2% in the 6 months to June compared to a year earlier, milk production in the US is flat over the same period, while in Australia milk production is running 7.7%

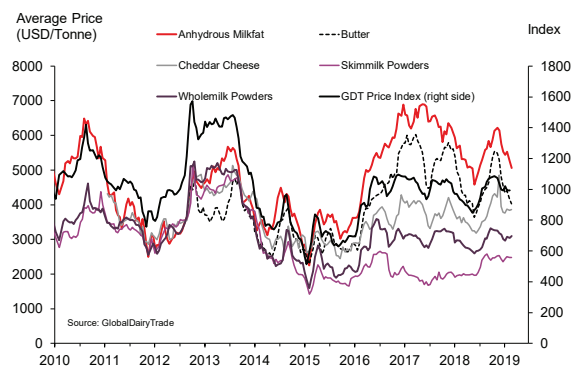
## GlobalDairyTrade Auction Results, 21 August 2019

	Change since last auction	Price index USD/Tonne
Anhydrous Milk Fat (AMF)	-3.7%	\$5,061
Butter	-3.4%	\$4,025
Butter Milk Powder (BMP)	-	-
Cheddar	0.8%	\$3,857
Lactose	-3.7%	\$740
Rennet Casein	-8.1%	\$6,348
Skim Milk Powder (SMP)	-0.3%	\$2,478
Whole Milk Powder (WMP)	2.1%	\$3,100
GDT Price Index	-0.2%	992

## 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



lower for the year to May compared to the same period a year ago.

As always, New Zealand milk production over spring will be a crucial swing factor for whole milk powder prices in particular. To date, indications have been positive, with pasture conditions in many parts of the country relatively favourable for this time of the year. However, New Zealand farmers will almost certainly struggle to repeat the exceptionally good spring conditions we saw last season. What's more, sentiment in the sector remains weak, and won't have been helped by Fonterra's announcement that it won't be paying a dividend for 2018/19 season on the back of its forecasts of a loss of up to \$675m for that year. Weak sentiment, combined with increased environmental regulations limiting herd expansion, mean we're only expecting milk production this season to be up around 0.5% on last season.

But for now at least, we'd prefer to be cautious about the outlook for prices over the coming months. If demand for dairy in China falls sharply, even limited growth in supply wouldn't be enough to stop prices tumbling, potentially by much more than we have factored in.

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