

Dairy Update

4 September 2019



Last night's GlobalDairyTrade auction resulted in prices little changed overall, with the headline index down just 0.4%. NZ's key export product, whole milk powder, fell 0.8%, although this was a smaller fall than the -2% priced by WMP futures markets yesterday.

Interestingly, Chinese demand appears to have remained strong, with North Asian bidders (which dominate the auction) taking an even larger share than in the previous four auctions. We are expecting the US-China trade war and a slowdown in China to crimp Chinese demand for WMP over the remainder of this year, but there's no obvious sign of that just yet.

On the supply side, NZ milk production this spring will be a crucial swing factor and early indications are for decent volumes (albeit less than the stellar production during spring last year). August was a slightly cooler and wetter month than normal for many regions, but the resultant soil moisture bodes well for September production when temperatures rise significantly. That said, global production could remain subdued, with the US and EU flat on 2018, Australia drought-constrained, and Argentina facing higher production costs following the country's debt default and currency depreciation.

Our farm gate milk price forecast for 2019/20 remains at \$6.50 (we reduced it two 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 will provide a payout update on 12 September, with a finalised 2018/19 milk price, and a refreshed range for 2019/20. Yesterday it announced it would narrow the \$1-wide range as the season progressed and production and sales information came to hand.

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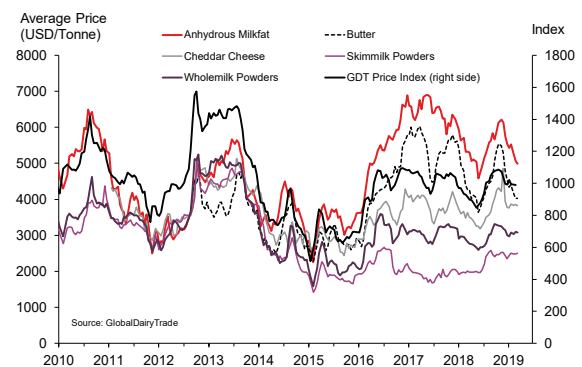
GlobalDairyTrade Auction Results, 4 September 2019

	Change since last auction	Price index USD/Tonne
Anhydrous Milk Fat (AMF)	-1.5%	\$4,988
Butter	0.0%	\$4,029
Butter Milk Powder (BMP)	-	\$2,476
Cheddar	-0.8%	\$3,827
Lactose	-0.9%	\$729
Rennet Casein	4.6%	\$6,632
Skim Milk Powder (SMP)	0.7%	\$2,500
Whole Milk Powder (WMP)	-0.8%	\$3,076
GDT Price Index	-0.4%	988

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



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