

# Dairy Update

5 June 2019



Dairy prices fell 3.4% in last night's GlobalDairyTrade auction. The weakness was led by sharp falls in fats prices with butter and AMF down 10.3% and 5.7% respectively. There was a more modest fall in whole milk powder prices, with prices easing another 1.5%, but still remaining comfortably above the \$3000/tonne level.

Since our last dairy update, Fonterra have updated their milk price forecast for the 2018/19 season and also released their first pick for the 2019/20 season.

We were a little surprised by the downgrade to the milk price forecast for the season just finished, where Fonterra now expects to pay \$6.30-6.40/Kg milk solids. Previously they were forecasting a \$6.30-6.60 range. Given the solid lift we saw in prices over the early part of this year, we had expected the 2018/19 final milk price to be closer to \$6.50. But with the production season now complete, Fonterra has the information advantage, so we will take this on board and pencil in a \$6.40 for the 2018/19 season.

Fonterra's opening forecast for the 2019/20 season was \$6.25-\$7.25, with advance payments to farmers to be made at the \$6.75 mid-point of this range. We're happy to retain a slightly more optimistic view than Fonterra on the outlook for now (although we would note that last night's auction result was a little softer than we had pencilled in). Markets also seem to be a little more constructive than Fonterra on the outlook for the 2019/20 season, with milk price futures at \$6.85 kgMs after earlier briefly trading above \$7. Another local dairy company, Synlait, has also got a slightly more optimistic outlook than Fonterra and announced an opening season forecast of \$7 for the 2019/20 season.

Underlying our own forecast for 2019/20 is a view that we are likely to see dairy prices soften modestly over the second half of this year, as global supply increases a little against a backdrop of relatively firm demand. Some further weakening in the NZ dollar should also help. However, there is clearly a long way to go yet before milk prices for the new season are finalised in September next year.

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Senior Economist

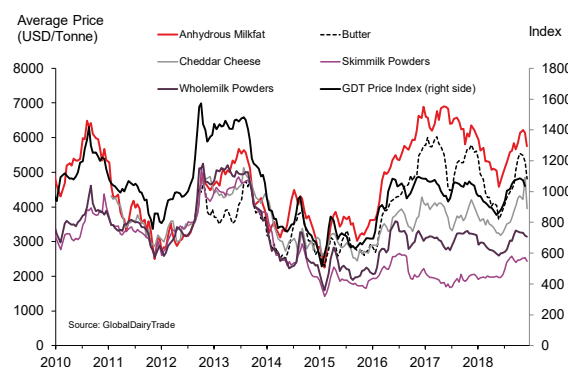
## GlobalDairyTrade Auction Results, 5 June 2019

	Change since last auction	Price index USD/Tonne
Anhydrous Milk Fat (AMF)	-5.7%	\$5,752
Butter	-10.3%	\$4,805
Butter Milk Powder (BMP)	-	\$2,807
Cheddar	-14.0%	\$3,950
Lactose	0.4%	\$897
Rennet Casein	4.2%	\$7,201
Skim Milk Powder (SMP)	-4.0%	\$2,436
Whole Milk Powder (WMP)	-1.5%	\$3,138
GDT Price Index	-3.4%	1,037

## Farmgate milk price forecasts

	2018/19		2019/20	
	Westpac	Fonterra	Westpac	Fonterra
Milk Price	\$6.40	\$6.30-\$6.40	\$7.20	\$6.25-\$7.25

## Dairy prices



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