

Dairy Update

8 May 2019



Dairy prices continued to edge higher in last night's GlobalDairyTrade auction with the aggregate price index up 0.4%. There were mixed results for the individual products on offer. Whole milk powder prices continued to edge lower, while butter prices were unchanged following their strong run over recent weeks.

With just one more GDT auction before the 2018/19 season draws to a close at the end of May, we've baked in the upside risk that we have been noting in recent weeks to our milk price forecast. We are now forecasting a \$6.50 milk price for the 2018/19 season (previously \$6.40) which would be toward the upper end of Fonterra's \$6.30-6.60 forecast range.

The 2019/20 dairy season also looks set to start on a firmer footing than we had anticipated a few months ago. While there is much water to flow under the bridge yet, demand from Asia has so far remained firm, and there has been only modest growth in milk production from northern hemisphere producers to date. While we continue to expect to see dairy prices ease modestly over the second half of the year, the recent strength in prices combined with our softer outlook for the NZD/USD exchange rate has boosted the 2019/20 milk price forecast. Consequently we are now forecasting a \$7.20 farm gate milk price for the 2019/20 season (previously \$7).

Nationwide NZ milk production fell sharply in March as dry weather impacted pasture conditions in key dairying regions. However, even with soft milk collections in April and May factored in, we still expect NZ milk production to be up round 2% this season compared to last.

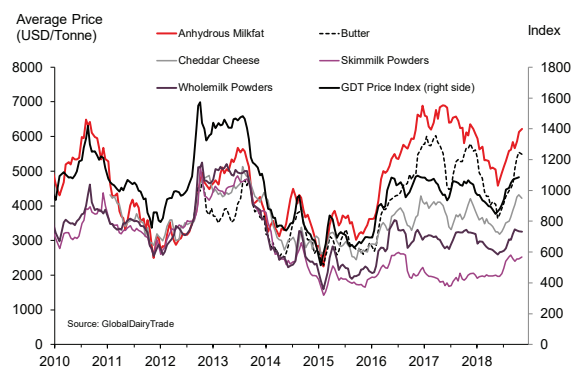
Looking ahead, such strong growth in NZ milk production is unlikely to be repeated in 2019/20. Increased environmental regulation will limit herd expansion. While seasonal variation will continue to be an important swing factor, growth in nationwide milk production will increasingly rely on further productivity improvements in the sector. Average milk production per cow in 2017/18 was up 6% on 5 years ago and up almost 20% on a decade earlier.

GlobalDairyTrade Auction Results, 8 May 2019

	Change since last auction	Price index USD/Tonne
Anhydrous Milk Fat (AMF)	1.4%	\$6,217
Butter	0.0%	\$5,486
Butter Milk Powder (BMP)	-	\$3,242
Cheddar	-2.4%	\$4,217
Lactose	-2.7%	\$887
Rennet Casein	3.1%	\$6,610
Skim Milk Powder (SMP)	2.8%	\$2,521
Whole Milk Powder (WMP)	-0.5%	\$3,249
GDT Price Index	0.4%	1,086

Farmgate milk price forecasts

	2018/19		2019/20
	Westpac	Fonterra	Westpac
Milk Price	\$6.50	\$6.30-\$6.60	\$7.20



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