

Dairy Update.

19 February 2020



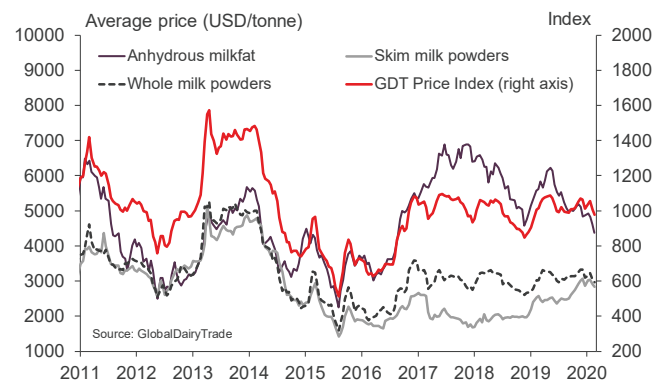
GlobalDairyTrade Auction Results, 19 February 2020

	Change since last auction	Prices USD/tonne
Anhydrous Milk Fat (AMF)	-5.5%	\$4,379
Butter	-3.9%	\$4,090
Butter Milk Powder (BMP)	-	-
Cheddar	5.3%	\$4,526
Lactose	0.0%	\$822
Rennet Casein	-0.9%	\$9,873
Skim Milk Powder (SMP)	-2.6%	\$2,840
Whole Milk Powder (WMP)	-2.6%	\$2,966
GDT Price Index	-2.9%	978

Farmgate milk price forecasts

	2019/20		2020/21
	Westpac	Fonterra	Westpac
Milk price	\$7.20	\$7.00-\$7.60	\$7.30

Dairy prices



Last night's GlobalDairyTrade auction saw prices for most products fall, the headline index down 2.9%.

Our key export product, whole milk powder, fell 2.6%, matching yesterday's futures market predictions of a 3% fall. At US\$2966, it is at the bottom of the past 12-month range of \$2966-\$3330.

Skimmed milk powder prices fell 2.6%, butter fell 3.9% (despite reduced volume for this auction), and anhydrous milk fats fell 5.5%, while cheddar cheese rose 5.3%.

Last night's results are unsurprising given the continuing uncertainty regarding the Coronavirus outbreak, the previous GDT auction on 4 February also likely affected by such. Industrial commodities have fallen sharply since concerns about the pandemic took hold in mid-January, with Brent crude oil, for example, falling 19% (although it has recovered about half of that over the past week).

Looking ahead, there are risks to near-term demand which could be affected by Coronavirus developments (positive and negative). The steps that China has taken to contain the outbreak – such as limiting the movements of people – have kept many factories closed, which has meant less demand for their inputs, including milk powder. North Asian demand at last night's auction was lower than usual, but only slightly so.

On the supply side, persistently dry conditions in the North Island and eastern South Island could see milk production fall short of what the market is expecting.

We have lowered our farmgate milk price forecast for this season from \$7.40/kg to \$7.20/kg, reflecting the virus's impact to date on world dairy prices. However, we retain our forecast of \$7.30/kg for the following season, based on a gradual recovery in prices in the coming months.

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