

Dairy Update.

22 July 2020



No news is good news.

- Dairy auction prices were mostly unchanged overnight.
- The result consolidates the massive price gains at the previous auction.
- The result also reaffirms our 2020/21 milk price forecast of \$6.50/kg.

All up, dairy auction prices were largely unchanged overnight. Whole milk powder (WMP) prices lifted a modest 0.6%, while overall prices fell a touch (down 0.7%). The WMP result was also in line with our pick of no change and futures market pricing that suggested a circa 1% rise.

Importantly, the overnight result means that dairy auction prices have consolidated the massive gains at the previous auction. Recall that WMP prices surged 14.0%, while overall prices jumped 8.3%. WMP prices are now 1.8% ahead of where they sat at the end of January or, in other words, prices have comfortably wiped out the earlier COVID-related price falls.

Milk fat prices bucked the largely flat price trend, with butter prices down 4.9% and anhydrous milk fat prices slipping 2.8%. Skim milk powder prices fell a more modest 0.6%.

The result overnight reaffirms our \$6.50/kg milk price forecast for 2020/21. Broadly, we expect dairy auction prices to remain firm through the New Zealand winter and then for prices to weaken later in the season through the peak New Zealand production months.

We also note that the recent price strength allowed Fonterra to narrow its forecast range from \$5.40/kg - \$6.90/kg to \$5.90/kg to \$6.90/kg last week. Interestingly, Fonterra commented that the “lift to the bottom end of the range was being predominantly driven by improved market conditions in China.” This observation fits with the strong Chinese economic data evident over recent weeks.

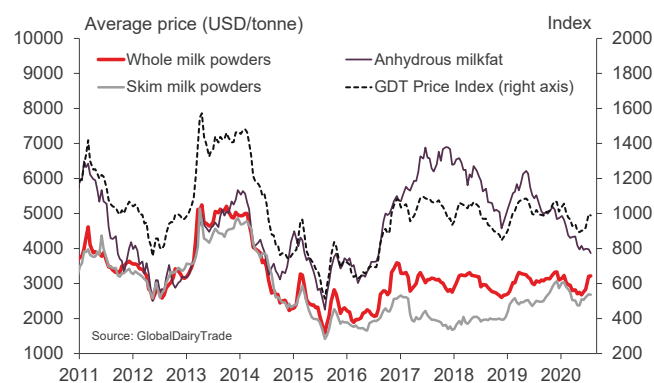
For farmers, the lift in the bottom of the range has allowed Fonterra to increase its advance payments. Indeed, the 25-cent lift in the forecast midpoint (from \$6.15/kg to \$6.40/kg) is worth circa \$450 million of additional farm income.

Meanwhile, Fonterra also adjusted down its 2019/20 forecast range to \$7.10/kg - \$7.20/kg. At this late juncture, we adopt the midpoint of this forecast range (i.e. \$7.15/kg).

GlobalDairyTrade Auction Results, 22 July 2020

	Change since last auction	Prices USD/tonne
Whole Milk Powder (WMP)	0.6%	\$3,218
Skim Milk Powder (SMP)	-0.5%	\$2,680
Anhydrous Milk Fat (AMF)	-2.8%	\$3,870
Butter	-4.9%	\$3,533
GDT Price Index	-0.7%	989

Dairy prices



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Farmgate milk price forecasts

	2019/20		2020/21	
	Westpac	Fonterra	Westpac	Fonterra
Milk price	\$7.15	\$7.10-\$7.20	\$6.50	\$5.90-\$6.90



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