

Dairy Update.

4 November 2020



Covid locks down prices.

- Dairy prices dip overnight, breaking a run of three consecutive rises.
- We assume the fall is Covid-related as global cases rise to record daily highs and fresh lockdowns hit Europe.
- Turning to the US election result, we are watching intently for currency (NZD/USD) and commodity market reaction.

Dairy auction prices dropped overnight. Both whole milk powder (WMP) and overall prices posted a 2.0% fall. Skim milk prices led the price falls, dipping 4.4%. Anhydrous milk fat prices posted the next-largest fall, sliding 2.6%. Cheddar prices also fell along with the above-mentioned WMP.

However, it was not all one-way traffic overnight. Butter prices recorded their third consecutive rise (up 3.9%), while butter milk powder prices also built on recent gains (up 1.2% from two auctions ago). Last night's 2.0% WMP price fall was below our and market expectations. We had pencilled in flat prices, while futures market pricing had indicated a modest rise of around 1%.

GlobalDairyTrade Auction Results, 4 November 2020

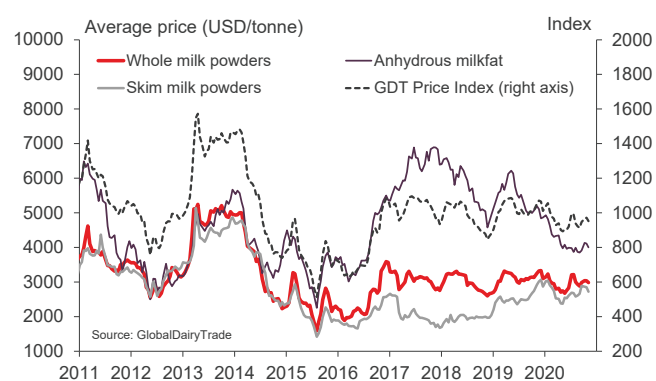
	Change since last auction	Prices USD/tonne
Whole Milk Powder (WMP)	-2.0%	\$2,985
Skim Milk Powder (SMP)	-4.4%	\$2,722
Anhydrous Milk Fat (AMF)	-2.6%	\$4,002
Butter	3.9%	\$3,822
GDT Price Index	-2.0%	952

Covid cases spike, lockdowns return

We assume that the price weakness overnight is Covid-related. Global daily cases have hit fresh record highs over the last week or so. And importantly, lockdowns have been reimposed, notably in Europe.

These developments are likely to dampen global dairy demand and thus prices, at least temporarily. With that in mind, we note that China and the rest of Asia have led the rebound in dairy demand and prices and on that front Covid developments are more benign. Accordingly, we anticipate that the dip in dairy prices is likely to prove temporary.

Dairy prices



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US election - watch this space

The US election result today - whatever way it swings - will matter for markets, including for dairy. In the first instance, we are watching for an impact in currency and commodity markets. A decisive win for either Biden or Trump will likely boost financial market sentiment, with currencies like the NZD and commodity prices generally likely to see a lift. On the flipside, less decisive victories may see sentiment turn negative. In that case, the NZD may weaken against the USD, with a similar impact on commodity prices.

Longer-term, the result (either way) will have an impact on global trade policy. While we have argued that global dairy markets haven't necessarily been hurt by the US-China trade tensions, any developments on this front will remain front of mind in the wake of the US election.



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