



# Fortnightly Agri Update

19 August 2015

## Bounce

Dairy prices rose sharply at last night's GlobalDairyTrade (GDT) auction. The overall price index was up 14.8%, bouncing off the 13-year low formed at the 4 August auction. The key product, whole milk powder (WMP) rose 19.1% on average to \$1,856/MT. The next most important product from a volume perspective, skim milk powder, rose 8.5%, while anhydrous milk fat rose 26.6%. These three products comprised 85% of the 36,450MT total offering and their price performances were encouraging.

The direction of price change was unsurprising and widely expected given that on 13 August Fonterra announced a significant reduction in this auction's volume. The 36,450MT offered was 23% lower than the previous auction on 5 August. This is a departure from the usual trend of increasing auction supply during the first few months of the dairy production season which starts on 1 June. Most of the volume reduction was in WMP, which at 18,000MT comprised only 49% of the total product auction volume, compared to 59% on 5 August.

Futures markets, in particular, had pre-empted a positive auction result. Indeed, contracts started rising after the Fonterra volume announcement, and closed yesterday implying gains of between 8% and 34% across the future delivery months. If anything, futures markets appeared to underpredict the nearby months and overpredict the more distant months.

Regarding the implications of this event for our milk payout forecast, which currently sits at \$3.70 for the season ending 31 May 2016, there are mixed messages. The most obvious positive one is that this was a large price rise, larger than most had predicted. In addition, the largest price rises were for the most nearby delivery months – October and November – which rose 24% and 27% respectively. This could be a reflection of demand for product for almost immediate consumption.

The futures market is expecting another strong result at the next auction on 1 September. The September contract is trading this morning at \$2025 which is 10.7% above the GDT November delivery price of \$1830 set last night.

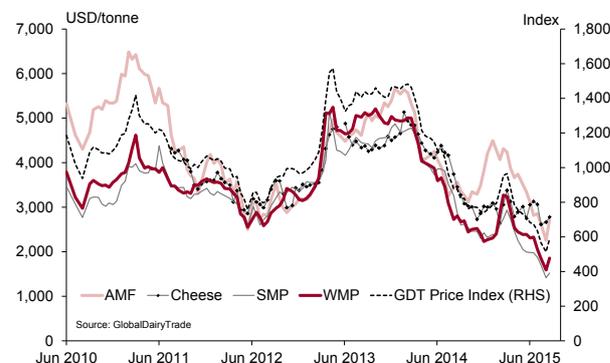
In addition, auction participation statistics were healthy. Around 29% of 621 qualified bidders participated – the largest proportion since September 2014. And among this auction's participants, only 77% were successful bidders for product, suggesting stronger competition than at the previous two auctions where 96% and 93% of bids were filled.

However, we are loathe to get too carried away with one observation against a trend decline in prices which is two years old.

The bounces were large but have merely returned prices to levels prevailing in early August. Prices are still 39% below their March level. There's also the vexing question of how much Fonterra's auction volume reduction and changes in product composition contributed to the result.

Going forward we'll be watching how future auctions play out with interest to determine what they mean for the farmgate milk payout.

## GlobalDairyTrade Auction Results



## GlobalDairyTrade Auction Results, 19 August

	Change since last auction	Price index USD/Tonne
Anhydrous Milk Fat (AMF)	26.6%	\$2,724
Butter Milk Power (BMP)	-13.8%	\$1,400
Butter	10.8%	\$2,541
Skim Milk Powder (SMP)	8.5%	\$1,521
Whole Milk Powder (WMP)	19.1%	\$1,856
Cheddar	4.4%	\$2,778
GDT Price Index	14.8%	

## Payout Forecast Table

	2014/15	2015/16		2016/17
	Fonterra	Fonterra	Westpac	Westpac
Milk Price	\$4.40	\$3.85	\$3.70	\$5.20

**Imre Speizer**  
Senior Market Strategist

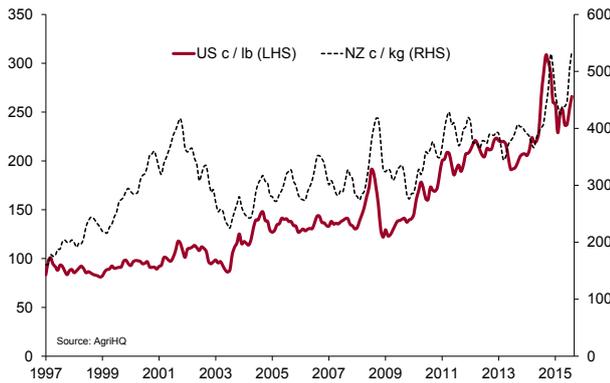
# Beyond the farm gate



## Beef

	Current price level compared to 10 year average	Next 6 months
Trend	High	↗

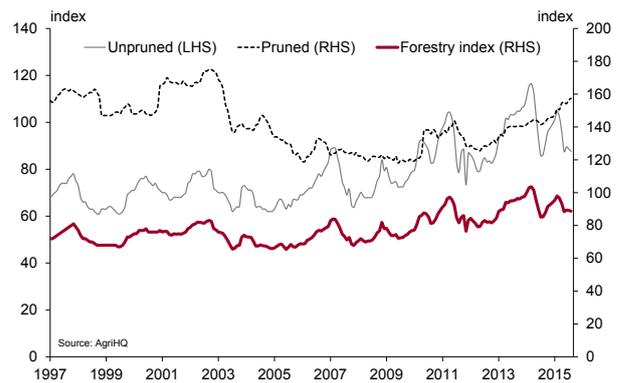
Beef prices in the US remain at high levels, although the supply of imported beef seems sufficient to prevent a repeat of last summer's price spike. The weaker New Zealand dollar has lifted domestic schedule prices right back to last year's highs, and we expect a further decline in the currency over the rest of this year.



## Forestry

	Current price level compared to 10 year average	Next 6 months
Trend	Average	→

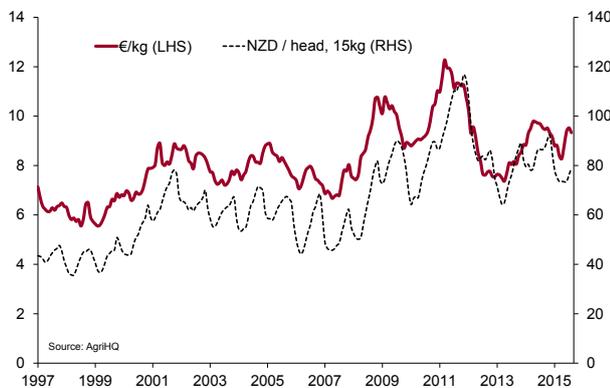
Unpruned log prices softened in August, due to slow demand and high inventories in China. A pickup in Chinese house prices is enabling developers to sell off their existing holdings, but has yet to boost new construction. In contrast, domestic demand remains strong, with housing construction continuing to rise in Auckland even as Christchurch passes its peak.



## Lamb

	Current price level compared to 10 year average	Next 6 months
Trend	Below Average	→

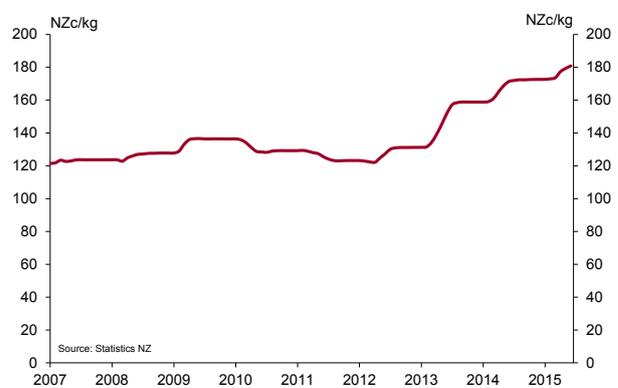
Chilled lamb prices in Europe have held up reasonably well, although global supply appears to remain ample. The weaker New Zealand dollar will help to support returns.



## Apples

	Current price level compared to 10 year average	Next 6 months
Trend	High	→

Export data up to June points to a strong final result for this season. Average prices are tracking around 5% higher compared to last season, and on improved volumes.



NB: Trend arrows indicate direction of change in world prices.

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