



# Fortnightly Agri Update

4 November 2015

## Baby bump

World dairy prices fell for a second consecutive GlobalDairyTrade auction, with prices down across all of the products on offer. Dairy prices have now unwound about a quarter of their recent bounce.

The price decline means that our forecast milk price of \$5.30/kg for this season is now looking on the high side. However, we'd be reluctant to revise down our forecast just as we head into a summer that will feature a potentially severe drought-causing El Niño weather pattern. History shows that disruptions to New Zealand's milk supply can have a significant impact on world prices. It's possible, though, that this effect is waning as the major milk producers in the Northern Hemisphere ramp up their own productive capacity.

Fonterra recently reported that its milk collection has peaked for the season, at about 3% below last season's level. That's an improvement on the pace seen over the September month, which was almost 9% below last season, and strongly suggests that poor spring pasture growth was a major factor during that month. A 3% shortfall is probably a fairer reflection of the impact of increased cow culling and reduced spending on feed, which will reverberate over the rest of the season.

The global dairy market seems to have taken a suitably sceptical approach to last week's announcement that China will remove its one-child policy, which has been in place for 35 years. There are two good reasons for thinking that the policy change will have a muted impact on birth rates, and hence on demand for milk powder. The first is that the policy was not as rigid as it is commonly described: it was initially handed down by the central government as a guideline, and enforced by regional governments with varying degrees of strictness. The fact that the fertility rate is currently estimated to be around 1.6 should give an idea of how strictly the 'one child' policy is applied.

The second reason is that economic pressures arguably play an even stronger role in birth rates. While China's fertility rate is low by developing economy standards, it is still higher than for many developed Asian economies that face no such policy restrictions.

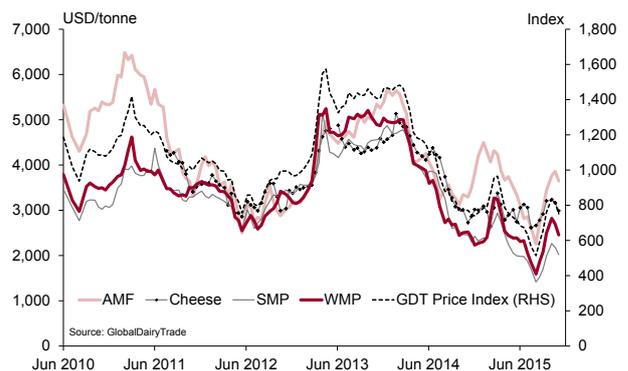
The one-child policy was loosened in 2013, allowing a second child if one of the parents was an only child. At the time there were enthusiastic forecasts of a surge in births, and it almost certainly played a part in the surge in Chinese demand for whole milk powder, with imports doubling in the space of a few months. However, the actual increase in births proved to be well short of expectations – one of the reasons why China was left with an overhang of milk powder inventories that seems to persist even today.

**Michael Gordon**  
Senior Economist

## China milk powder imports



## GlobalDairyTrade Auction Results



## GlobalDairyTrade Auction Results, 4 November

	Change since last auction	Price index USD/Tonne
Anhydrous Milk Fat (AMF)	-5.7%	\$3,647
Butter Milk Power (BMP)	-9.4%	\$1,844
Butter	-5.6%	\$2,574
Skim Milk Powder (SMP)	-8.0%	\$2,018
Whole Milk Powder (WMP)	-8.0%	\$2,453
Cheddar	-4.6%	\$2,987
GDT Price Index	-7.4%	

## Payout Forecast Table

	2014/15	2015/16		2016/17
	Fonterra	Fonterra	Westpac	Westpac
Milk Price	\$4.40	\$4.60	\$5.30	\$5.20

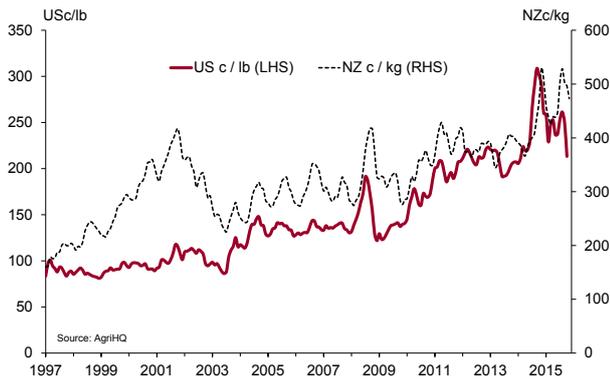
# Beyond the farm gate



## Beef

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

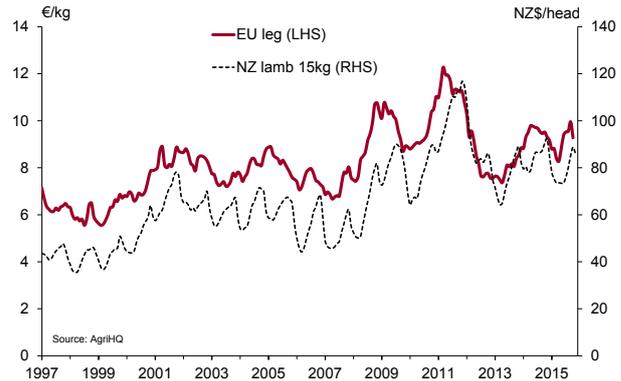
With both New Zealand and Australia rapidly approaching their tariff-free import quotas, US buyers have substantially lowered their prices for delivery by the end of this year. Prices are expected to recover early next year once the annual quotas are reset.



## Lamb

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

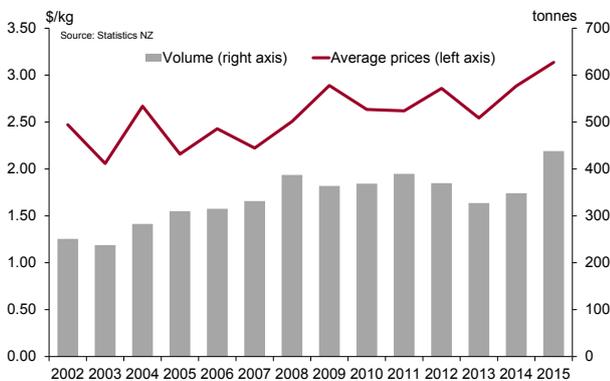
Returns in the European market have been undermined by the recent gains in the New Zealand dollar. Demand from China has picked up in recent months, although prices here are typically lower than what is available in other markets.



## Kiwifruit

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

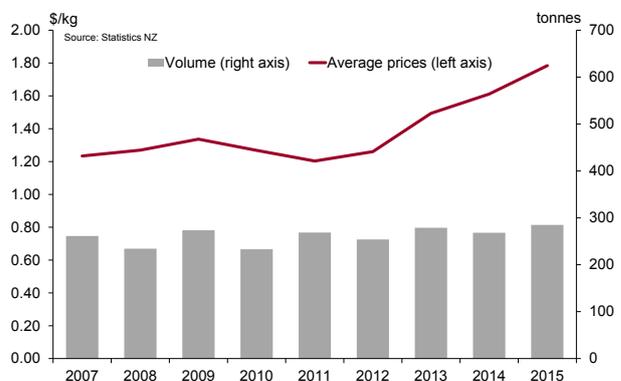
As export shipments wind down, the season has ended on a strong note, with higher average prices despite a strong lift in volumes of both green and gold varieties. The likely El Niño weather pattern this summer will present a challenge to the industry.



## Apples

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

Trade figures up to September show that prices improved further in the latest season, on broadly steady volumes. El Niño presents a substantial risk for next season; the previous El Niño in 1997-98 caused significant issues with fruit quality.



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

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