

# Fortnightly Agri Update

4 May 2016

## It won't happen overnight...

In last night's GlobalDairyTrade auction, the headline price index fell 1.4%. However within this result, it was a mixed bag for the various commodities on offer. Butter and skim milk powder prices were down (falling 0.5% and 3.6% respectively). However, whole milk powder (WMP) prices held up better than most, eking out another 0.7% gain. This comes after a solid lift in WMP prices over April and leaves prices only 1.5% below where they were at the start of the year.

Given the subdued outlook for demand, and ample supply, we still expect prices to bump around near current levels for some time yet before starting to grind higher from late 2016. We continue to forecast a \$4.60 farm gate milk price for the 2016/17 season.

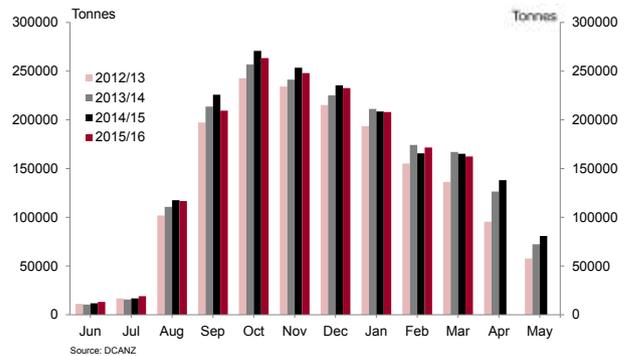
We still believe that today's low global dairy prices are unsustainable, and will produce a supply response that eventually leads to slowly rising prices. Locally, New Zealand farmers are feeling the impact of weak dairy prices loud and clear. The latest production data show that for the season to March, NZ milk production was down 1.7%. It looks like full season production could be down around 2%.

The drop in milk production is due to a combination of fewer cows, less spending on supplementary feed and fertiliser, and a focus on trimming costs on farm as much as possible. Many of these influences are likely to flow into next season. Farmers' budgets will remain under pressure, and most will still struggle to get their cashflows out of the red and back into positive territory even if next year's payout is a little higher than this year's. This means on-farm costs will remain firmly in the spotlight, and that production levels could continue to fall.

Like New Zealand farmers, European dairy farmers are also being squeezed. However, their energies seem to be spent as much on lobbying government for support packages as battenning down the hatches, focusing on their own back paddocks and ensuring operations are as efficient as possible. Ultimately, over a longer horizon, trends within Europe are likely mean increased production from more efficient producers in the likes of Ireland, Denmark and the Netherlands, and less production among their less efficient neighbours. A year after the removal of quotas, we have seen plenty of evidence of more efficient producers ramping up production, but much less evidence on the opposite side of the ledger. Milk production in Ireland is up an astonishing 17.5% from April 2015 to February 2016 compared to the same period a year earlier. Meanwhile Romanian production is down 5.7%, Croatian production is 0.8% lower, and production in some eastern EU countries is expected to flat line. But just because it hasn't happened to any great extent yet, doesn't mean supply reductions in less efficient countries won't happen at all. We continue to expect the overall pace of growth in European milk production to slow over the course of 2016.

**Anne Boniface**  
Senior Economist

## NZ milk production



## GlobalDairyTrade Auction Results, 4 May 2016

	Change since last auction	Price index USD/Tonne
Anhydrous Milk Fat (AMF)	-1.6%	\$3,195
Butter Milk Power (BMP)	-5.5%	\$1,366
Butter	-5.5%	\$2,601
Skim Milk Powder (SMP)	-3.6%	\$1,676
Whole Milk Powder (WMP)	0.7%	\$2,176
Cheddar	1.8%	\$2,727
GDT Price Index	-1.4%	

## Payout Forecast Table

	2015/16		2016/17
	Fonterra	Westpac	Westpac
Milk Price	\$3.90	\$4.00	\$4.60

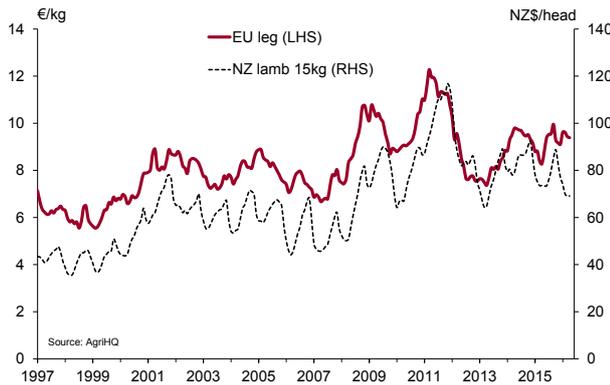
# Beyond the farm gate



## Lamb

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

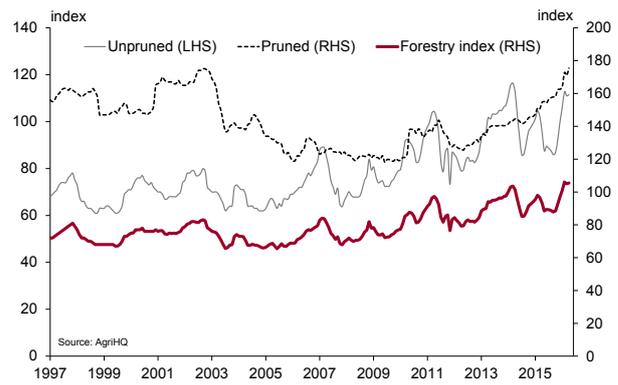
Lamb supplies are expected to tighten over the next couple of months which could support local prices in the near term. However, internationally there is little change to the bigger picture of tight global supplies and weaker growth in demand in key markets such as China and the Middle East. The newly announced agreement with China, which opens up that market to chilled NZ meat exports, is a positive development for the sector. It should eventually provide an additional source of demand for higher value exports.



## Forestry

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

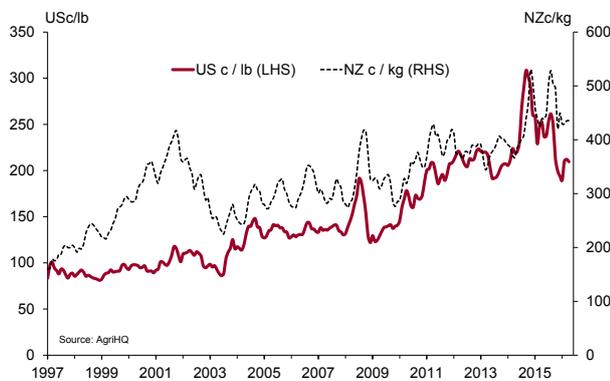
International log prices improved in April, and are continuing to hold up better than we had anticipated. Domestically, the buoyant construction sector, led by strong building activity in Auckland and Canterbury, continues to support local prices. Residential consent issuance bounced back in February after a soft outturn in January. Internationally, supplies reported remain relatively tight. However, slower growth in key export markets and an eventual increase in supply are still expected to weigh on export prices over the coming months.



## Beef

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

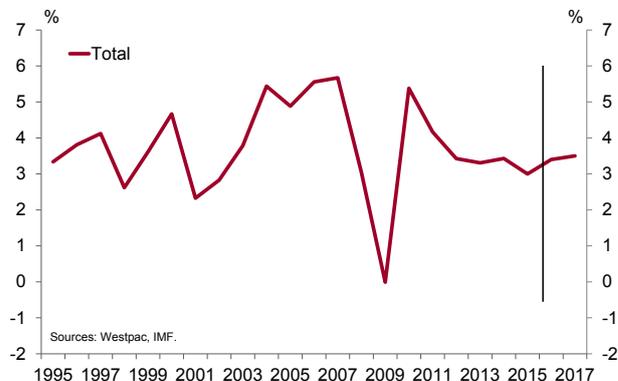
Over the medium term, international beef prices are likely to be underpinned by relatively tight global supply as beef exports from Australia and, to a lesser extent New Zealand, contract. However this will be balanced against increasing domestic supplies in the US with changes to market access for Brazil's chilled beef exporters an important wild card that could influence prices. A lift in New Zealand's cow cull as the local dairy season winds up will also add to domestic supply in the coming months



## Global Growth

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

Our latest Monthly Market Outlook, which updates the Westpac Economics Team's view of the global economy, forecasts global growth to slow this year to 3.3% (previously 3.4%), and improve a little to 3.5% next year. We remain of the view that growth in China is set to slow further this year and next. The recent rebound in commodity prices and improved market sentiment is a positive development. However, tensions remain apparent just below the surface. Global market sentiment is probably best described as skittish



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

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