

# Dairy Update.

18 March 2020



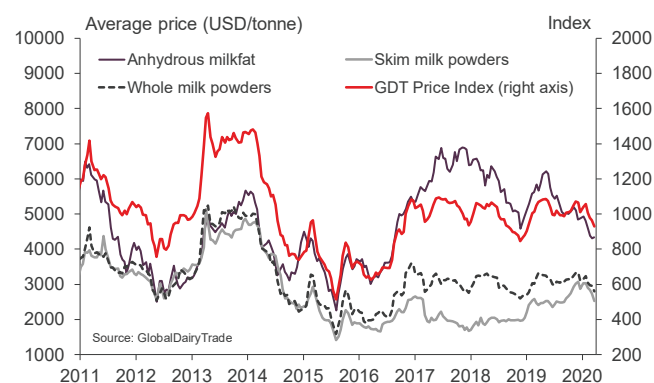
## GlobalDairyTrade Auction Results, 18 March 2020

	Change since last auction	Prices USD/tonne
Anhydrous Milk Fat (AMF)	1.0%	\$4,331
Butter	0.3%	\$4,144
Butter Milk Powder (BMP)	-	-
Cheddar	2.6%	\$4,398
Lactose	4.9%	\$914
Rennet Casein	1.0%	\$9,987
Skim Milk Powder (SMP)	-8.1%	\$2,527
Whole Milk Powder (WMP)	-4.2%	\$2,797
GDT Price Index	-3.9%	929

## Farmgate milk price forecasts

	2019/20	
	Westpac	Fonterra
Milk price	\$7.20	\$7.00-\$7.60

## Dairy prices



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Last night's GlobalDairyTrade auction resulted in a decline in the headline price index of 3.9%, but prices were mixed across products. This was a stronger result than we had expected, given how other markets are reacting to COVID-19.

Our key export product, whole milk powder, fell 4.2% - a much smaller fall than yesterday's futures market predictions of a 9%-11% fall. At US\$2797, it is at the lowest level since January 2019 although still inside the sideways range since 2017. The low point of the past few years is \$2599 in November 2018.

Skimmed milk powder prices fell 8.1% (despite Fonterra offer volumes forecast for April-June being reduced due to lower North Island production), butter rose 0.3%, anhydrous milk fats rose 1.0% (despite volumes being increased due to higher South Island production), and cheddar cheese rose 2.6%.

Last night's auction was expected to be the first to be significantly affected by the coronavirus outbreak, with global containment measures accelerating in early March. However, the 3.9% fall is of a similar magnitude to the three previous auction falls (-4.7%, -2.9%, and -1.2%).

Since the outbreak gripped global financial markets in late January, whole milk powder prices have fallen 13.5%. This decline is more moderate than that seen for other globally traded commodities, for example sugar -31%, wheat -17%, copper -17%, US lumber -30%. Brent crude oil has been an extreme case, plunging 59%. The evidence to date is that during this pandemic, dairy commodities have outperformed most major commodities, perhaps a testament to demand for core foods with health properties.

Looking at the regional breakdown for last night's auction, North Asian demand (a proxy for China demand) bounced back from a weaker showing at the previous auction. This is consistent with data showing new virus cases inside China have slowed significantly, as well as anecdotes of economic activity in China starting to normalize.

While demand for dairy products has been more robust than for other commodities, it is likely to remain affected by the economic fallout from the pandemic for some time. Outlooks for global economic growth for calendar 2020 have been downgraded sharply over the past few weeks, the OECD's forecast recently cut from 2.9% to 2.4%. China's economy likely contracted in Q1 for the time since 1992, and it is unlikely to return to pre-pandemic levels until at least Q3.



On the supply side, as yet there hasn't been any strong evidence of a significant shortfall in New Zealand production to date, despite droughts and floods. Canterbury production gains have partly offset North Island production losses. Further, Northern Hemisphere production appears to be cranking up and running ahead of the previous (admittedly drought-affected) year. And with regards to COVID-19's impact on production, dairy farms in the modern era have relatively low labour inputs, being highly mechanized, and are geographically isolated from urban centres, making them less at risk of disruption than other types of manufacturing.

The futures market for the 2019/20 farmgate milk price remains stuck at \$7.20/kg, where it has been since early February (unsurprising given 80% of the season's production volumes, as well as most sales, are known). That is in line with our own forecast for this season of \$7.20.

For the 2020/21 milk price, futures are lower at \$6.20, having fallen from a pre-virus peak of \$7.30 in January. We are currently refreshing our own forecast for 2020/21 and will report that in due course.

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