

AgriHQ DAIRY INSIGHT

Key Points

- No growth in NZ milk expected
- September 2018 milk price futures \$6.40/kg MS
- More sunshine than usual
- Palm kernel prices still elevated

↓ WHOLE MILK POWDER (US\$/T)	↓ NZD:USD	↑ FONTERRA COOPERATIVE GROUP SHARES	↓ MILK PRICE FUTURES (SEP18)	↑ PALM KERNEL WAIKATO (\$/T)	↑ FEED BARLEY CANTERBURY (\$/T)
3015	0.70	6.23	6.40	260	387

VIEWPOINT



Amy Castleton

Outlook for dairy commodities faltering



Susan Kilsby

The outlook for commodity prices has continued to weaken this week.

Whole milk powder (WMP) futures trading on the NZX Dairy Derivatives market have dropped below US\$3000/t. The November contract settled at US\$2975/t yesterday, down US\$95/t from a week ago. This contract has traded down a further \$25/t this morning. If WMP prices drop to this level at the next Global Dairy Trade (GDT) event, this would be a 3.7% fall. The next GDT event is not until November 7, however, so there is still plenty of opportunity for futures prices to move around more. The Derivatives market expects WMP to ease to US\$2900/t by early next year and stick at this level until June.

“The market seems to be paying little mind to NZ milk production figures.”

The market seems to be paying little mind to NZ milk production figures. August production was down 1.5%, and September was down 1.3%. Fonterra has revised its full season forecast down and now expects 1% growth in its milk supply this season (its previous forecast was for 3% more milk). The AgriHQ forecast has been drawn back. We now expect no growth in NZ milk production this season, with October production also expected to be down on last year.

Falling NZ milk production should be supporting WMP prices. But there is little urgency from most buyers to secure

product now – likely exacerbated by Fonterra lifting its WMP offer volumes on GDT. China has been the exception, as it has been buying steadily. However, any urgency coming from China will be because they are aiming to land product while the lower tariff applies at the beginning of the year.

The outlook for milkfat prices has also declined this week. The November futures contract for anhydrous milkfat (AMF) has eased US\$75/t to US\$6500/t. The Derivatives market expects AMF to fall below US\$6000/t by March. Near-dated contracts for butter have remained steady this week but contracts from February have lost value. Butter prices are expected to reach US\$5150/t early next year.

European butter prices have dropped right away recently and are now about US\$7000/t again. This is much higher than prices in Oceania, but is down about US\$1000/t from where it was a month ago. European milk production is now increasing at an accelerated rate, which should result in improved supply of commodities such as butter and cheese over the next few months.

The weaker outlook for commodity prices will put pressure on the milk price forecast if the physical market plays out as the futures market is suggesting it will. Fonterra’s \$6.75/kg milksolids (MS) forecast already looks quite high with the AgriHQ forecast at \$6.36/kg MS.

September 2018 milk price futures have lost 19 cents over the past week, settling at \$6.40/kg MS yesterday. There are currently 3994 open positions in this contract, equivalent to 24 million kg MS.

Milk Price Forecast (\$/kgMS)

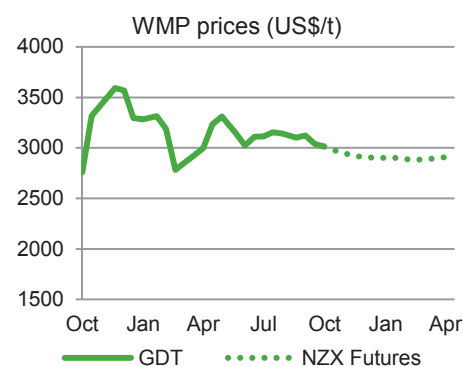
2017-18 FONTERRA	2017-18 AGRIHQ
6.75	6.36

NZX Milk Price Futures

	This week 25-Oct-17	Last week 17-Oct-17	Change
Sep 2018	6.40	6.61	↓ -3%
Sep 2019	6.25	6.25	↔ 0%
Sep 2020	6.35	6.35	↔ 0%

NZX WMP Futures

Nov 2017	2975	3130	↓ -5%
Dec 2017	2920	3100	↓ -6%
Jan 2018	2900	3100	↓ -6%
Feb 2018	2900	3100	↓ -6%
Mar 2018	2880	3060	↓ -6%
Apr 2018	2895	3060	↓ -5%



GDT Results

	Latest average	Change vs previous	Change vs year ago
WMP	3010	↓ -1%	↑ 9%
SMP	1800	↓ -5%	↓ -18%
AMF	6840	↑ 5%	↑ 37%
Butter	5740	↓ -2%	↑ 44%
Average	3200	↓ -1%	↑ 8%

Based on prices for all GDT sellers for all contract periods. Source: GlobalDairyTrade

NZ starting to dry out

Spring westerlies and higher pressures have brought a drier period to much of the country, MetService says. There have been periods of rain for western regions but totals have been much lower than seen over winter.

September ended with soil moisture near saturation point for the majority of the country. The east coasts of both islands have since started to dry out, reaching more average levels for the time of year. Soil moisture has now reached more normal levels for the majority of the country. There are a few points near Gisborne and Hawke's Bay that are starting to shift towards being too dry. There are still pockets where soil moisture is at field capacity – notably a band across Waikato in the North Island, and the West Coast.

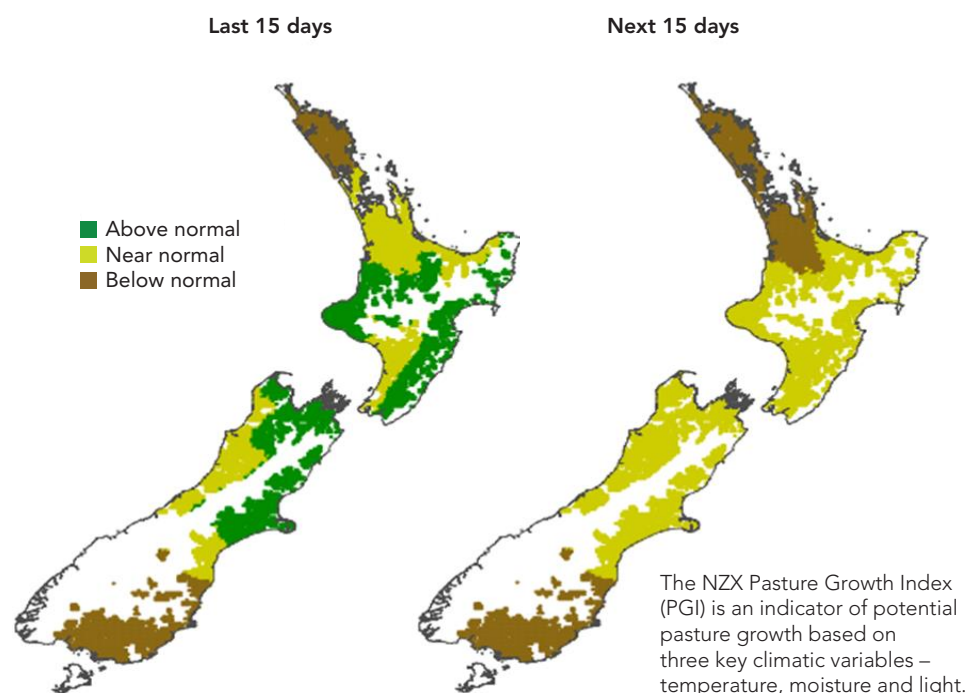
Temperatures have been warmer than usual – particularly in the South island, but areas of the North Island have also been warmer than usual. Warm temperatures are expected to continue. Sunshine hours have also been better than usual in many areas. Easterly regions, Taranaki, and parts of Wairarapa/Wellington and Nelson-Marlborough have had an average 7 or 8 hours of sunshine daily – an hour or so more than average. This will be good for crop development, particularly in Canterbury.

Pasture growth conditions have been above average along the east coasts of both islands over the past fortnight. Taranaki and across the

central North Island have also had better than average conditions. The very north and south of the country has had below average conditions, however, while remaining regions have been near normal. Over the next fortnight, pasture growth conditions are expected to remain below normal in the north – extending to Waikato – and in Otago/Southland. Near normal conditions are expected for the rest of the country.

Palm kernel prices have remained elevated and have crept up a couple more dollars over the past week. Spot prices for palm kernel are averaging \$266/t across the country. Buying forward is only a little cheaper at present, with contracts three months ahead averaging \$263/t and six months ahead \$261/t. Supply problems in South East Asia have pushed prices up. Production has been lower than expected, so ships have been difficult to fill. The Malaysian price for palm kernel has been trending up since about June. Out of Malaysia, palm kernel is currently being sold at \$158/t, \$42/t higher than it was at the beginning of June. At this time last year, this price was \$130/t. NZ farmers have been slow to contract any palm kernel; however this does mean that there may be less available by summer. Importers are not necessarily buying if they don't have a contract in place to fill.

NZX DAIRY PASTURE GROWTH INDEX
As at 24-10-2017



Feed Prices				
	Latest	Trend	Vs year ago	
Waikato				
Wheat	395	↔	↔	0%
Barley	385	↔	↓	-1%
Maize Grain	423	↔	↑	17%
Palm Kernel	260	↑	↑	15%
Maize Silage	0.24	↔	↑	24%
Hay	0.44	↔		
Grass Silage	0.22	↔		
Manawatu				
Wheat	406	↔	↑	11%
Barley	423	↔	↑	23%
Maize Grain	427	↔	↑	24%
Palm Kernel	289	↔	↑	8%
Maize Silage	0.24	↔	↔	0%
Hay	0.31	↔		
Grass Silage	0.18	↔	↓	-8%
Canterbury				
Wheat	379	↔	↑	38%
Barley	387	↑	↑	51%
Palm Kernel	259	↑	↑	16%
Maize Silage	0.24	↔	↓	-2%
Southland				
Wheat	400	↔	↑	29%
Barley	403	↔	↑	32%
Palm Kernel	258	↑	↑	14%
Hay	0.20	↔	↓	-33%
Grass Silage	0.20	↔	↓	-33%

Units: Wheat, barley, palm kernel and maize grain values are grower prices in \$/t. Silage and hay prices quoted in \$/kgDM

Fertiliser Prices				
Super	297	↔	↓	-6%
DAP	704	↔	↓	-5%
Urea	477	↔	↓	-6%

Share Prices				
	Latest	Change vs last week	Change vs year ago	
FCG	6.23	↔	0%	↑ 6%
SML	7.98	↑	5%	↑ 142%
LIC	2.30	↔	0%	↓ -13%
ATM	8.42	↑	7%	↑ 303%
PGW	0.57	↓	-2%	↑ 10%

FCG=Fonterra Cooperative Group, FSF=Fonterra Shareholders' Fund, SML=Synlait Milk, LIC=Livestock Improvement Corporation, ATM=a2 Milk Company, PGW=PGG Wrightson

Farmer operating prices (incl. premiums)			
	North Island	South Island	
Cull Cow	↓ 4.25	↔	4.25

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