



Rabobank

**Media Release
June 23, 2017**

Rabobank holds 2017/18 farmgate milk price forecast at \$6.25/kgMS

Milk production growth in New Zealand is predicted to be strong this season, with 2-3 per cent growth forecast for the 2017/18 season, according to Rabobank's latest **Global Dairy Quarterly** report.

Rabobank dairy analyst Emma Higgins said strong farmgate milk price signals from processors had helped boost optimism for New Zealand dairy farmers early in the new season, with the likely result being a lift in milk supply.

Fonterra's opening forecast of \$6.50/kgMS for the new 2017/18 season farmgate milk price was a vast step up on last season's opening forecast and reflects improvement in commodity markets since the end of last year, Ms Higgins said.

"With the majority of opening forecasts from milk processors within a relatively narrow range, the 2017/18 season is off to a more confident start, with cash flows given a much-needed boost compared to prior seasons."

Based on Rabobank's commodity price forecast and assuming a spot currency rate, the global market is in line to deliver a farmgate milk price near NZD \$6.25/kgMS for the full 2017/18 season.

There was some weakness in pricing at the latest Global Dairy Trade (GDT) event on June 21, with the index moving marginally lower by -0.8 per cent and the average price now sitting at USD \$3,434/tonne.

Fats continue to set record prices while Whole Milk Powder (WMP) dropped a modest 3.3 per cent, to USD \$3,022/tonne, in line with Rabobank forecasts.

China imports set to grow

China is likely to be a good news story, the report says, soaking up some of the extra supply growth from New Zealand with strong import growth predicted in the second half of 2017.

Ms Higgins said weak farmgate milk prices in China have resulted in restricted volume growth from large corporate farms, coupled with smaller farmers continuing to exit the industry.

Although a 1.2 per cent growth in production is forecast for China, inventory pipelines are running low and mediocre consumption growth will outstrip supply growth.

"We believe we will see significant Chinese import growth in the second half of 2017 to balance the market and re-stock pipelines," Ms Higgins said.



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Buying strength in developed markets

With increased demand for dairy fats and a shortage of product, prices for fats are at record levels, with the US and Europe the key buying markets.

“Consumer confidence is high in the US at the moment and we expect that demand to continue for the next 12 months,” Ms Higgins said.

While global dairy fat prices continue to defy gravity, continued high prices do raise the question of fats substitution. “Because prices are so high, some end users may look to substitute fats with cheaper vegetable oil alternatives,” she said.

Global production recovery set to continue

Globally, milk production levels continue to recover following the sharp contraction in late 2016.

“Higher farmgate prices and more favourable weather conditions are providing much-needed relief for the world’s dairy farmers after a three-year decline in milk values,” Ms Higgins said.

Overall, the report outlook suggests the global production recovery will continue and the industry will move into a phase of trade expansion, which will be needed to supply the steady, if modest, demand growth.

Rabobank New Zealand is a part of the global Rabobank Group, the world's leading specialist in food and agribusiness banking. Rabobank has nearly 120 years' experience providing customised banking and finance solutions to businesses involved in all aspects of food and agribusiness. Rabobank is structured as a cooperative and operates in 40 countries, servicing the needs of approximately 8.8 million clients worldwide through a network of more than 1000 offices and branches. Rabobank New Zealand is one of New Zealand's leading agricultural lenders and a significant provider of business and corporate banking and financial services to country's food and agribusiness sector. The bank has 33 branches throughout New Zealand. Rabobank also operates RaboDirect, New Zealand's first internet-only bank specialising in savings and deposits.

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