

The outlook for 2018/19 milk prices

A summary of the latest outlook for the value of milk at farmgate in the 2018/19 season.

Highlights

- Our outlook for southern milk prices in 2018/19 has improved
- Demand for butterfat has firmed EU markets
- EU milk growth moderating
- Cheese market at risk from increased supplies

About this outlook

This farmgate price outlook is based on Freshagenda's analysis of global dairy supply and demand and the likely impact on commodity prices and other influences on milk prices in the southern Australian dairy market. It is drawn from our [Global Dairy Directions](#), a commercial product supplied to our clients engaged in dairy manufacture, commodity trading and ingredient buying in Oceania, Asia, US and Europe.

Key points

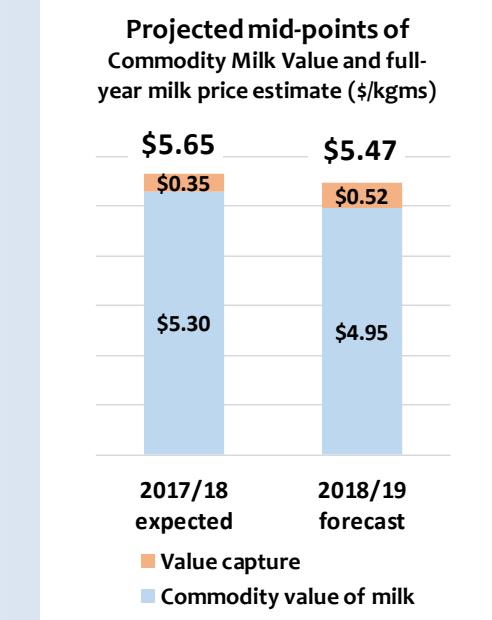
- Our outlook for milk prices identifies **two components of farmgate milk prices** paid by manufacturers in southern Australian regions:
 - The estimated annual **commodity value of milk (CMV)**
 - Value-add captured** additional to commodity value
- Resilient demand for butter at high prices in the EU has kept supplies tight and supported cheese values. Given the flow-on effects on NZ and Australian wholesale prices, our outlook for the average CMV over the full 2018/19 season has slightly improved from last month, to a **range of \$4.85 to \$5.05/kgms**. The likely "value capture" achievable by companies and paid to milk producers **above the underlying CMV** should also improve to a range of 50-55c/kgMS.
- Our forecast for 2018/19 farmgate milk prices in southern regions based on market fundamentals is therefore in the range of **\$5.35 to \$5.60/kgMS**.
- Companies may offer prices that differ from this forecast which is based on industry averages due to differences in product mix and business models. Milk prices offered in 2018/19 will be influenced by likely strong ongoing competition for milk as dairy companies reshape market shares in the post-MG era. Saputo will be looking to rebuild milk intakes supplying its MG assets following completion of its purchase, along with increased competition from new and expanding buyers in the North and West of Victoria. Stronger competition has the potential to lift prices above the fundamentals reflected in our outlook.

The assumptions

- Our outlook suggests projected fundamental values will weaken overall as markets become oversupplied in the first half of 2018. The chart at right summarises the projected values.
- Conversion, marketing and profit retentions are based on industry averages.
- The Australian dollar is assumed **to have appreciated slightly to US\$0.79**.
- The conditions for value capture above commodity milk values are assumed to have improved slightly with the removal of a competitor in domestic cheese market

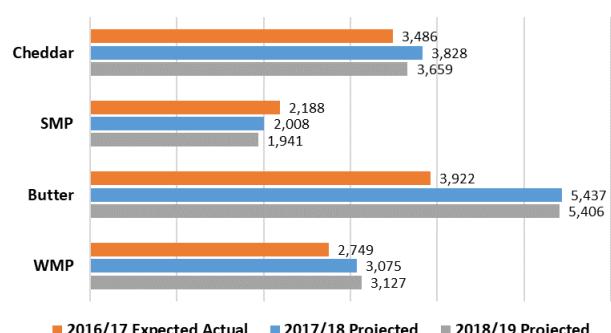
The outlook for milk prices

The mid-points of the two elements of a price outlook outlined in this paper are:



This outlook is sensitive to a number of variables affecting product prices and the value of the \$A.

Product values used in outlook modelling (US\$/t)



The global outlook

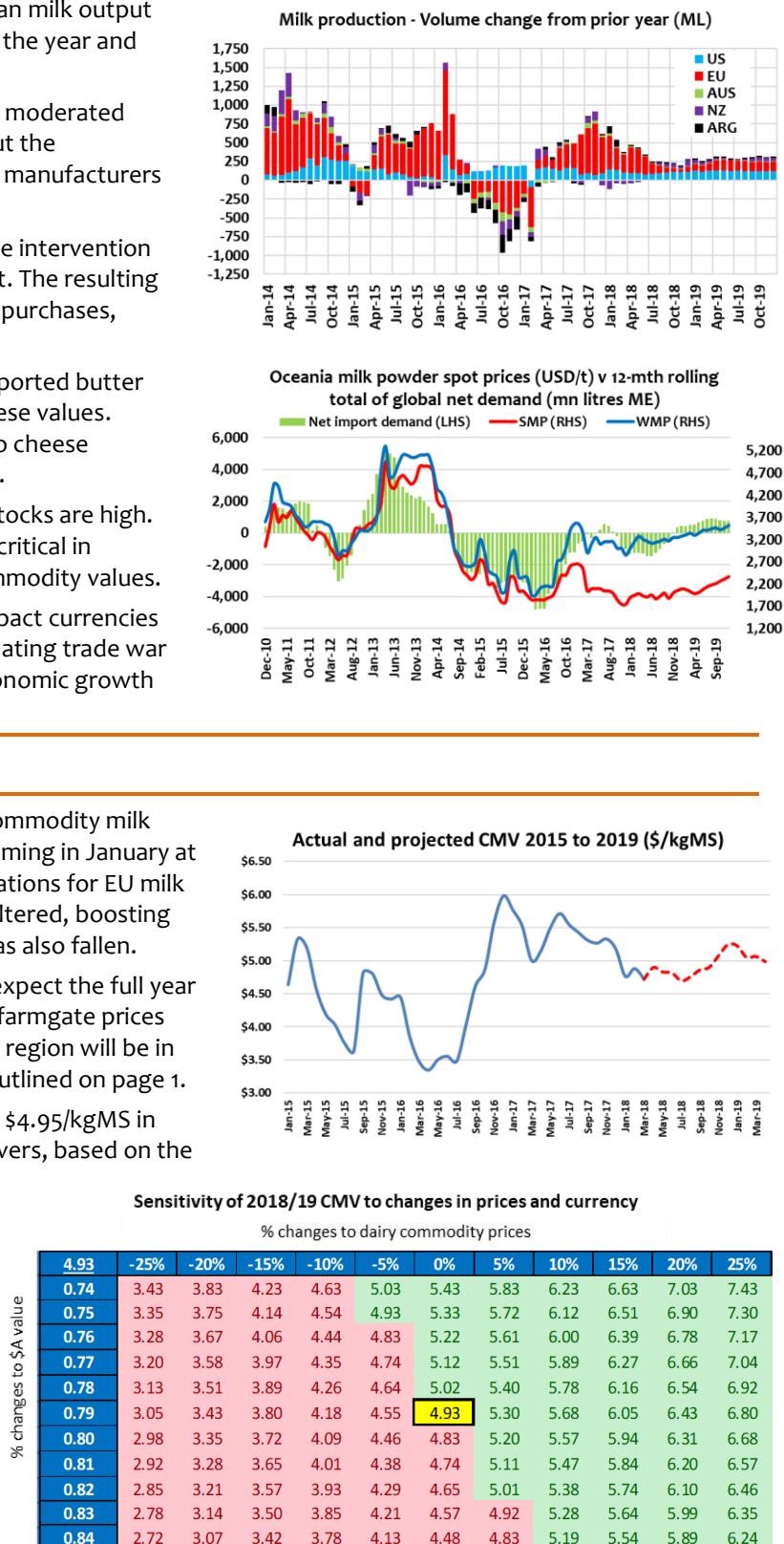
- The global market will remain in oversupply as European milk output peaks in the first half of 2018 before improving later in the year and into 2019.
- Expectations for EU production growth have however moderated with the effects of extended cold and wet weather, but the forthcoming spring flush and product mix decisions of manufacturers will weaken commodity values in the short term.
- Powder markets continue to be weighed down by large intervention stocks of SMP that are trickling slowly onto the market. The resulting low SMP prices are encouraging fat filled milk powder purchases, which is in turn constraining WMP values.
- Within the EU, surprisingly persistent demand has supported butter prices early in 2018, and this has also underpinned cheese values. However, additional EU milk is likely to be directed into cheese production for which there is stable domestic demand.
- In the US, foodservice sales have slowed and cheese stocks are high. Increased demand from EU and US consumers will be critical in limiting export availability and maintaining cheese commodity values.
- There are a number of wildcards that have potential to impact currencies and commodity values – chief among them is the escalating trade war between the US and China which could undermine economic growth in key regions.

The commodity milk value

- After starting the current season at \$5.84/kgms, the commodity milk value steadily fell through the latter half of 2017, bottoming in January at \$4.34/kgms. Since then the CMV has rallied, as expectations for EU milk growth have lowered, and New Zealand production faltered, boosting milk powder and butter prices. The Australian dollar has also fallen.
- The CMV sits at \$5.12/kgms at the time of writing. We expect the full year CMV for 2017/18 to average \$5.30/kgms. This suggests farmgate prices paid by most manufacturers in the southern exporting region will be in the range \$5.55 to \$5.75/kgms, subject to the factors outlined on page 1.
- Looking forward we expect the average CMV to fall to \$4.95/kgMS in 2018/19, with weaker cheese and fat values the key drivers, based on the projected monthly values drawn from our analysis and shown on the right

Where are the risks?

- The outlook for the CMV is sensitive to changes in commodity prices and exchange rates.
- The table shows the impact on the projected CMV from varying commodity prices (by 5% per column) and the \$.A.
- A different product mix to the industry average which used in the calculation will be achieved by individual companies and may vary outcomes.



Further information

The outlook is intended as a planning input for farmers and other stakeholders and is distributed freely within the Australian industry. For more information on our approach to calculating the Commodity Milk Value, please go to our [website](#).