

Fonterra Milk Powder Prices Decline for Sixth Month

(Bloomberg – New Zealand)

By Tracy Withers

Fonterra Cooperative Group Ltd., the world's biggest dairy exporter, said whole milk powder auction prices fell to their lowest in more than two years amid slowing global demand.

The average price fell 9.3 percent to \$2,017 a metric ton in a sale yesterday, the company said on its GlobalDairyTrade Web site. Milk powder slumped a sixth month and is down 54 percent since the company began the monthly auctions in July.

World prices of butter, milk and cheese have fallen from record highs 13 months ago as the slowing global economy capped demand for commodities and the U.S. and Europe increased dairy exports.

“Dairy prices have fallen as a result of a cyclical lag between supply and demand,” Kelvin Wickham, managing director of GlobalDairyTrade said in an e-mailed statement. “This has been accelerated by the demand downturn resulting from the global financial crisis and recession.”

Fonterra last month said falling prices and weakening demand may force a cut to the price it pays for milk this season. The company will review its payout estimate on Jan. 27 and there is an “increasing likelihood” New Zealand farmers will receive less than currently forecast, Chairman Henry van der Heyden said Dec. 30.

The company's Internet-based auctions offer a one-month contract with delivery starting two months after the auction, and two three-month contracts with delivery starting three and six months after the sale.

In yesterday's sale, powder for March delivery rose to an average \$2,106 a ton, up 1.3 percent from the price for February shipment in last month's auction.

Still, powder for delivery April through June fell 14 percent to \$1,954 a ton, Fonterra said. Powder for shipment in July to September sold for an average \$2,053 a ton, down 16 percent.

The rise in prices for March delivery is “encouraging,” said Wickham. “Our analysis indicates that we are near the bottom of the price cycle. Current price levels represent excellent buying.” 1-07-09