We can all learn from this...

Which way are milk prices headed?

Three New Zealand experts were asked their views of Dr Wagner Beskow's theory on price cycles.

Kelvin Wickham, managing director of Fonterra global trade:

Fonterra's view is that volatility in dairy prices is here to stay, although the causes at any one time will vary.

The drivers of volatility are numerous. They include changes in consumer confidence and demand, supply side responses, oil and grain prices, inventory levels in the global supply chain, weather patterns, subsidies and currency cross rates.

Kelvin Wickham.

To help manage volatility, farmers, buyers, and sellers need transparent pricing based on supply and demand. Our globalDairyTrade electronic trading platform supplies this.

Over the longer term, the outlook for dairy prices is bright as demand for protein is increasing alongside consumer affluence in developing countries.

But there will be ups and downs along the way.

Matthew Newman, DairyNZ economist:

The analysis to understand milk price cycles provides an interesting description of trends that happen in the marketplace.

Matthew Newman.

In practical terms, we would analyse the economic fundamentals of supply and demand in predicting short- to medium-term price movement. For example, as dairy prices rise, consumption and production responses follow to affect future price.

We certainly agree with the main conclusion of this article, which is not to fall into the trap in times of very high milk prices of believing that market fundamentals have changed and that milk prices will be sustained at a new level. At some point in the future, prices will decline in line with well-established market dynamics.

Keith Woodford, professor of farm management and agribusiness at Lincoln University:

The analysis by Wagner Beskow is both interesting and complex. The challenge for farmers is to identify the key "take home" messages. For me, the key message is that dairy prices have always been volatile and that the volatility has been increasing.

Keith Woodford.

Many farmers have a tendency to place too much emphasis on the current price rather than recognising that prices are likely to continue jumping around.

Looking back, it is reasonably easy to explain why prices rose so high in 2008 (linked to the overall commodity boom, increased demand from oil producing countries, and with Venezuela becoming for a short time our biggest dairy market).

The crash in late 2008 and early 2009 can also be explained in terms of the crash of those markets. The recovery in late 2009 has been considerably influenced by demand out of China for foreign dairy production and this is linked to, but not caused totally by, the melamine scandal. None of these were predictable with any confidence until they had happened, using wave theory or any other theory.

So we can expect it to be the same going forward – there will be different causes of volatility, but volatility is unlikely to go away.

For those who are risk-averse, the strategy should be to plan on low prices and then take the bonus if things go well. For those who like risk, then plan on good payouts but don't blame anyone else if it all turns sour.

My best guess is that the medium and long term future for dairy is good, but I don't expect smooth travel. D