

Dairy Update.

16 December 2020



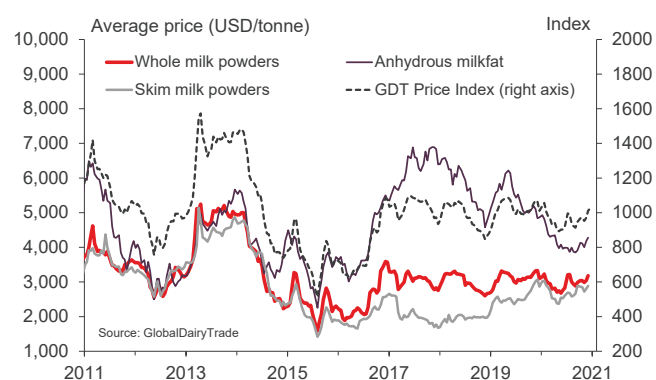
Ending 2020 on a high.

- Dairy prices have ended 2020 on a positive note.
- Prices have now fully rebounded from Covid-related weakness earlier in the year and are also up on a year ago.
- The recent price lifts and positive demand outlook point to upside risk to our \$7.00/kg milk price forecast for 2020/21.

GlobalDairyTrade Auction Results, 16 December 2020

	Change since last auction	Prices USD/tonne
Whole Milk Powder (WMP)	0.5%	\$3,210
Skim Milk Powder (SMP)	1.2%	\$2,930
Anhydrous Milk Fat (AMF)	1.9%	\$4,360
Butter	6.0%	\$4,221
GDT Price Index	1.3%	1,024

Global dairy prices



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Auction Results.

Dairy auction prices posted further gains overnight, with overall prices up 1.3% and whole milk powder prices (WMP) rising 0.5%. The price rise meant that prices have now lifted for three consecutive auctions. Prices have also lifted back past their pre-Covid levels. Moreover, prices are running higher than they were at this stage last year. WMP prices, for example, are sitting 4.2% above the level as at the end of 2019.

The price lift was broad-based. Butter prices continued their recent renaissance, surging 6.0% and making it six consecutive auction price gains. Cheddar prices weren't far behind, jumping 4.2%. Meanwhile, skim milk powder and anhydrous milk fat prices lifted 1.2% and 1.9%, respectively.

Last night's 0.5% WMP price was largely in line with expectations. We had pencilled in a 1.0% lift, while futures market pricing was pointing to a similar lift.

Further price strength may lie ahead.

The recent price moves indicate that the recovery in global dairy demand is on solid ground. In fact, we argue that further price increases may be likely over 2021 as the Covid vaccine rolls out and in-restaurant demand picks up, for example. Moreover, global supply is unlikely to respond in the short term and thus allowing prices the room to go higher.

Consistent with that view is the considerable momentum behind milk fat prices. As noted above butter prices have lifted for six consecutive auctions and rebounded a whopping 28% over this period. Butter prices are now also 10% above December 2019 levels.

With that in mind, the upside risks to our \$7.00/kg milk price forecast for 2020/21 are rising. We will take stock and review our forecast in the new year.

Farmgate milk price forecasts

	2020/21		2021/22
	Westpac	Fonterra	Westpac
Milk price	\$7.00	\$6.30-\$7.30	\$7.00



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