

# Dairy Update.

17 June 2020



## 2020/21 farmgate milk price forecast lifted to \$6.50/kg; 2019/20 forecast finetuned to \$7.20/kg.

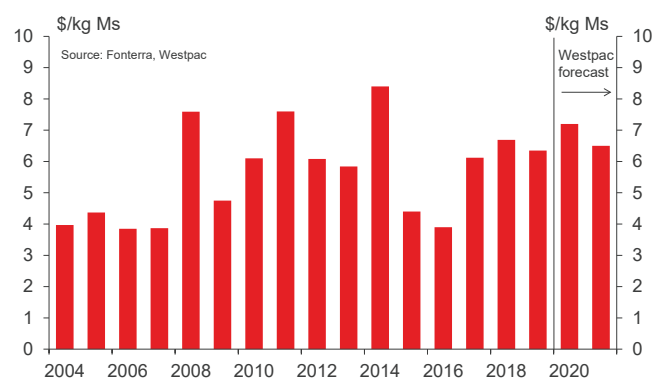
We have lifted our 2020/21 farmgate milk price forecast by 20 cents to \$6.50/kg. The forecast lift comes as the COVID impact on global dairy prices has not been as severe as we first feared.

Meanwhile, we have finetuned our 2019/20 forecast to \$7.20/kg, up 20 cents from our previous forecast. At this late juncture, we have adopted the midpoint of Fonterra's forecast range (\$7.10 to \$7.30/kg) on the basis that since Fonterra's May milk price forecast update auction prices have held up well.

### Farmgate milk price forecasts

	2019/20		2020/21	
	Westpac	Fonterra	Westpac	Fonterra
Milk price	\$7.20	\$7.10-\$7.30	\$6.50	\$5.40-\$6.90

### Farmgate milk prices



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### COVID impact – the worst is over, for now.

Global dairy prices have now stabilized and begun to recover from COVID-driven price falls earlier in the year. Indeed, WMP prices were effectively flat over May, while June prices have lifted 4.4%, with similar movements in prices overall.

At one stage, WMP prices had slipped by around 15%. But now dairy markets have calmed and begun to recover. This recovery follows the loosening of lockdown restrictions in key markets such as China and South-East Asia, with a subsequent improvement, albeit modest, in dairy demand and in turn prices.

The price stabilization and improvement have come earlier than we anticipated. Moreover, the improvement is timely as it allows the new season to start on the front foot and has thus provided us with the impetus to revise our 2020/21 milk price forecast higher.

### However, a global recession still looms large...

However, we still expect that global dairy prices will soften as the global recession weighs on global dairy demand later in the year. Indeed, we have factored in for global dairy prices to weaken over the peak NZ production months as the extra dairy volumes combine with softening global demand.

### ... thus it pays to be prepared.

With that in mind, it pays to note that it is still early days in the season and the uncertainties around the COVID impact through the full dairy season remain large.

On this basis, we recommend that farmers approach the season with 'eyes wide open'. Thus, it pays to stay current on dairy market developments and also to make sure that contingency plans for a lower milk price (i.e. sub \$6.00/kg) are up to date.



## Global Dairy Auction Results – 17 June.

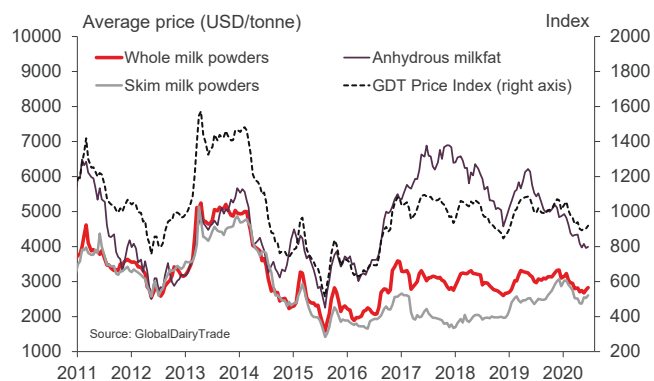
Dairy auction prices ticked higher overnight for the second consecutive auction. WMP prices lifted 2.2%, while SMP prices led gains, rising 3.1%. Five out of the six products we monitor posted price gains, with a 1.9% auction price rise overall.

The result was in line with our expectations. We had penciled in a circa 2% WMP price increase, while the futures market had indicated a similar result.

### GlobalDairyTrade Auction Results, 17 June 2020

	Change since last auction	Prices USD/tonne
Whole Milk Powder (WMP)	2.2%	\$2,829
Skim Milk Powder (SMP)	3.1%	\$2,609
Anhydrous Milk Fat (AMF)	0.8%	\$3,993
Butter	-1.0%	\$3,597
GDT Price Index	1.9%	919

### Dairy prices



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