

Dairy Update.

19 August 2020



Covid returns.

- Dairy auction prices fell modestly overnight.
- The recent Covid-19 resurgence across several countries continues to weigh on dairy demand and prices.
- However, despite their fall, prices remain consistent with our 2020/21 milk price forecast of \$6.50/kg.

Dairy auction prices fell modestly overnight. Key WMP prices posted a 2.2% drop, while overall auction prices slipped 1.7%.

The result compounds the fall at the previous auction. Over the two auctions this month, WMP prices have slipped 9.5%, while overall prices have fallen nearly 7%. Prices are back below their pre-Covid levels after having wiped those price losses over July.

Last night's 2.2% WMP price fall was close to our expectations. We had pencilled in a circa 1% price fall, while futures pricing had suggested a slightly larger fall of around 2%.

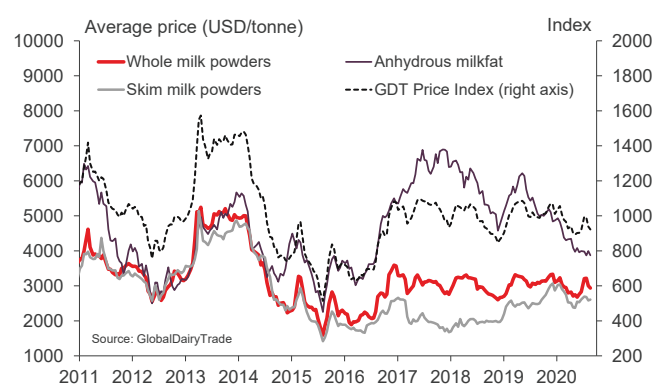
GlobalDairyTrade Auction Results, 19 August 2020

	Change since last auction	Prices USD/tonne
Whole Milk Powder (WMP)	-2.2%	\$2,936
Skim Milk Powder (SMP)	1.1%	\$2,608
Anhydrous Milk Fat (AMF)	-2.9%	\$3,873
Butter	-2.0%	\$3,370
GDT Price Index	-1.7%	922

Covid second waves continue to weigh on dairy prices.

The steep price fall over August comes as several countries battle renewed outbreaks of Covid and as total global case numbers continue to increase rapidly. Indeed, some dairy markets and trade hubs such as Hong Kong, Singapore and Vietnam that were successfully containing Covid have seen cases spike over August. With this in mind, it appears that dairy markets are acting on this renewed risk and have pushed prices lower.

Dairy prices



This backdrop contrasts with the apparent Covid sweet spot over early July. At that stage, by and large key dairy markets such as China and South-East Asia were seeing low and relatively stable case numbers, with lockdown restrictions generally easing as a result.

From here, we expect outbreaks to wax and wane, but generally most key dairy markets (notably China) continue to manage Covid well. Accordingly, we anticipate that as these countries get on top of these virus flare-ups some of the August price falls may prove temporary. On the flipside, if the virus continues to surge in key markets, then prices are likely to fall further.

NZ spring is around the corner.

From a supply perspective and with spring around the corner, the normal lift in NZ dairy production will begin to weigh on prices. The other dynamic in play will be spring weather and growing conditions. As this plays out, we will look to NZ production growth versus a year ago for additional direction

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to dairy prices. At this early stage and anecdotally, a mild winter has set up farmers well for a strong start to spring.

We remain cautiously optimistic on the outlook, but risks remain high.

Despite the price fall overnight, current prices remain consistent with our \$6.50/kg milk price forecast for 2020/21. We have allowed for prices to fall further over the New Zealand spring, although the cumulative fall over this month means we have a little less wriggle room than we previously had.

That said, it pays to note that it's 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' and continue to closely follow dairy market developments.

Farmgate milk price forecasts

	2019/20		2020/21	
	Westpac	Fonterra	Westpac	Fonterra
Milk price	\$7.15	\$7.10-\$7.20	\$6.50	\$5.90-\$6.90

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