

Dairy Update.

2 December 2020



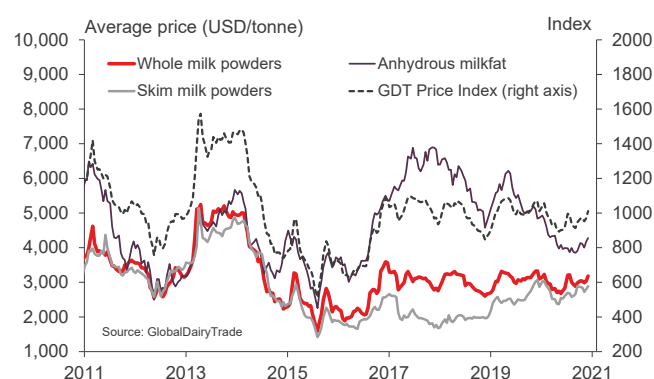
Getting back to normal.

- Dairy prices jumped overnight, with prices rising across the board.
- Increasingly, prices are on solid ground after the Covid-related weakness earlier in the year.
- The price recovery and positive demand outlook bode well for our milk price forecasts
 - we expect \$7.00/kg for both 2020/21 and 2021/22.

GlobalDairyTrade Auction Results, 2 December 2020

	Change since last auction	Prices USD/tonne
Whole Milk Powder (WMP)	5.0%	\$3,182
Skim Milk Powder (SMP)	3.6%	\$2,889
Anhydrous Milk Fat (AMF)	2.6%	\$4,278
Butter	3.8%	\$3,986
GDT Price Index	4.3%	1012

Global dairy prices



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Auction results.

Dairy auction prices jumped overnight, with overall prices up 4.3%. The result built on the 1.8% gain at the previous auction.

The price lift was broad-based. Whole milk powder (WMP) prices led the price gains, jumping 5.0%. Butter prices continued their recent renaissance, rising 3.8% and making it five consecutive auction price gains. Meanwhile, skim milk powder and anhydrous milk fat prices lifted 3.6% and 2.6%, respectively.

Last night's 5.0% WMP price lift beat expectations. We had pencilled in a 1.0% lift, while futures market pricing proved not far off the mark having suggested a 4.0% rise.

Prices are getting back to normal.

Looking over a longer period, dairy prices are normalising. WMP prices are just 3.2% below the same time a year ago and 0.4% below the pre-Covid (late January) level.

Encouragingly, the milk fat price recovery is gaining momentum. As noted above butter prices have lifted for five consecutive auctions and rebounded some 20% or so over this period.

All up, these moves indicate that the recovery in global dairy demand is on increasingly 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.

With that in mind, the result and the positive demand backdrop help reaffirm our 2020/21 milk price forecast of \$7.00/kg. Looking to 2021/22 the risks are a little more balanced given the recent surge in the New Zealand dollar and the fact that Fonterra will have only limited hedging in place at this stage.

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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