

Dairy Update.

22 April 2020



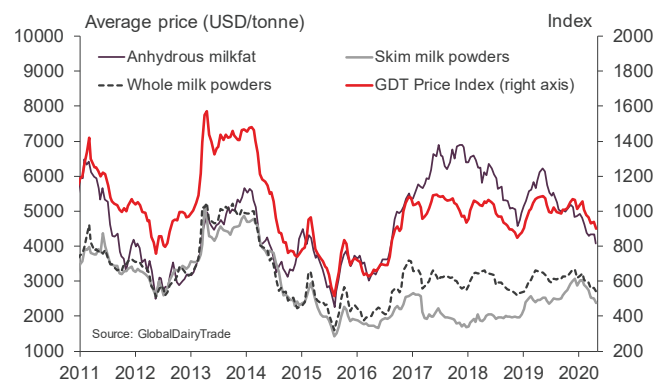
GlobalDairyTrade Auction Results, 22 April 2020

	Change since last auction	Prices USD/tonne
Anhydrous Milk Fat (AMF)	-7.0%	\$4,083
Butter	-3.6%	\$4,117
Butter Milk Powder (BMP)	-	-
Cheddar	1.9%	\$4,480
Lactose	12.0%	\$1,078
Rennet Casein	-3.0%	\$9,409
Skim Milk Powder (SMP)	-4.9%	\$2,380
Whole Milk Powder (WMP)	-3.9%	\$2,707
GDT Price Index	-4.2%	901

Farmgate milk price forecasts

	2019/20		2020/21
	Westpac	Fonterra	Westpac
Milk price	\$7.00	\$7.00-\$7.60	\$6.30

Dairy prices



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Last night's GlobalDairyTrade auction resulted in a decline in the headline price index of 4.2%, similar to market expectations.

Our key export product, whole milk powder, fell 3.9% - only slightly worse than yesterday's futures market predictions of a 2% fall. It has fallen a total of 16% since January, and at US\$2707, it is now near the lower end of a sideways range since 2016 of \$2600-\$3600.

Skim milk powder prices fell 4.9%, butter fell 3.6%, anhydrous milk fats fell 7.0%, and cheddar cheese rose 1.9%.

While the recent trend in dairy prices this year is clearly negative, it's worth noting dairy commodities have easily outperformed major industrial commodities such as oil (Brent crude down 74% since mid-January), copper (-29%), and lumber (-46%), with sugar also hard hit (-40%).

Looking at the regional breakdown for last night's auction, North Asian demand (a proxy for China demand) has rebounded sharply. This is consistent with indications that economic activity in China has started to recover. Middle Eastern demand, on the other hand, continues to be affected by the plunge in oil prices.

We expect global demand for dairy products to be hurt by country lockdowns. That should particularly be true for dairy ingredients (for example milk powder and butter) which go into processed foods, which in turn are sold via food and beverage outlets.

Regarding supply, there's ongoing evidence of increased production in Europe, the US and South America, with the Northern Hemisphere enjoying good spring growing conditions.

Overall, the dominant theme in dairy markets remains one of waning global demand and rising global supply. The implication is probable further downward pressure on world dairy prices. Our farmgate milk price forecast for the 2020/21 season of \$6.30 already assumes further slippage in global dairy markets. Futures markets are currently pricing the 2020/21 milk price at \$6.11, down from \$6.50 two weeks ago. Of particular interest will be Fonterra's opening forecast range, due to be announced in late May.



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