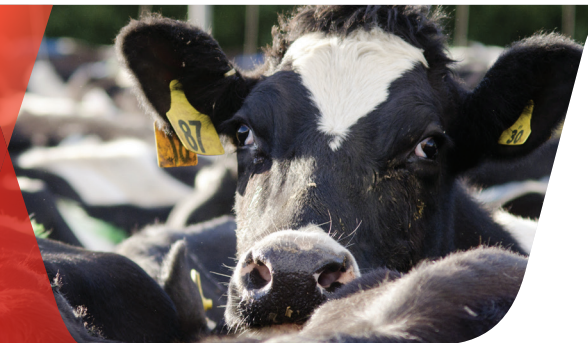


Dairy Update.

5 August 2020



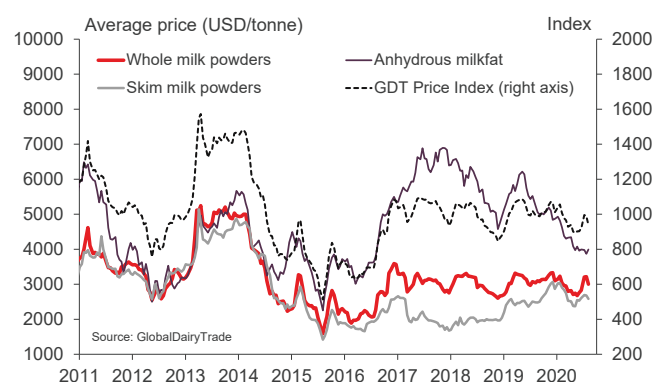
COVID reality still has bite.

- Dairy auction prices slid overnight as concerns about a resurgence of COVID-19 spooked dairy markets.
- However, despite their fall, prices remain consistent with our 2020/21 milk price forecast of \$6.50/kg.

GlobalDairyTrade Auction Results, 5 August 2020

	Change since last auction	Prices USD/tonne
Whole Milk Powder (WMP)	-7.5%	\$3,003
Skim Milk Powder (SMP)	-4.6%	\$2,583
Anhydrous Milk Fat (AMF)	3.0%	\$3,994
Butter	-2.8%	\$3,438
GDT Price Index	-5.1%	939

Dairy prices



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Dairy auction prices slid overnight. Key WMP prices posted the largest decline (down 7.5%), while overall auction prices slipped 5.1%.

The result partially reverses some of July's price gains. Over the two July auctions WMP prices had surged nearly 15%, while overall prices had lifted nearly 8%.

Prices are now back below their pre-COVID levels after having wiped those price losses over July. WMP prices sit around 6% below January (pre-COVID) levels. Recall that at one stage WMP prices were down 15%.

Last night's 7.5% WMP price slide exceeded our and market expectations. We had pencilled in a circa 1% price fall, while futures pricing had suggested a slightly larger fall of around 2%.

COVID second waves re-spook dairy markets...

The steep price fall comes as several countries battle renewed outbreaks and as total global COVID case numbers continue to increase rapidly. Indeed, some dairy markets that were successfully containing COVID have now seen cases spike again. With this in mind, it appears that dairy markets have begun to act on this renewed COVID risk and have pushed prices lower once again.

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

... while rising NZ production has compounded the downward pressure.

With spring around the corner, NZ dairy production will soon begin to ramp up. Similarly, dairy auction volumes on offer have begun to rise in anticipation of the spring increase. Overnight, the quantity of product sold lifted 36% from the previous auction, while for WMP the lift was around 48%.

As mentioned above we had expected a modest fall in auction prices largely reflecting this seasonal increase. For example,



we estimate that this increase accounted for up to 2% of the WMP fall overnight, meaning the market reaction to COVID developments most likely accounts for the remaining 5% or so of the fall.

We remain cautiously optimistic on the outlook, but risks remains 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 steep fall overnight means we have a little less wriggle room than we previously had.

That said, 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' 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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