

Dairy Update.

6 May 2020



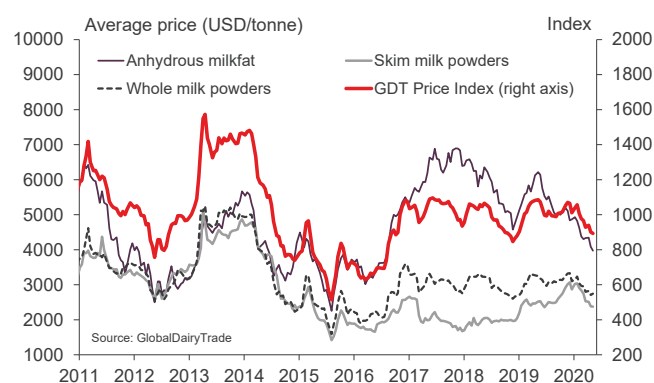
GlobalDairyTrade Auction Results, 6 May 2020

	Change since last auction	Prices USD/tonne
Anhydrous Milk Fat (AMF)	-2.4%	\$3,973
Butter	-5.8%	\$3,867
Butter Milk Powder (BMP)	-	\$2,107
Cheddar	-6.8%	\$4,115
Lactose	7.9%	\$1,153
Rennet Casein	-5.1%	\$8,891
Skim Milk Powder (SMP)	0.1%	\$2,373
Whole Milk Powder (WMP)	0.1%	\$2,745
GDT Price Index	-0.8%	893

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 0.8%, a slightly better outcome than we or the market had expected. Key export products whole milk powder and skim milk powder were hardly changed, the price falls occurring instead in the minor products.

Our key export product, whole milk powder, was effectively unchanged (up 0.1%), which is better than yesterday's futures market predictions of a 2% fall. That said, it remains 15% below the year's peak in January, and at US\$2745, it is 10% below the average of the past three years (\$3040).

Skim milk powder prices were also hardly changed (+0.1%), but butter fell 5.7%, anhydrous milk fats fell 2.4%, and cheddar cheese fell 6.8%. Products such as butter are used extensively as an ingredient in prepared foods, so the decline is unsurprising against a backdrop of Covid-restricted demand for the latter.

Looking at the regional breakdown for last night's auction, we saw something of a reversal in the previous auction's pattern. North Asian volume (a proxy for China demand) pulled back to around average levels, while the Middle East rebounded, as did South East Asia. The Middle East rebound can perhaps be explained by the sharp bounce in oil prices over the past two weeks (prices have more than doubled from the panic-stricken low).

Regarding supply, the story of increased global production remains intact. For the March quarter, major dairy producing countries increased production by 3% compared to the same quarter in 2019. Gains were highest in Argentina (+9%), with the EU-28 up 3.5%, USA +2.9%, and Australia (off a drought-affected low base) +4.9%.

The outlook for dairy prices will hinge partly on the extent to which global production continues to grow, but more on the ultimate impact on demand as a result of the Covid-19 crisis. The latter remains quite uncertain. Our forecast of the Fonterra's milk price for the 2020/21 season of \$6.30 assumes further weakness in global dairy markets in the near term. The futures market is currently pricing it at \$5.97, only slightly lower than \$6.11 two weeks ago. Fonterra will announce its own opening forecast in late May.



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