

# Dairy Update.

7 October 2020



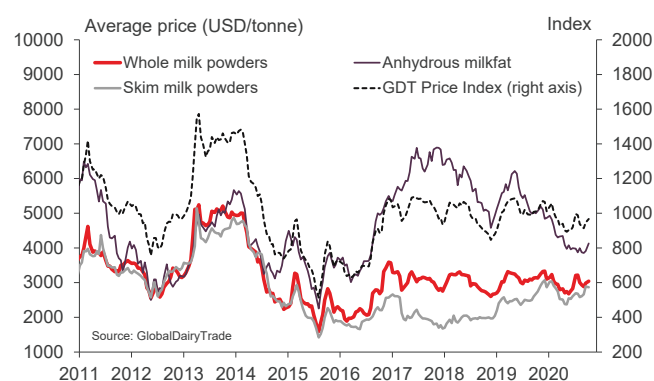
## Dairy prices continuing to rise even as production lifts.

- Dairy auction prices posted solid gains for the second successive auction overnight.
- The result reinforces our 2020/21 milk price forecast of \$6.50/kg.
- If anything, the result introduces some upside risk to our forecast.

### GlobalDairyTrade Auction Results, 7 October 2020

	Change since last auction	Prices USD/tonne
Whole Milk Powder (WMP)	1.7%	\$3,041
Skim Milk Powder (SMP)	-0.9%	\$2,865
Anhydrous Milk Fat (AMF)	5.4%	\$4,131
Butter	8.4%	\$3,561
GDT Price Index	2.2%	967

### Dairy prices



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Dairy auction prices firmed overnight. Whole milk powder (WMP) prices posted a 1.7% gain, while overall auction prices were a touch firmer, lifting 2.2%.

Milk fat prices led the price gains, with butter and anhydrous milk fat prices jumping 8.4% and 5.4% respectively. However, this follows a reduction in the volumes on offer by Fonterra ahead of the auction rather than a fundamental shift in supply. Meanwhile, skim milk powder prices took a breather after a good run, dipping 0.9%.

Last night's 1.7% WMP price rise was largely in line with expectations. We had pencilled in a 1% lift, while futures pricing had pointed to a lift of around 2%.

### Price strength points to firm demand.

The firm overall result points to global dairy demand remaining relatively firm despite the impact of Covid. Importantly, WMP prices topped the key psychological barrier of US\$3,000/MT overnight for the first time since August, indicating a degree of confidence in the market.

Moreover, prices have firmed as New Zealand production hits its seasonal peak. And that is despite recent data suggesting a strong start to the season. August production is running 4.7% ahead of August 2019.

### The result reinforces our \$6.50/kg forecast.

All up, we remain cautiously optimistic on the dairy price outlook. The result overnight reinforces our \$6.50/kg milk price forecast for 2020/21. If anything, the result introduces some upside risk to our forecast. In the short-term, strong New Zealand spring production still has the potential to put pressure on prices, although for now firm global (Chinese) demand is dominating. In other words, watch this space.

### Farmgate milk price forecasts

	2020/21	
	Westpac	Fonterra
Milk price	\$6.50	\$5.90-\$6.90



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