

Dairy Update.

17 February 2021



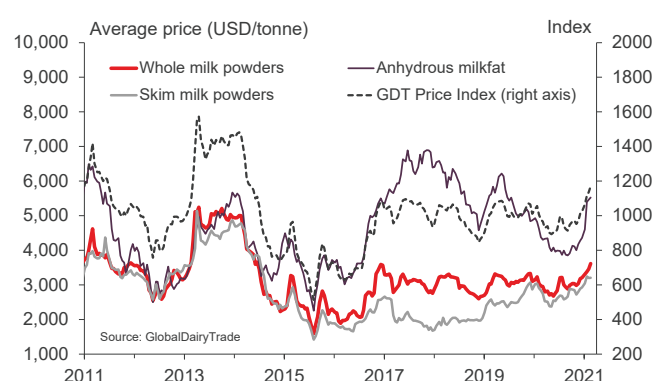
Lucky 7.

- Dairy prices continue to bounce higher, rising for the seventh consecutive auction.
- We expect further price strength in the short-term, before prices begin moderating later in the year.
- The result is in line with our 2020/21 farmgate milk price forecast of \$7.50/kg.

GlobalDairyTrade Auction Results, 17 February 2021

	Change since last auction	Prices USD/tonne
Whole Milk Powder (WMP)	4.3%	\$3,615
Skim Milk Powder (SMP)	0.3%	\$3,207
Anhydrous Milk Fat (AMF)	1.1%	\$5,527
Butter	2.0%	\$5,129
GDT Price Index	3.0%	1,170

Global dairy prices



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Auction Results.

Dairy auction prices continued their surge overnight. Overall prices posted a solid gain of 3.0%, while whole milk powder prices (WMP) jumped 4.3%. Prices have now lifted for seven consecutive auctions. Over that period, the overall prices have bounced 22.9% higher. Also, prices are around 20% higher than a year ago.

The overnight price lift was also broad-based. All of the six products that we monitor showed price rises. The WMP price rise led the gains, while cheddar (up 2.4%) and butter (up 2.0%) posted the next highest price gains, respectively.

The year ahead.

Our latest quarterly *Economic Overview* notes that 2021 is shaping up as a year when New Zealand agriculture cashes in on its earlier resilience. Prices across a range of sectors are firm and getting firmer, with dairy leading the charge.

Underlying the strength in export prices is the surging Chinese economy. With Covid-19 under control, China was the only major global economy to grow over 2020. Importantly, as the economic momentum has continued into 2021 household spending has gathered steam. Growth in South-East Asian economies is not far behind, further underpinning demand for New Zealand products. The global rollout of Covid vaccines will give global food demand a second 'shot in the arm', particularly from other secondary dairy markets.

Currently, global food supply is struggling to keep up with surging demand, causing high grain (feed) prices. That is going to constrain the global supply of dairy. We think that this dynamic also has further to run and will add to the upward price pressure over the first half of 2021. However, we expect that this sweet spot will prove short-lived as ultimately global food supply will respond, moderating dairy prices from late 2021 and into 2022.

Farmgate milk price forecasts

	2020/21		2021/22
	Westpac	Fonterra	Westpac
Milk price	\$7.50	\$6.90-\$7.50	\$7.25



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