

Dairy Update.

20 January 2021



2021: Starting with a hiss and a roar.

- We lift our 2020/21 farmgate milk price forecast by 50 cents to \$7.50/kg.
- We have also increased our 2021/22 milk price forecast by 25 cents to \$7.25/kg.
- Global dairy prices are lifting on the back of surging Chinese demand.
- The dairy price lift is part of a broader surge in global commodity prices.

Farmgate milk price forecasts

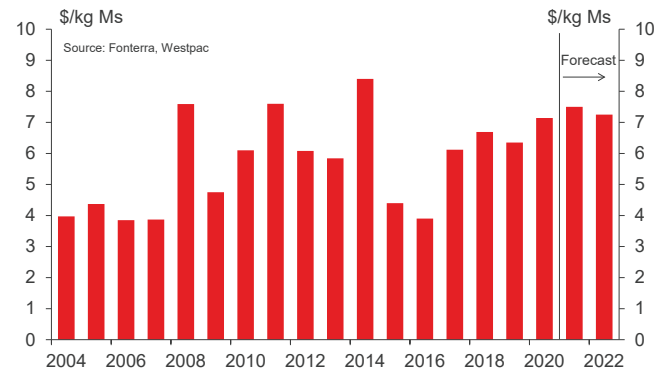
	2020/21		2021/22
	Westpac	Fonterra	Westpac
Milk price	\$7.50	\$6.70-\$7.30	\$7.25

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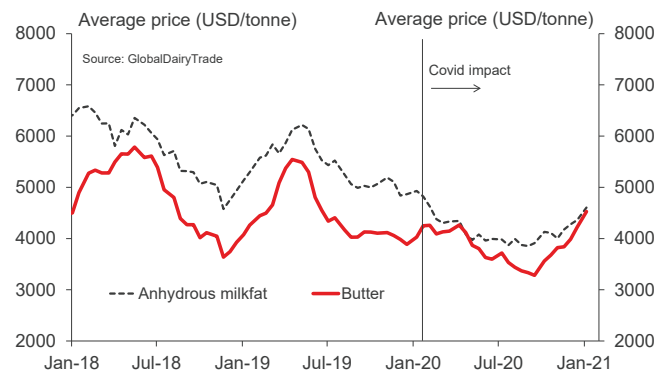
We have lifted our 2020/21 farmgate milk price forecast by 50 cents to \$7.50/kg. This lift puts our forecast above Fonterra's current forecast range of \$6.70/kg to \$7.30/kg. In addition, we have increased our 2021/21 milk price forecast by 25 cents to \$7.25/kg.

Farmgate milk prices



The forecast lifts are on the back of surging global dairy prices, particularly at the start of this year. Since early November, overall dairy prices have jumped 17.2%, with over half of the lift occurring since the start of the year.

Milk fat prices



Notably, milk fat prices are on a tear. Anhydrous milk fat (AMF) and butter prices have both surged. Over the last four months, AMF and butter prices have jumped a whopping



38% and 44%, respectively. This is a key development as it demonstrates that demand for products consumed in restaurants and other food service settings has returned.

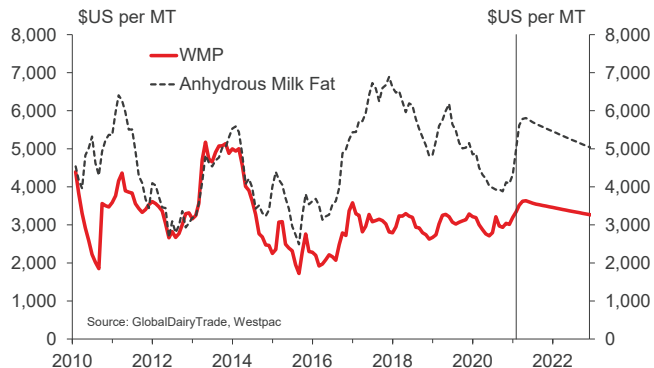
As we have noted over recent months, Chinese demand is underpinning the price surge. China largely has Covid under control and its economy has rebounded strongly. In fact, the Chinese economy actually grew over 2020, the only major economy to do so.

The global dairy price lift is mirroring a broader lift in other commodity prices. Brent oil prices, for example, are trading above US\$55/bbl, essentially back at their pre-Covid levels.

On that measure too, dairy markets have put Covid well and truly in the rear-view mirror. Whole milk powder (WMP) prices are now at their highest level since December 2016.

From here, we expect the price momentum has further to run. Global dairy supply takes time respond to price lifts. Ultimately though, when supply does respond, we expect prices to moderate. But that is a story largely for next season. Similarly, the strength of the New Zealand dollar will have more impact on next season's milk price rather than this season's (due to Fonterra's currency hedging). Nonetheless, global dairy prices will still start the 2021/22 higher than we previously thought. On this basis, we have revised this forecast higher as well as mentioned above.

Wholemilk powder and anhydrous milk fat prices



Auction Results, 20 January.

Dairy auction prices jumped overnight. Overall prices posted a 4.8% lift, while WMP prices posted a more modest 2.2% rise.

All the key products posted price gains. AMF led the price rises, spiking 17.2%. Skim milk powder prices posted the next-largest gain, rising 7.0%. Butter and lactose prices also posted solid gains, while cheddar prices bucked the trend and were down a touch.

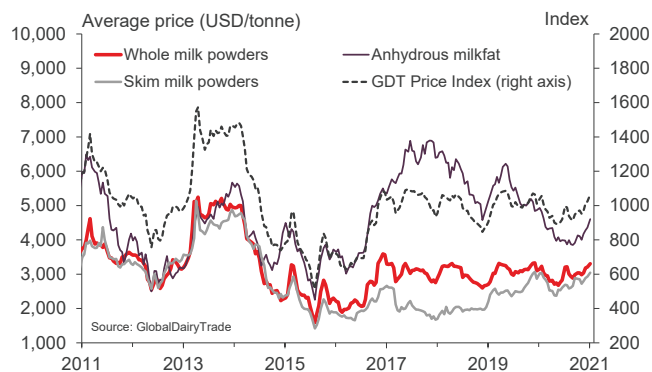
Dairy prices have started 2021 strongly. Overall prices have lifted 9% over the two January auctions. Moreover, prices have now lifted for five consecutive auctions.

The result was in line with market expectations. The futures market was pointing to a WMP lift of around 2% prior to the auction.

GlobalDairyTrade Auction Results, 20 January 2021

	Change since last auction	Prices USD/tonne
Whole Milk Powder (WMP)	2.2%	\$3,380
Skim Milk Powder (SMP)	7.0%	\$3,243
Anhydrous Milk Fat (AMF)	17.2%	\$5,398
Butter	4.6%	\$4,735
GDT Price Index	4.8%	1,116

Global dairy prices



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