

Dairy Update.

3 February 2021



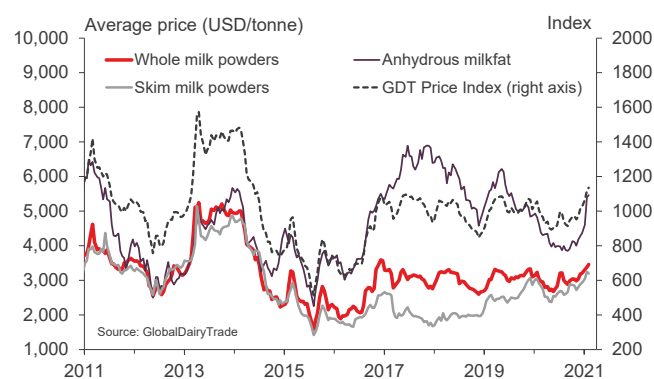
Rollin', rollin', rollin' Rawhide.

- Dairy prices are on a roll, rising for the sixth consecutive auction.
- Notably, milk fat prices continued their surge overnight.
- The result is consistent with our 2020/21 farmgate milk price forecast of \$7.50/kg.

GlobalDairyTrade Auction Results, 3 February 2021

	Change since last auction	Prices USD/tonne
Whole Milk Powder (WMP)	2.3%	\$3,458
Skim Milk Powder (SMP)	-1.5%	\$3,198
Anhydrous Milk Fat (AMF)	1.3%	\$5,463
Butter	6.2%	\$5,028
GDT Price Index	1.8%	1,136

Global dairy prices



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Auction Results.

Dairy auction prices continued their recent strong run overnight. Overall prices lifted 1.8%, while whole milk powder prices (WMP) posted a solid gain of 2.3%. The price rise meant that prices have now lifted for six consecutive auctions. Over that three-month period, the overall prices have bounced 19.3% higher. Also, prices are around 13% higher than a year ago.

Notably, milk fat prices continue to be on a tear. Butter prices, for example, surged further overnight, so that they are now up over 50% on their 2020 low back in September. As mentioned previously, we believe that this is a key development for the recovery in global dairy prices as it demonstrates that demand for products consumed in restaurants and other food service settings has returned.

The overnight price lift was also broad-based. Six out of the seven products that we monitor posted price gains. Buttermilk powder prices led the gains, jumping 10.7%. Only skim milk powder prices (down 1.5%) bucked the trend.

Last night's 2.3% WMP price was a little firmer than expectations. We had pencilled in a 1.0% lift, while futures market pricing was pointing to a rise of around half that magnitude.

The ongoing price firmness is consistent with our recent milk price revisions (we had built in further price rises into our forecast at the time of revision). Recall that after the last auction, we lifted our 2020/21 and 2021/22 farmgate milk price forecasts to \$7.50/kg and 7.25/kg, respectively.

Note this morning, Fonterra lifted its own 2020/21 forecast range by 20 cents to \$6.90/kg to \$7.50/kg. Thus, our forecast is at the top of Fonterra's updated forecast range. In contrast to our forecast for global dairy prices to gain further, it appears that the midpoint of Fonterra's forecast range assumes that prices recede over the remainder of the season.

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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