

Dairy Update.

8 September 2021



Healthy balance.

- Dairy prices posted solid gains overnight.
- On the back of this result, global dairy markets now appear largely balanced, with prices settling at a healthy level.
- Looking over the coming months, we expect the strength or otherwise of New Zealand spring production will bring fresh impetus to dairy prices in either direction.

Dairy auction prices posted solid gains overnight. Overall prices lifted 4.0%, while key whole milk powder (WMP) prices improved by 3.3%. The result snapped an extended period of WMP price weakness, with prices lifting for the first time since back in May. However, over that period WMP prices fell by around 14%, so the lift overnight reverses some but not all of that price weakness.

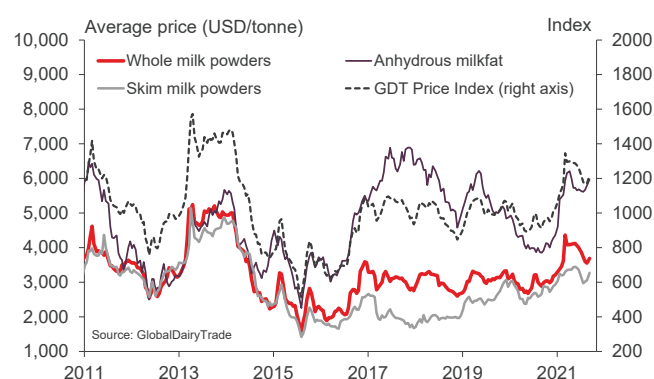
The auction price strength was also broad-based. All products that we monitor posted price gains. Skim milk powder (SMP) prices continued to strengthen, lifting by 7.3% and extending the run of price lifts to three consecutive auctions. Otherwise, the price rises for the main products were clustered around 3%.

GlobalDairyTrade auction results

	Change since last auction	Prices USD/tonne
Whole Milk Powder (WMP)	3.3%	\$3,691
Skim Milk Powder (SMP)	7.3%	\$3,274
Anhydrous Milk Fat (AMF)	3.1%	\$5,970
Butter	3.7%	\$4,948
GDT Price Index	4.0%	1,217

The result was roughly in line with expectations. Prior to the auction, the futures market had indicated a similar rise in WMP prices, while we were somewhat more circumspect, having pencilled in a 1% rise back on Friday.

Global dairy prices



On the surface, global dairy markets appear now to have cleared the massive lift in New Zealand production over the autumn. However, the major movement of product off the auction platform by Fonterra clouds this picture to a degree. The recent SMP price strength is clearer cut. This strength reflects soft European production over recent months. From here, we expect the strength or otherwise of New Zealand spring production will begin to provide fresh impetus for prices in either direction. On that front, growing conditions have been good in the Waikato and Southland, while in Canterbury conditions have begun to improve after a relatively cold winter.

All up, we see the global dairy market as being largely balanced at this point, with prices settling at a healthy level. On that basis, we stick with our healthy \$7.75/kg farmgate milk price forecast for 2021/22. At the same time, we continue to note that it's relatively early in the season and there remains a wide range of possible milk price outcomes on both sides of this figure.

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Farmgate milk price forecasts

	2020/21		2021/22	
	Westpac	Fonterra	Westpac	Fonterra
Milk price	\$7.55	\$7.45-\$7.65	\$7.75	\$7.25-\$8.75



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