

WESTPAC DAIRY UPDATE

GlobalDairyTrade auction results.

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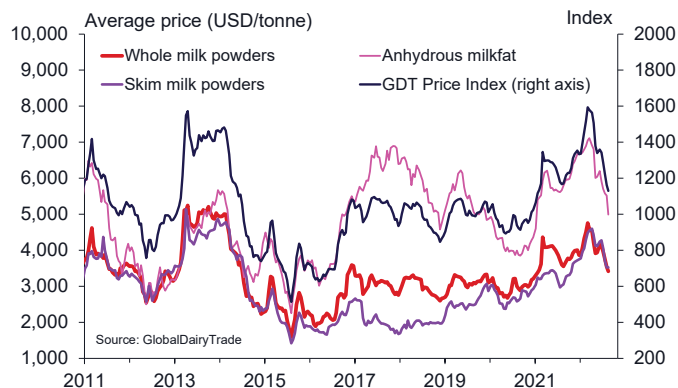
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Toeing the line.

- Dairy auction prices dipped overnight.
- Over the next month or so, we expect dairy auction prices to remain soft.
- However, after that, we expect prices to regain some lost ground and then strengthen into the end of the year.
- With that in mind, we continue to toe the line with our 2022/23 milk price forecast of \$9.25/kg, whilst continuing to note the downside risks to this forecast.

Global dairy prices



GlobalDairyTrade auction results

	Change since last auction	Prices USD/tonne
Whole Milk Powder (WMP)	-3.5%	\$3,417
Skim Milk Powder (SMP)	0.1%	\$3,524
Anhydrous Milk Fat (AMF)	-9.8%	\$4,990
Butter	0.2%	\$5,204
GDT Price Index	-2.9%	1129

Dairy auction prices posted another fall overnight. Overall prices slid 2.9%, while key WMP prices were down 3.5%. That's the 10th overall price decline out of the last 11 auctions.

Prices have effectively been on the wane since March. In fact, WMP prices have plunged by around a third, while overall prices are down 29%. That said, prices were extraordinarily high in March. In annual change terms, the price decline is a more modest 3.5% for overall prices and 9.8% for WMP prices. And looking over a longer period, the prices from overnight sit 3.4% and 2.7% above the five-year average for overall and WMP prices, respectively.

Digging into the results, prices were more mixed. By product, price rises actually outnumbered price falls (three to two). In particular, cheddar prices bucked the trend, jumping 4.2%. Meanwhile, skim milk powder and butter prices eked out small gains (up 0.2% and 0.1%, respectively). In contrast, anhydrous milk fat prices slumped 9.8%.

This result was slightly weaker than expectations. We had expected a 1% fall in WMP prices (as at last Friday), while the futures market pointed to fall of around 2% prior to the auction.

The additional weakness may have reflected a weakening in market sentiment this week following the release of soft Chinese activity data for July. On top of the weaker sentiment, the Chinese yuan fell, making dairy commodities priced in USD more expensive for Chinese buyers.

Overall, we continue to see downside risks to our 2022/23 milk price forecast of \$9.25/kg. However, as mentioned in previous reports, global dairy supply remains very weak, and we continue to expect Chinese demand to rebound over coming months as Covid restrictions ease further and policy stimulus takes hold. On that basis and with the NZD/USD still supportive, we still expect a healthy milk price this season.

Farmgate milk price forecasts

	2021/22		2022/23	
	Westpac	Fonterra	Westpac	Fonterra
Milk price	\$9.30	\$9.10-\$9.50	\$9.25	\$8.75-\$10.25

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