

WESTPAC DAIRY UPDATE

GlobalDairyTrade auction results.

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Back on the horse.

- After a lean run, dairy auction prices posted solid gains overnight.
- The result comes on the back of a further weakening in the global (New Zealand) dairy supply outlook.
- The result and the worsening supply outlook firms up our 2022/23 milk price forecast of \$9.25/kg, and if anything, flips the risks to the upside.

GlobalDairyTrade auction results

	Change since last auction	Prices USD/tonne
Whole Milk Powder (WMP)	5.1%	\$3,610
Skim Milk Powder (SMP)	1.5%	\$3,575
Anhydrous Milk Fat (AMF)	13.9%	\$5,677
Butter	3.3%	\$5,369
GDT Price Index	4.9%	1185

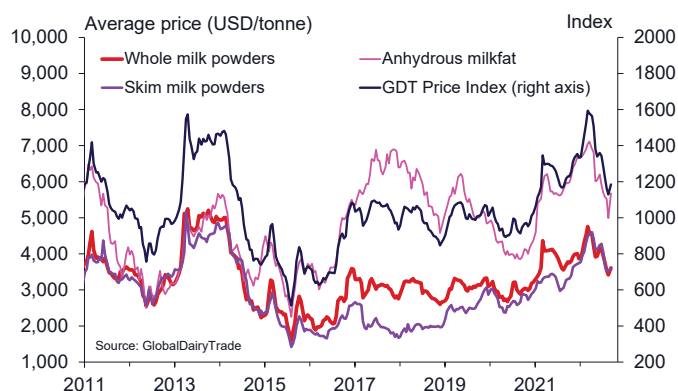
Dairy auction prices got back on the horse last night. Overall prices jumped 4.9%, while key whole milk powder (WMP) prices lifted 5.1%. The WMP price rise snapped a streak of 10 consecutive price declines.

The lift in prices was broad-based. Five out of the six products we monitor posted price gains. Anhydrous milk powder prices led the gains, surging 13.9%, although that followed a circa 10% decline at the previous auction. Butter prices lifted 3.3%, while skim milk powder and cheddar prices gained 1.0% and 1.5%, respectively. Only butter milk powder prices fell (down 5.1%).

This result was in line with expectations. The futures market pointed to a similar price rise for WMP immediately ahead of the auction, while we had pencilled in a 2% lift back on Friday.

The likely catalyst for the price lift is a further weakening in the global dairy supply outlook. Specifically, July New Zealand dairy production was down 5.5% versus July 2021. And anecdotally, production has continued on this weak note over

Global dairy prices



August and into September. For our part, we expect production to rebound this season, after the 4% drop over the 2021/22 season. But with the above in mind, there are now clear downside risks to our production forecast.

In contrast, the strong result firms up our 2022/23 milk price forecast of \$9.25/kg. If anything, the lift in prices has come earlier than we had anticipated. That coupled with the deteriorating New Zealand production outlook brings some upside risks to our forecast into play.

Farmgate milk price forecasts

	2021/22		2022/23	
	Westpac	Fonterra	Westpac	Fonterra
Milk price	\$9.30	\$9.10-\$9.50	\$9.25	\$8.50-\$10.00

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