

# WESTPAC DAIRY UPDATE

## GlobalDairyTrade auction results.

8 June 2022

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## Back on the horse.

- Dairy auction prices rebounded strongly at the auction overnight, breaking a run of five consecutive falls.
- Easing Covid restrictions in China and lower auction volumes on offer are the likely catalysts for the price gains.
- Over the next few auctions, we expect prices to continue to rebound on the assumption that China's Covid restrictions ease further and fact that global dairy supply remains very tight.

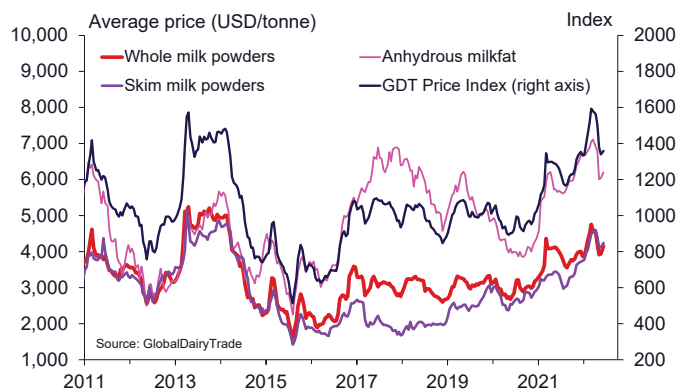
Dairy auction prices rose overnight. According to the auction price index, overall prices rose 1.5%, while key whole milk powder (WMP) prices were down 0.3%. However, the headline price index hides a lot of detail, especially as not all products and contracts are offered at every auction.

Digging into the details and looking at the weighted average price for all products reveals a much stronger picture, with prices up 5.1% at this auction. Moreover, that price strength was broad based. Five out of the six products that we monitor posted price gains. WMP prices (up 5.7%) posted the largest gain, but butter prices were a close second (up 5.5%). Only cheddar prices fell.

### GlobalDairyTrade auction results

	Change in price index since last auction	Change in weighted average prices since last auction	Prices USD/tonne
Whole Milk Powder (WMP)	-0.3%	5.7%	\$4,158
Skim Milk Powder (SMP)	3.0%	3.0%	\$4,240
Anhydrous Milk Fat (AMF)	2.7%	2.6%	\$6,201
Butter	5.6%	5.5%	\$6,068
GDT Price Index	1.5%	5.1%	\$1,359

### Global dairy prices



This result was also stronger than expectations. Immediately prior to the auction, the futures market had indicated a circa 4% rise in WMP prices, while back on Friday we had pencilled in a 2% price rise.

The auction price rise follows the easing of Covid restrictions in China, particularly in Shanghai. That coupled with the lower auction volumes on offer compared to surge we saw in May are the likely catalysts for the price strength.

From here, we expect prices to recover more of the lost ground. WMP prices still remain 12.6% lower than the recent peak in March. We assume that Covid restrictions in China will ease further over coming weeks, taking dairy demand higher as a result. At the same time, we expect global dairy supply to remain very tight, further underpinning prices.

Today's result is consistent with our farmgate milk price forecasts. For the record, our forecasts stand at \$9.30/kg and \$9.25/kg for 2021/22 and 2022/23, respectively.

#### Farmgate milk price forecasts

	2021/22		2022/23	
	Westpac	Fonterra	Westpac	Fonterra
Milk price	\$9.30	\$9.10-\$9.50	\$9.25	\$8.25-\$9.75

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