

WESTPAC DAIRY UPDATE

Forecast update and GlobalDairyTrade auction results.

2 November 2022

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Down but not out.

- We have trimmed our 2022/23 milk price forecast by 50 cents to \$8.75/kg.
- Global dairy demand has weakened more than previously expected and we expect this dynamic to persist into the new year.
- Looking to 2023/24, we expect demand to rebound and for global dairy supply to remain weak.
- On this basis and with the NZD/USD very low, we are setting our opening 2023/24 milk price forecast at \$10.00/kg.

On the back of prolonged weakness in global dairy demand, we have downgraded our 2022/23 farmgate milk price forecast by 50 cents to \$8.75/kg.

Global dairy prices have been under pressure for some time. Over the past three dairy auctions, overall prices have slid by 11.5%. And over the past year, prices have slipped by over 18%.

These recent falls are both larger and have continued for longer than we anticipated. We had expected prices to have stabilised by now, if not started to show signs of a rebound. That is clearly now not the case, prompting our forecast revision.

Farmgate milk price forecasts

	2022/23		2023/24
	Westpac	Fonterra	Westpac
Milk price	\$8.75	\$8.50-\$10.00	\$10.00

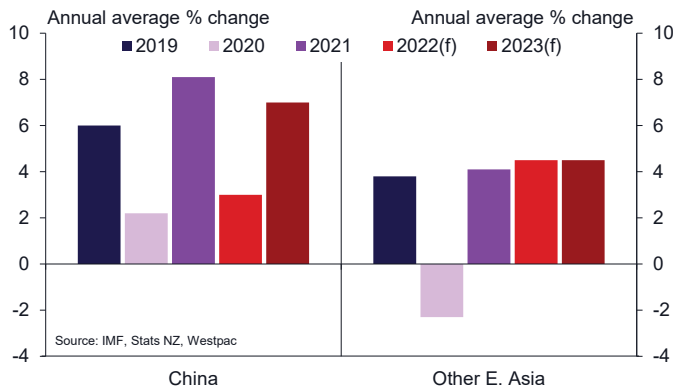
Farmgate milk prices



The weakness in demand largely traces back to conditions in China. Covid and the associated restrictions continue to batter the Chinese economy. We expect just 3% annual economic

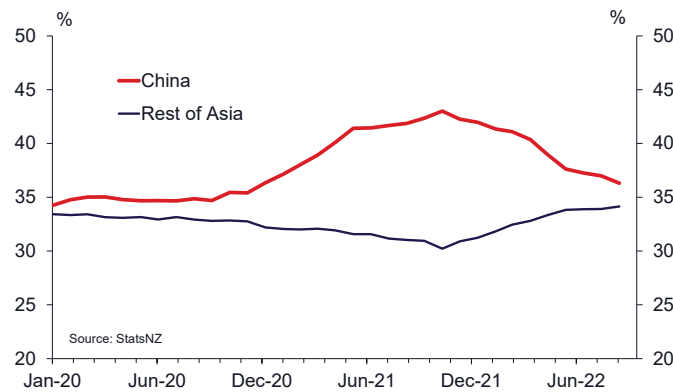
growth over 2022. That's significantly down on the official growth target of 5.5% and 2021's growth rate of 8.1%.

Economic growth forecasts



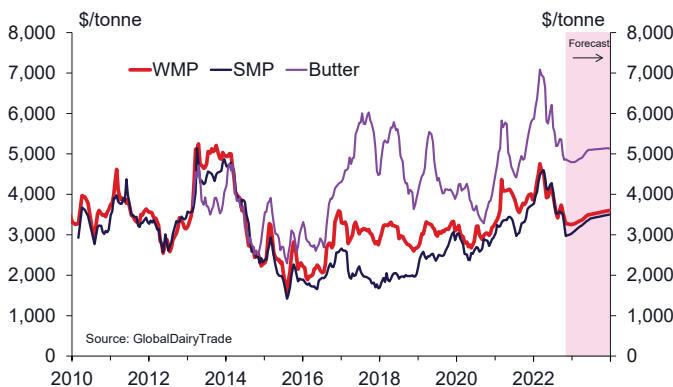
China of course is New Zealand's largest market and therefore has an oversized impact on global dairy prices. With that in mind, it is notable that the share of New Zealand's dairy exports going to China has fallen over the past year or so, with the fall in China's share coinciding with the fall in global dairy prices. Our other key markets in the rest of Asia are picking up some of the slack, although at lower prices than China was paying at that time.

Share of New Zealand dairy export volumes



We have built this price weakness into our milk price forecast. We expect prices to remain weak for the remainder of the year and into the start of 2023.

Key dairy commodity prices and forecasts

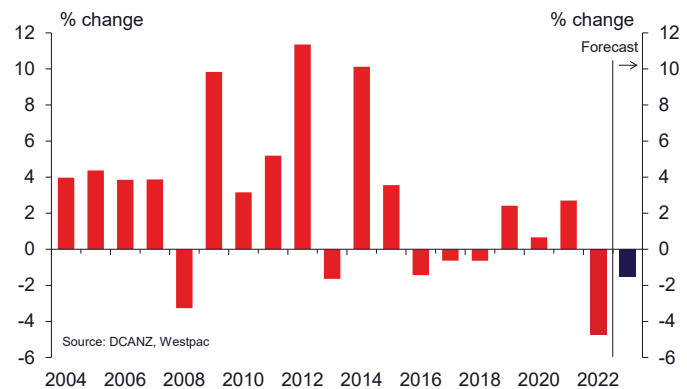


However, we expect this prove weakness will prove temporary. From around February 2023, we expect prices to bottom and then to start to increase.

This outlook is based on our view that Chinese growth will turnaround over 2023. From 3% this year, we expect Chinese growth to accelerate to 7% over 2023. We expect that as Covid restrictions are eventually eased, Chinese consumer demand, including for dairy, will quickly return.

In addition, the global dairy supply outlook remains very weak. For example, we now expect New Zealand dairy production to fall 1.5% over this season compared to last. Recall that New Zealand's production has started this season on a weak note. A wet and cold winter and spring to date over many parts of the country have seen production running 4% behind the same stage last season. While we do expect some improvement over the remainder of the season, the prospects for production for the season as a whole remain very soft. Similarly, production remains weak in the EU and to a lesser degree in the US.

Dairy production growth (all NZ suppliers)



All up, we expect global dairy prices to firm over the course of 2023. While that won't be enough to prevent the downward revision to this season's forecast, it does set up 2023/24 for a bumper milk price. Indeed, we have set our opening estimate at \$10.00/kg. It pays to note that the 2023/24 season will also receive a large boost from the weak NZD/USD.

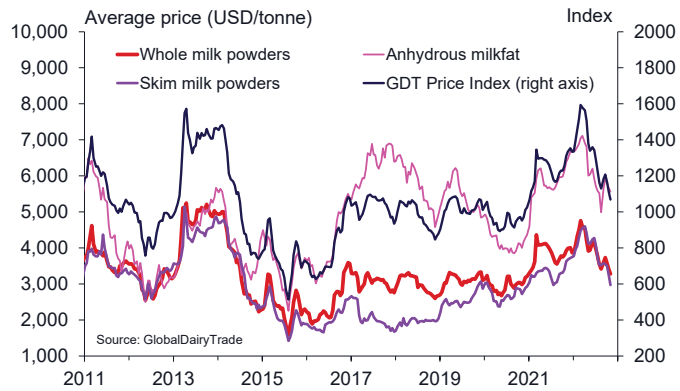
Factoring in our forecast revision means that farm operating margins will tighten. Margins were already under pressure from rising farm operating costs. That said, we still expect the majority of farms to remain profitable this season. Looking to 2023/24, based on our forecast and assuming some moderation in operating cost growth, farm margins are likely to recover some of this season's lost ground.

Auction results, 2 November.

GlobalDairyTrade auction results

	Change since last auction	Prices USD/tonne
Whole Milk Powder (WMP)	-3.4%	\$3,279
Skim Milk Powder (SMP)	-8.5%	\$2,972
Anhydrous Milk Fat (AMF)	-1.7%	\$5,562
Butter	0.2%	\$4,868
GDT Price Index	-3.9%	1069

Global dairy prices



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