

# WESTPAC DAIRY UPDATE

## GlobalDairyTrade auction results.

18 January 2023

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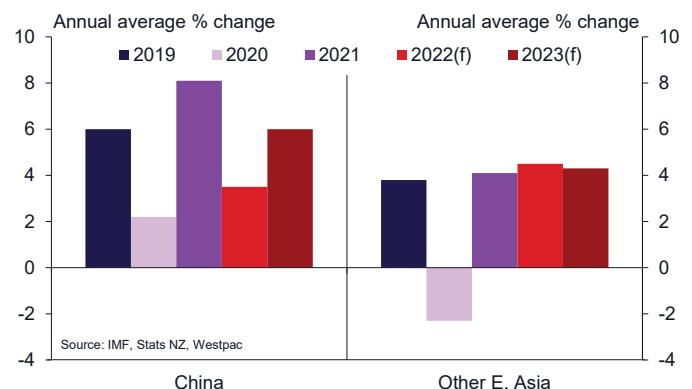
## Sooner rather than later.

- Dairy prices have started 2023 on a soft note.
- However, we expect this price weakness will not last.
- In fact, we expect that the abrupt end to China's Covid Zero policy will lead to a swift rebound in dairy demand and lead global dairy prices higher over coming months.
- As a result, we stick with our 2022/23 milk price forecast of \$8.75/kg.

Dairy prices have started 2023 on a soft note. For the January 2023 month as a whole, overall prices slipped 2.8%.

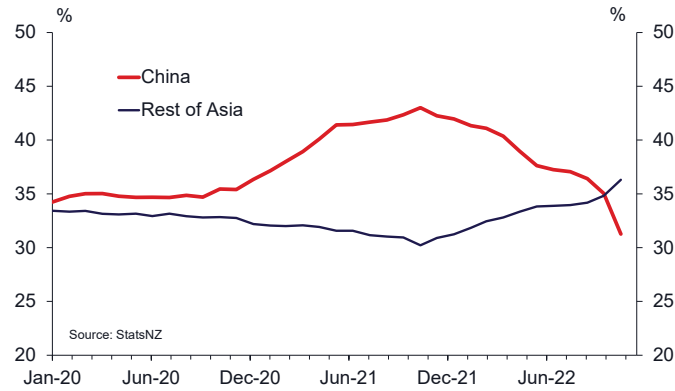
However, we anticipate that this weakness will not last. Indeed, the abrupt end to China's Covid Zero policy should see its economy rebound rapidly. For example, we expect the Chinese economy's growth to double to 6% over calendar 2023, from around 3.0% growth over 2022.

### Economic growth forecasts



More importantly, Chinese consumers are now free to move about. That will lead to a rebound in demand, particularly for dairy products (such as butter) used in restaurants and other food service outlets. Notably, by the end of 2022, the share of New Zealand's dairy exports going to China had dipped below that of the rest of Asia (see chart). As Chinese dairy demand rebounds, this trend should reverse.

### Share of New Zealand dairy export volumes



The counter argument to this view is the rapid rise in Covid cases in China. And on this basis, Chinese consumers could limit their movements in order to avoid infection. However, the anecdotes that we've seen to date suggest that Chinese consumers are by and large preferring to embrace their newly found freedoms at the risk of contracting Covid. Moreover, international experience has shown that the Omicron variant moves so rapidly through the population that the associated Omicron wave passes quickly.

In terms of timing, we expect dairy prices to begin to rebound over the next month or two. The Lunar New Year and existing stock levels may muddy the waters in the short term, but beyond that we expect underlying Chinese demand to lift. With that in mind, from around late February or early March we should have a clearer indication of whether our view holds either way.

With the above in mind, we stick with our 2022/23 milk price forecast of \$8.75/kg. Prices in late 2022 had been weaker than we had factored in. At the same time, the change in Chinese Covid policy has come sooner than we had anticipated. On balance, that leaves our forecast unchanged.

### Farmgate milk price forecasts

|            | 2022/23 |               | 2023/24 |
|------------|---------|---------------|---------|
|            | Westpac | Fonterra      | Westpac |
| Milk price | \$8.75  | \$8.50-\$9.50 | \$10.00 |

## Auction results, 18 January.

Dairy auction prices were largely unchanged overnight. Overall prices were down 0.1%, while key whole milk powder (WMP) prices were up 0.1%.

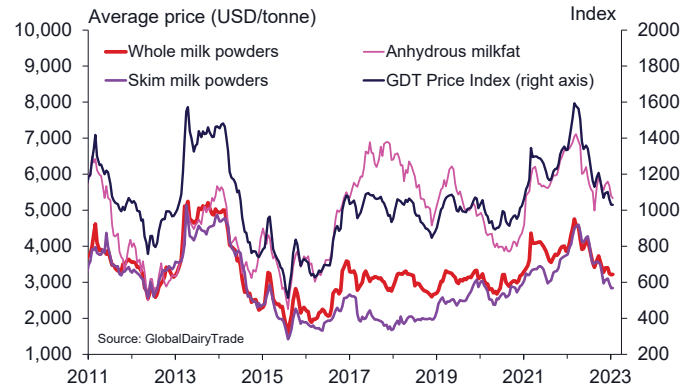
Looking at January as a whole, dairy prices have started 2023 on a soft note. Cumulatively over the month, overall and WMP prices have fallen 2.8% and 1.2%, respectively.

By product, most price movements were also small. Of the five products we monitor, four products posted price changes of less than 1% either way. The outlier was cheddar, which saw a 4% price lift overnight. This result was largely in line with futures market expectations.

### GlobalDairyTrade auction results

|                          | Change since last auction | Prices USD/tonne |
|--------------------------|---------------------------|------------------|
| Whole Milk Powder (WMP)  | 0.1%                      | \$3,218          |
| Skim Milk Powder (SMP)   | -0.3%                     | \$2,842          |
| Anhydrous Milk Fat (AMF) | -0.9%                     | \$5,337          |
| Butter                   | -0.6%                     | \$4,449          |
| GDT Price Index          | -0.1%                     | 1030             |

### Global dairy prices



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