

# WESTPAC DAIRY UPDATE

## GlobalDairyTrade auction results and forecast update.

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## The long and short of it.

- We have trimmed our 2022/23 milk price forecast by 35 cents to \$8.40/kg.
- The expected pick up in Chinese dairy demand is taking longer than we anticipated and, with the end of season near, we have trimmed our forecast.
- Looking longer term, we expect Chinese demand will eventually rebound. On this basis, we are sticking with our 2023/24 milk price forecast of \$10.00/kg.

On the back of longer than expected weakness in global dairy demand, we have downgraded our 2022/23 farmgate milk price forecast by 35 cents to \$8.40/kg. This puts our forecast in the bottom half of Fonterra's forecast range of \$8.20/kg to \$8.80/kg.

Global dairy prices have underwhelmed so far over 2023. Since the start of the year, overall prices have slid by around 5%, while whole milk powder prices have fallen by around 1%.

Indeed, we had expected that prices would be rebounding by now. And with the end of the season near, we have effectively run out of time for our previous forecast to hold.

Farmgate milk price forecasts

|            | 2022/23 |               | 2023/24 |
|------------|---------|---------------|---------|
|            | Westpac | Fonterra      | Westpac |
| Milk price | \$8.40  | \$8.20-\$8.80 | \$10.00 |

Farmgate milk prices

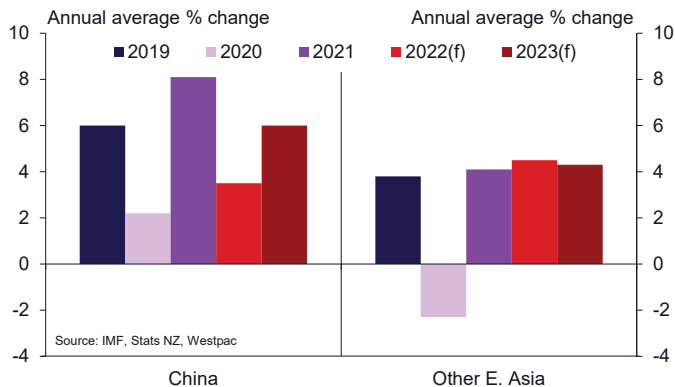


## The Chinese economy is reopening but...

The Chinese economy has reopened, and as a result we expect economic activity to rebound over 2023. After growing at a paltry 3.5% over 2022, we expect the Chinese economy to grow at around 6% over 2023.

Already, we are seeing this impact in some of our export markets. Sheepmeat markets have firmed and mutton and lamb flat prices, products popular in China, have jumped over the past few weeks. Similarly, export log prices have picked up, surging by around 20% since the start of the year.

### Economic growth forecasts



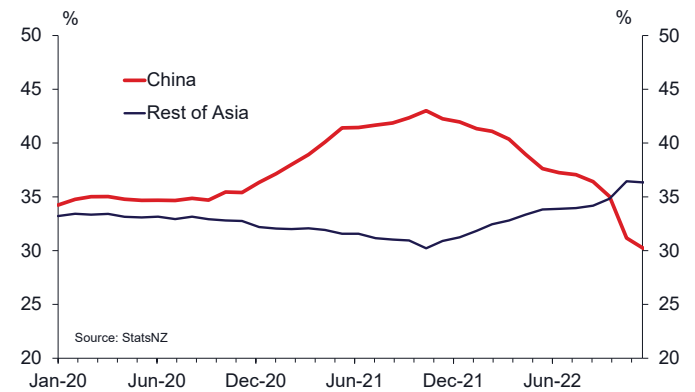
## ...dairy prices have yet to budge.

In contrast, global dairy prices have largely yet to budge. As mentioned above, since the start of the year, overall prices have slid by around 5%, while whole milk powder prices have fallen by around 1%. The exception to this overall weakness is butter prices, which have firmed by around 3% so far this year. And this is the first sign that dairy demand is improving as Chinese consumers enjoy their newly found freedoms and head back out to restaurants, cafes and bakeries, places that use large quantities of butter. That said, butter accounts for only a modest 8% or so of the dairy products that count towards the calculation of the milk price, whereas whole milk powder accounts for around two thirds. In other words, we need a broader lift in dairy prices for this to translate into a higher milk price.

## It's a matter of when, not if.

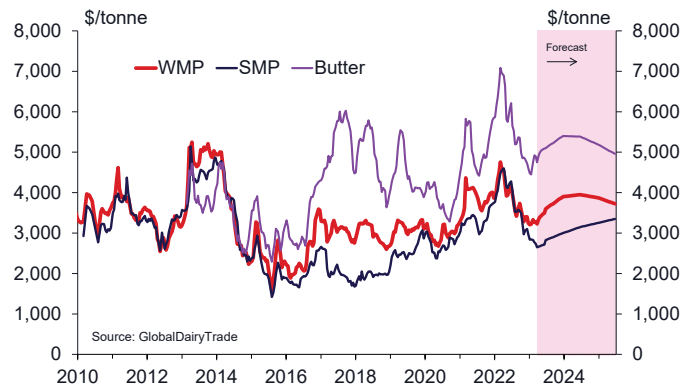
But we maintain that it is a matter of when, not if, lifting Chinese demand translates into higher dairy prices. China of course is New Zealand's largest market and therefore has an oversized impact on global dairy prices. With that in mind, it is notable that the share of New Zealand's dairy exports going to China fell from 43% in November 2021 to around 30% currently, with the fall in China's share coinciding with the fall in global dairy prices. Our other key markets in the rest of Asia picked up some of the slack, although at lower prices than China had been paying.

### Share of New Zealand dairy export volumes



Looking over the remainder of 2023, we expect Chinese buyers to return in greater numbers in line with their average buying patterns over 2020 and 2021. In turn, we expect this to translate into higher global dairy prices (as shown in the chart below).

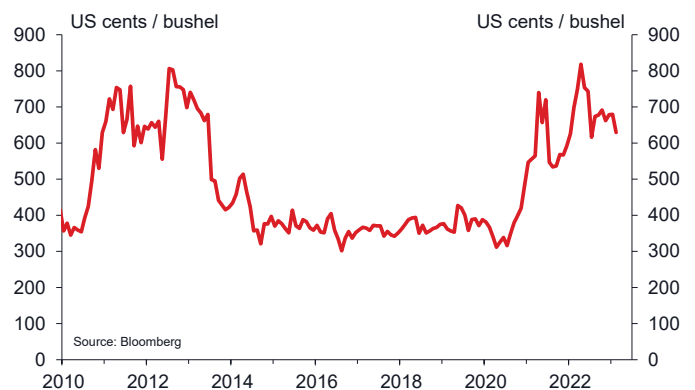
### Key dairy commodity prices and forecasts



On the supply side of the equation, global dairy supply has picked up a little over the last six months or so. For example, US and EU production has been running circa 1% above year levels over the last six months. Meanwhile, New Zealand production has turned a corner, with production up on a year ago levels over December and January.

However, looking forward, we expect global dairy production to remain subdued. Dairy farmers, like all businesses, are battling high input price inflation. And crucially, global feed costs remain very high. This should keep a lid on global supply growth, if not lead supply lower once again.

### Corn prices



All up, we expect global dairy prices to firm over the course of 2023. While the lift will come too late for this season's forecast, it does set up 2023/24 for a bumper milk price. Indeed, we maintain our forecast at \$10.00/kg. It also pays to note that the 2023/24 season will also receive a boost from the relatively low NZD/USD.

Factoring in our forecast revision means that farm operating margins will stay tighter for longer. And given the timing of cashflows, this pressure will continue for most of the rest of the year.

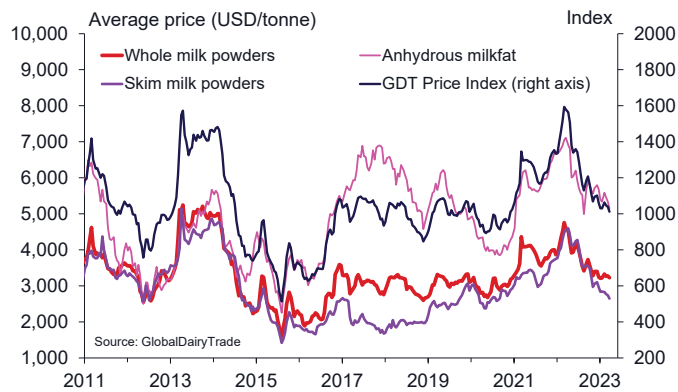
That said and from a profit perspective, we still expect a majority of farms to remain in black this season. Looking to 2023/24, based on our forecast and assuming some moderation in operating cost growth, farm margins are likely to recover some of this season's lost ground.

## Auction results, 22 March.

GlobalDairyTrade auction results

|                          | Change since last auction | Prices USD/tonne |
|--------------------------|---------------------------|------------------|
| Whole Milk Powder (WMP)  | -1.5%                     | \$3,228          |
| Skim Milk Powder (SMP)   | -3.5%                     | \$2,648          |
| Anhydrous Milk Fat (AMF) | -3.8%                     | \$5,150          |
| Butter                   | -3.0%                     | \$4,748          |
| GDT Price Index          | -2.6%                     | 1012             |

### Global dairy prices



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