



# AGRI UPDATE

## GlobalDairyTrade auction results.



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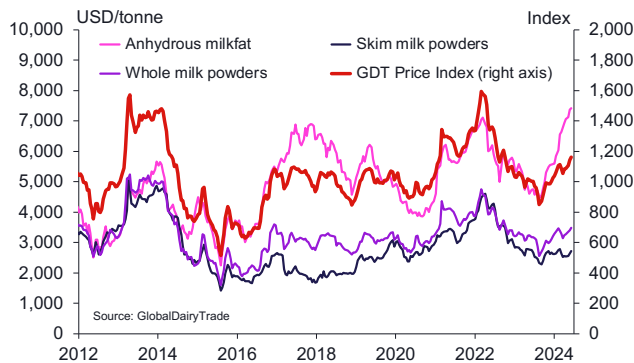
### Opening gambit

- Dairy prices rose a further 1.7% in today’s auction, with modest gains across the major products.
- Fonterra has opened the 2024/25 season with a farmgate milk price forecast of \$7.25-\$8.75/kg, with a midpoint of \$8.00/kg.
- This is a conservative start relative to our existing forecast of \$8.40/kg, where we see risks building to the upside.

#### GlobalDairyTrade auction results

	Change since last auction	Prices USD/tonne
Whole Milk Powder (WMP)	1.7%	\$3,478
Skim Milk Powder (SMP)	3.0%	\$2,722
Anhydrous Milk Fat (AMF)	0.9%	\$7,417
Butter	1.7%	\$6,864
Cheddar	0.2%	\$4,248
GDT Price Index	1.7%	1,162

GlobalDairyTrade auction prices



### Auction Results, 5 June 2024.

Last night’s dairy auction was another solid result with the overall price index up 1.7%, its fifth straight increase. The overall result reflected modest gains spread across all of the major products, including a rise of 1.7% for whole milk powder (WMP) and 3% for skim milk powder (SMP). The exceptions were a 10% jump in the lightly-traded buttermilk powder (BMP), and a 1.9% fall in lactose.

The gains in powder prices were broadly in line with what futures markets had anticipated. In contrast, milkfat prices held up better than the futures market had signalled, with anhydrous milkfat (AMF) setting another record high and butter closing in on its previous peaks.

As we’ve seen in recent auctions, China was a significant buyer although less present than they have been in past years. Buyers from Southeast Asia and the Middle East increased their share of WMP purchases, while Chinese demand was more notable in butter.

### Farmgate milk price forecasts.

Last week, Fonterra announced its opening forecast of the farmgate milk price for the new season. As has been their practice in recent years, they specified it as a range of \$7.25-\$8.75 per kilo of milksolids, giving a midpoint of \$8.00/kg.

That's a relatively conservative view compared to our existing forecast of \$8.40/kg – a view that we've held since March, when GDT auction prices were somewhat lower than they are today. Futures markets are closer to our view, currently pricing a return of \$8.55/kg.

#### Futures pricing for farmgate milk prices



Indeed, Fonterra acknowledged that they've taken a cautious view at this stage, citing uncertainty around key factors such as the strength of Chinese consumer demand. (That said, their \$1.50 forecast range is no wider than it has been at the start of previous seasons.)

To shed some light on this difference in views, we'll give some detail on what goes into our \$8.40 forecast. Most importantly, we're assuming that milk powder prices hold at around their current levels on average over the season. That's a reasonable baseline given that powder prices are around their long-term averages at the moment – so they're neither looking particularly stretched nor unsustainably low.

What's more, the global milk market seems to be reasonably balanced as the new season begins, and both demand and production are expected to record only modest growth in the year ahead. Of course, there are things that could change this balance as the season progresses – such as droughts/flooding, policy changes, or geopolitical tensions – but these are unpredictable by nature.

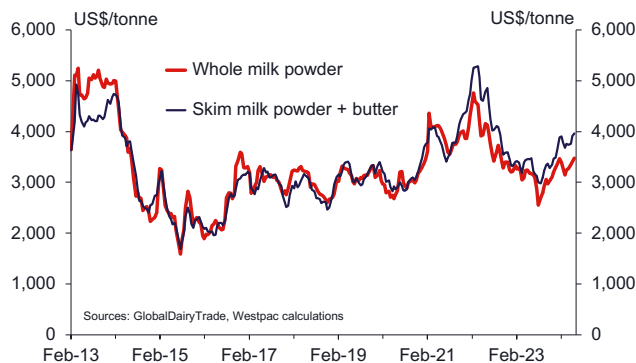
There is one clear area where upside risks to our milk price forecast are emerging. As we've mentioned, milkfat prices have surged in recent months and are at or near record highs. Our farmgate price forecast assumes that this isn't going to be maintained, and that milkfat prices will ease back over the course of the season.

However, it's possible that there's been a permanent step-up in the demand for products like butter (for instance, pastries have been on the rise in Asia for many years). If milkfat prices don't fall back as quickly or as far as what we've assumed, that alone could push our farmgate milk price forecast towards the \$8.60 range.

Interestingly, in the last two years there's been a notable gap between prices for whole milk powder, versus the alternative of separating it out into milkfat and skim milk

products. (In the following chart we've used a mix of 70% SMP and 30% butter, which gives the closest fit to history.) Why has this gap persisted? It may be that global milk processors don't have the capacity to shift their product mix away from WMP towards more butter. But for those who can, there are potentially higher returns to be extracted from their milk.

#### Auction prices by product mix



Fonterra has also updated its forecast for the just-ended 2023/24 season, retaining its \$7.80 midpoint while narrowing the range from 60 cents to 20 cents. We had been expecting a milk price of \$7.90, but at this late stage there isn't a strong reason to diverge from Fonterra's midpoint, so we've shaded our forecast down to \$7.80.

#### Farmgate milk price forecasts

	2023/24		2024/25	
	Westpac	Fonterra	Westpac	Fonterra
<b>Milk price</b>	\$7.80	\$7.70-\$7.90	\$8.40	\$7.25-\$8.75

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