

# WESTPAC DAIRY UPDATE

## Forecast update and Global Dairy Trade auction results.

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## Hit and stick.

- Dairy auction prices took a sizeable hit overnight.
- The Omicron outbreak in China has spread, with Beijing now ground zero.
- While we expect Chinese dairy demand will eventually rebound, this price hit is significant enough to warrant a downgrade to our 2021/22 milk price forecast. We trim the forecast by 10 cents to \$9.50/kg.
- At the same time, we stick with our 2022/23 forecast of \$9.25/kg.

### Farmgate milk price forecasts

	2021/22		2022/23
	Westpac	Fonterra	Westpac
Milk price	\$9.50	\$9.30-\$9.90	\$9.25

Dairy auction prices took a sizeable hit overnight following a widening of the Omicron outbreak in China. Indeed, the outbreak's epicentre has now shifted from Shanghai to Beijing. Overall prices dived 8.5%, while key whole milk powder (WMP) prices slid by 6.5%.

This price fall is significant enough to warrant a 2021/22 milk price forecast downgrade. On this basis, we have trimmed our forecast by 10 cents to \$9.50/kg.

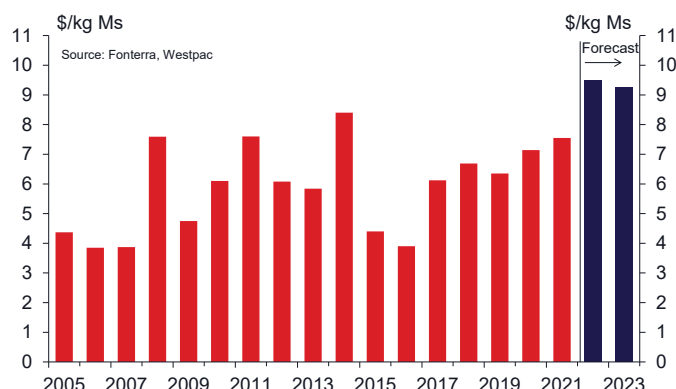
However, we are sticking with our 2022/23 forecast of \$9.25/kg. We still expect this dip in Chinese demand will prove temporary as this Omicron wave will eventually pass and Covid restrictions will thus ease. Moreover, we have already incorporated a moderation in prices into our forecast and the recent fall in the New Zealand dollar is also offsetting some of the global dairy price fall.

## Auction results, 4 May.

The price fall overnight was the fourth consecutive fall, with overall and WMP prices down a combined 13.4% and 13.9% over this period, respectively.

Prices were weak across the board, with all six products that we monitor posting price falls. Butter and anhydrous milk fat

### Farmgate milk prices



led the price falls, plunging 12.5% and 12.1%, respectively. Cheddar posted the next largest fall, sliding 8.6%.

This result was weaker than expectations. Immediately prior to the auction, the futures market had indicated a circa 3% fall in WMP prices and on Friday we had pencilled in a 2% fall.

The auction price fall follows the widening in the Omicron outbreak in China, with the outbreak's epicentre shifting from Shanghai to Beijing. And while restrictions have eased to a degree in Shanghai, the broad pressure on Chinese supply chains remains acute.

At this stage, we continue to expect that generally this price weakness will prove temporary. The experience in other countries is that Omicron waves eventually pass. And in Shanghai at least, this seems to tentatively be playing out.

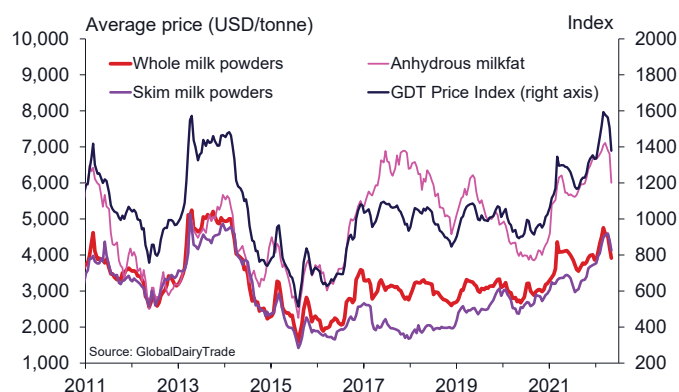
However, some of the lost demand in the food service industry (think pastries and desserts) over this period will not be recovered. Consumers are still likely to be eating dairy at home, but the mix of products is different. And this change has been clearly reflected overnight in the relatively steep price falls for milk fat (butter) at this auction.

We do acknowledge that the outbreak in China could worsen and/or last longer than we anticipate currently. In this case, global dairy prices may prove weaker than we have factored in. Given that most of the milk has been sold for this season, this is largely a risk to our 2022/23 season forecast.

#### GlobalDairyTrade auction results

	Change since last auction	Prices USD/tonne
Whole Milk Powder (WMP)	-6.5%	\$3,916
Skim Milk Powder (SMP)	-6.5%	\$4,130
Anhydrous Milk Fat (AMF)	-12.1%	\$6,008
Butter	-12.5%	\$5,807
GDT Price Index	-8.5%	1,379

#### Global dairy prices



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