

# WESTPAC DAIRY UPDATE

## GlobalDairyTrade auction results.

20 July 2022

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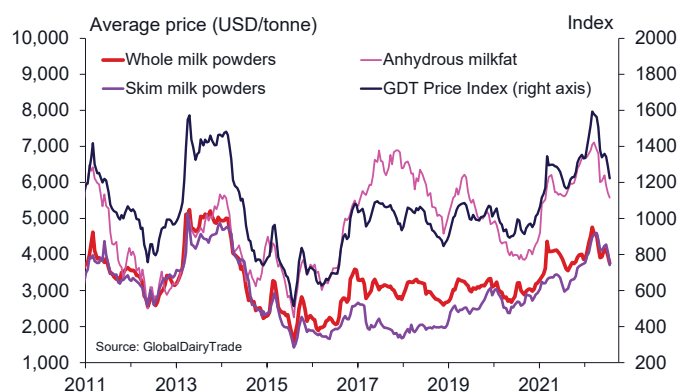
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## Demand reset.

- Dairy auction prices slid overnight.
- Previously resilient global demand is now showing signs of weakness.
- On this basis, we see downside risks to our 2022/23 milk price forecast of \$9.25/kg.

Global dairy prices



GlobalDairyTrade auction results

	Change since last auction	Prices USD/tonne
Whole Milk Powder (WMP)	-5.1%	\$3,757
Skim Milk Powder (SMP)	-8.6%	\$3,709
Anhydrous Milk Fat (AMF)	-2.1%	\$5,580
Butter	-2.1%	\$5,530
GDT Price Index	-5.0%	1223

Dairy auction prices posted a chunky fall overnight. Overall prices slid 5.1%, while key whole milk powder (WMP) prices were down 5.0%.

Prices have effectively been on the wane since March. In fact, WMP prices have plunged 25% over that period, while overall prices are down 23%.

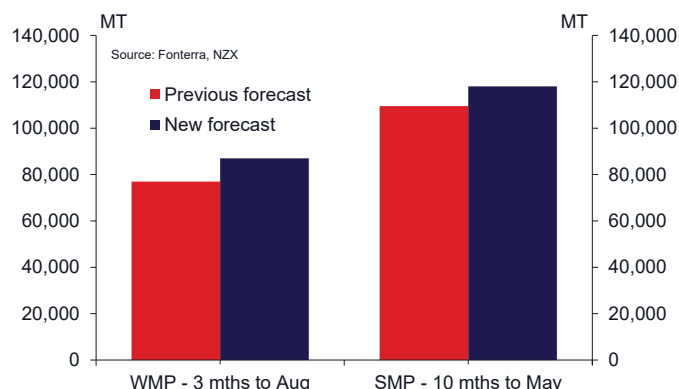
The price weakness was also broad-based. All five products on offer fell, with skim milk powder prices posting the largest fall (down 8.6%). Anhydrous milk fat, butter and cheese all posted price declines of around 2%.

This result was largely in line expectations. We had expected a 4% fall in WMP prices (as at last Friday), while the futures market pointed to fall of around 6% prior to the auction.

The price softness points to a weakening in global dairy demand. Indeed, Fonterra lifted auction volumes for this and subsequent auctions, with WMP volumes increased by 10,000MT (13%) over the next three months, while SMP volumes increased by 8,500MT (8%) over the next 10 months. This move

suggests that previously contracted sales have now fallen through as buyers have either been able to point to lower prices elsewhere (i.e. in the US and/or the EU) or simply that they don't have the consumer demand to justify the earlier sales contracts. That's seen product pushed back into the market place.

#### Forecast dairy auction volumes



The recent weakness in the Chinese economy is a likely catalyst for weaker global dairy demand. Data showed that the Chinese economy only grew by a miserly 0.4% between the June 2022 quarter and the same quarter a year ago, with the Covid lockdown and associated restrictions constraining economic activity.

However, we expect the Chinese economy to rebound over the remainder of 2022 as Covid restrictions ease and economic stimulus takes hold. In fact, for the 2022 year as a whole, we still expect the Chinese economy to expand by over 5%, with the lion's share of the growth over the second half of 2022. That should also lead to a recovery in consumer spending and thus dairy demand over the coming months.

All up, recent results suggest some downside risk to our 2022/23 milk price forecast of \$9.25/kg. Even so, and with the added support of a weak NZD/USD, we still expect a healthy milk price this season.

#### Farmgate milk price forecasts

	2021/22		2022/23	
	Westpac	Fonterra	Westpac	Fonterra
Milk price	\$9.30	\$9.10-\$9.50	\$9.25	\$8.75-\$10.25

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