

WESTPAC DAIRY UPDATE

GlobalDairyTrade auction results.

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Two weeks, don't make a wrong.

- Dairy auction prices slid further overnight.
- Global dairy demand has clearly weakened over recent weeks, although at the same time, so too has the global dairy production outlook.
- On balance, we are sticking with our 2022/23 milk price forecast of \$9.25/kg but continue to note the downside risks to this forecast.

GlobalDairyTrade auction results

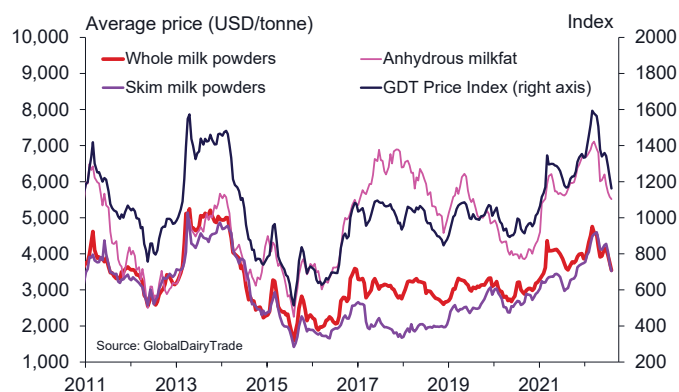
	Change since last auction	Prices USD/tonne
Whole Milk Powder (WMP)	-6.1%	\$3,544
Skim Milk Powder (SMP)	-5.3%	\$3,524
Anhydrous Milk Fat (AMF)	-1.4%	\$5,518
Butter	-6.1%	\$5,194
GDT Price Index	-5.0%	1163

Demand is weak...

Ongoing dairy auction price falls continue to highlight weakening global dairy demand. Prices have effectively been on the wane since March. Whole milk powder (WMP) prices have fallen for 10 auctions in a row. Over that time, WMP prices have plunged 30%, while overall prices are down 27%.

As mentioned in the previous update, Fonterra has increased the amount of product on offer on the auction platform, despite no real change in the level of its milk collections. This move suggests that previously contracted sales have now fallen through as buyers have either been able to point to lower prices elsewhere (for instance, in the US 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 marketplace.

Global dairy prices



... but so too is supply.

At the same time, the global dairy production outlook is very weak. In the three key dairy exporting regions – the EU, the US and New Zealand – we expect 2022 dairy production to fall compared to 2021. The fact that all three regions are likely to post production falls is rare. Costs of production have spiked and this has been compounded by poor weather (hot and dry in the Northern Hemisphere and now too wet in the Southern Hemisphere). All up, very weak global production should support global dairy prices over the season.

Moreover, we expect the Chinese economy to rebound over the remainder of 2022 as Covid restrictions ease and economic stimulus takes hold. Indeed, Chinese consumer spending growth is already on a firm footing, and as that continues to strengthen, we expect that it will lead to a recovery in dairy demand over the coming months.

On balance, we see downside risks to our 2022/23 milk price forecast of \$9.25/kg. However, with the above in mind, 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

Auction results, 3 August.

Dairy auction prices posted another chunky fall overnight. Overall prices slid 5.0%, while key WMP prices were down 6.1%.

Prices have effectively been on the wane since March. In fact, WMP prices have plunged 30% over that period, while overall prices are down 27%.

The price weakness has been broad-based. All six products on offer fell, with butter milk powder prices posting the largest fall (down 9.2%). Butter and skim milk powder also posted price declines of 6.1% and 5.3%, respectively.

This result was weaker than expectations. We had expected a 2% fall in WMP prices (as at last Friday), while the futures market pointed to fall of around 3% prior to the auction.

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