

# WESTPAC DAIRY UPDATE

## GlobalDairyTrade auction results.

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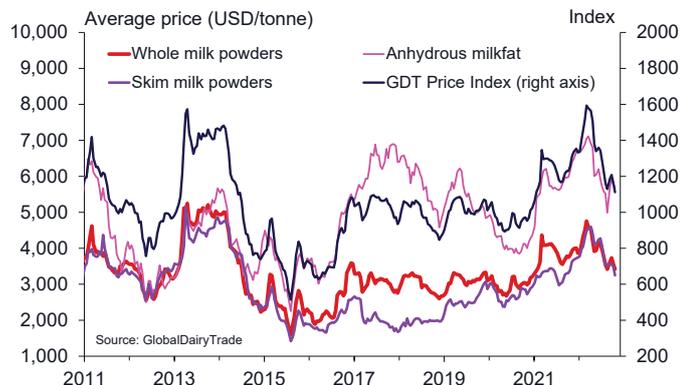
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## Covid Zero subtracts.

- Dairy auction prices slid overnight for the second consecutive auction.
- The price weakness indicates weakness in global dairy demand, notably out of China.
- There are now downside risks to our milk price forecast of \$9.25/kg.

Global dairy prices



GlobalDairyTrade auction results

	Change since last auction	Prices USD/tonne
Whole Milk Powder (WMP)	-4.4%	\$3,421
Skim Milk Powder (SMP)	-6.9%	\$3,250
Anhydrous Milk Fat (AMF)	-2.7%	\$5,661
Butter	-2.6%	\$4,851
GDT Price Index	-4.6%	1112

Dairy auction prices dropped further overnight. Overall prices slid 4.6%, while key whole milk powder (WMP) prices posted a similar 4.4% fall. The price slide was the second successive auction price fall and means that prices over October have essentially given back all their gains over the two September auctions.

Weakness in prices was broad-based with all five of the products we monitor posting falls. Skim milk powder prices led the decline, plunging 6.9%. Meanwhile, cheddar, anhydrous milk fat and butter prices fell either side of 3%.

This result was below even our expectations. We had anticipated that whole milk prices would fall by 2%.

The negative result comes against a backdrop of economic weakness in New Zealand's key market, China. China continues to persevere with its Covid Zero policy, meaning restrictions on movement which are in turn weighing on economic activity. This policy was reaffirmed at the recent Communist Party Congress. Dairy markets may have been hoping for some relief on this

front, and in the absence of any, have priced further weakness in global dairy prices.

In contrast, global dairy supply remains very weak. For example, in August New Zealand dairy production was down 4.9% versus August 2021. And anecdotally, production has continued on this weak note over September and into October. In other words, tight dairy supply should support dairy prices over the coming months.

On balance, the weak results over October combined with the weak Chinese dairy demand outlook mean that there are now downside risks to our 2022/23 milk price forecast of \$9.25/kg.

#### Farmgate milk price forecasts

	2022/23	
	Westpac	Fonterra
Milk price	\$9.25	\$8.50-\$10.00

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