

WESTPAC DAIRY UPDATE

GlobalDairyTrade auction results.

19 July 2023

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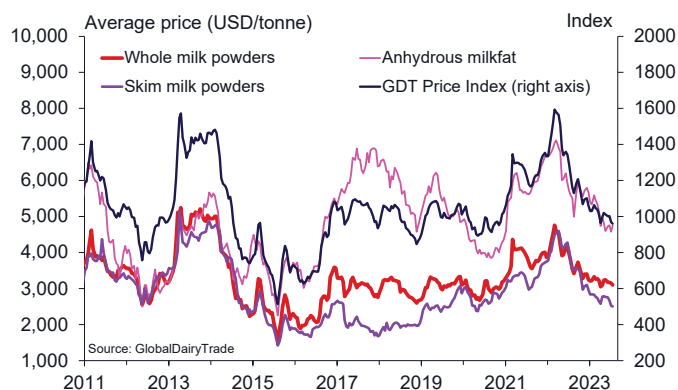
Slippery slope.

- Global dairy prices continued to slip overnight.
- Indeed, the sluggish Chinese economy continues to weigh on dairy prices.
- There are clear downside risks to our 2023/24 milk price forecast of \$8.90/kg. As a result, our forecast is under review.

GlobalDairyTrade auction results

	Change since last auction	Prices USD/tonne
Whole Milk Powder (WMP)	-1.5%	\$3,100
Skim Milk Powder (SMP)	-0.6%	\$2,503
Anhydrous Milk Fat (AMF)	3.4%	\$4,745
Butter	-2.7%	\$4,705
Cheddar	-10.1%	\$3,955
GDT Price Index	-1.0%	959

GlobalDairyTrade auction prices



Auction results, 19 July.

Dairy auction prices slipped further overnight. Overall prices fell 1%, while key whole milk powder (WMP) prices dipped 1.5%.

The price fall overnight was broad based. Four out of the five products on offer posted price falls. Cheddar prices posted the largest fall (down 10.1%) and continue their descent from recent highs – prices have now fallen nearly 16% over the last three auctions. Only anhydrous milk fat prices bucked the trend, rising 3.4%.

The result was largely in line with expectations. We had pencilled in a 3% WMP price fall late last week, while the futures market, immediately ahead of the auction, had expected WMP prices to fall by around 2%.

Looking over a longer period, the downward price trend is clear and has been sustained much longer than we expected. For example, overall prices have fallen at 10 of the 14 auctions held

this year. And overall and WMP prices are down 22% and 17% in annual change terms. In contrast, we had expected that prices would have bottomed by now, if not begun to turn higher.

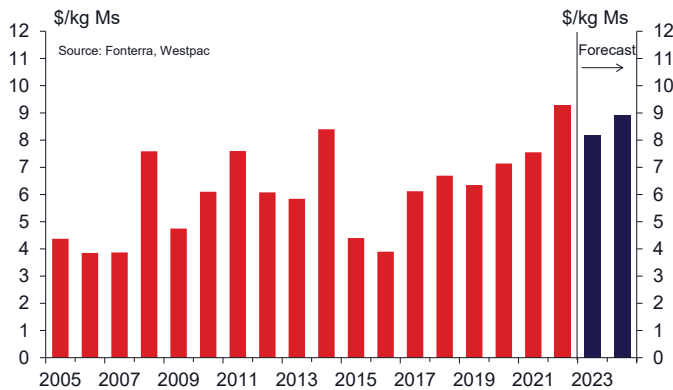
The chief catalyst for the ongoing price decline is the (unexpectedly) sluggish Chinese economy. Indeed, we have made significant downward revisions to our forecasts for Chinese economic growth this year. As recently as last month, we expected economic growth for 2023 of 6.2%. Since then, we have cut the forecast to 5.7%, and this week's June quarter GDP data indicate further downside risks to that number.

Factoring in these downgrades and the ongoing dairy price weakness signals clear downside risks to our 2023/24 milk price forecast of \$8.90/kg. As a result, our forecast is under review.

Farmgate milk price forecasts

	2022/23		2023/24	
	Westpac	Fonterra	Westpac	Fonterra
Milk price	\$8.20	\$8.10-\$8.30	\$8.90	\$7.25-\$8.75

Farmgate milk prices



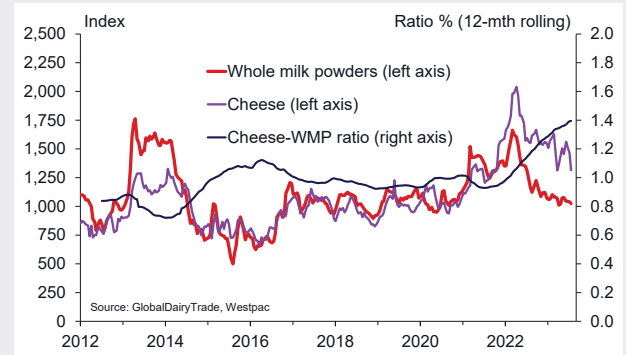
Cheese price and dividend watch.

Cheese prices have descended rapidly from their highs over recent auctions. Cumulatively, cheese prices have fallen by around 16% over the last three auctions, and now sit slightly below their 5-year averages. That said, WMP prices have also fallen as well, albeit not by as much.

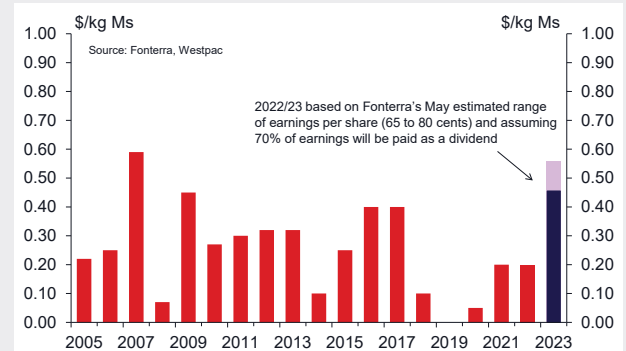
The net impact is a fall in the cheese premium over WMP over recent auctions. For example, the cheese-to-WMP ratio has fallen from around 1.5 in early June to 1.28 now.

All up and noting it's very early days in the season, this signals some modest downside risks to the 2023/24 Fonterra dividend relative to what we expect for 2022/23. Recall we expect a 2022/23 cash dividend of between 45 and 56 cents per share.

Cheese and whole milk powder prices



Fonterra dividend



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