



# AGRI UPDATE

## GlobalDairyTrade auction results and milk price forecast update.



18 Oct 2023 | **Nathan Penny**, Senior Agri Economist | +64 21 743 579 | nathan.penny@westpac.co.nz

## The worst may be behind us

- We have shifted our 2023/24 milk price forecast up to \$7.25/kg.
- The worst of this price cycle may be behind us.
- That said, we remain cautious on the outlook for the remainder of the season.
- And, we note that uncertainties around the outlook for Chinese dairy demand remain.

### Farmgate milk price forecasts

	2023/24	
	Westpac	Fonterra
Milk price	\$7.25	\$6.50-\$8.00

### We lift our 2023/24 milk price forecast to \$7.25/kg.

On the back of recent global dairy price lifts, we have shifted our 2023/24 milk price forecast up to \$7.25/kg.

That said, we remain relatively cautious. The worst of this milk price cycle may be behind us. However, demand in our largest market (China) remains weak and recovery some time away. We also note that at this milk price level, many farmers will still be in the red. In that sense, we are not out of the woods.

### Auction results, 18 October.

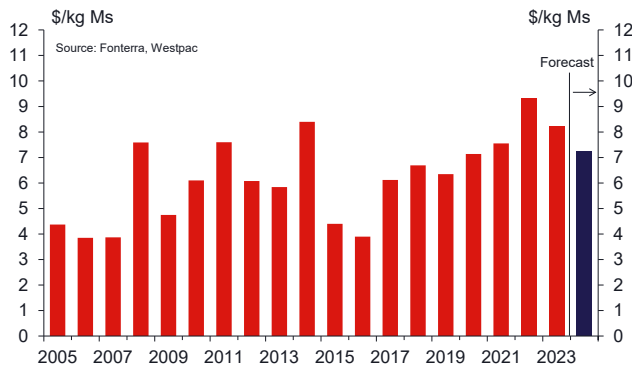
Dairy auction prices rose for the fourth successive auction overnight. Overall prices and key whole milk powder (WMP) prices posted solid gains of 4.3% and 4.2%, respectively.

The price rise was also broad-based, with all six products on offer posting price lifts. Anhydrous milk fat prices led the way, jumping 7.1%. Skim milk powder prices also posted solid gains (up 4.3%), while butter prices increased by 2.9%.

The WMP price rise was roughly in line with market expectations. The futures market had pointed to a WMP price rise of around 4%, although we had pencilled in a smaller increase of 3%.

While the recent positive results are welcome, global dairy prices remain at modest levels. Moreover, WMP prices have yet to fully make up the lost ground over

Farmgate milk prices



August when prices fell 18% – prices remain around 1% below the level as at the end of July. Looking over a longer period, WMP prices sit at 9% below their five-year average.

That said, market sentiment has changed, indicating that the worst of this price cycle may be over. Looking at sentiment, three things have helped turned the price tide. Firstly, prices hit very low levels, and this has led to increased buying interest, notably from the Middle Eastern (more below) and European buyers - after all, everyone loves a bargain. Secondly, the declaration of an El Niño weather pattern has increased the risk of a drought and a contraction of supply later in the season. Lastly, oil prices have lifted over recent months, and this may have given further impetus to demand from Middle Eastern buyers.

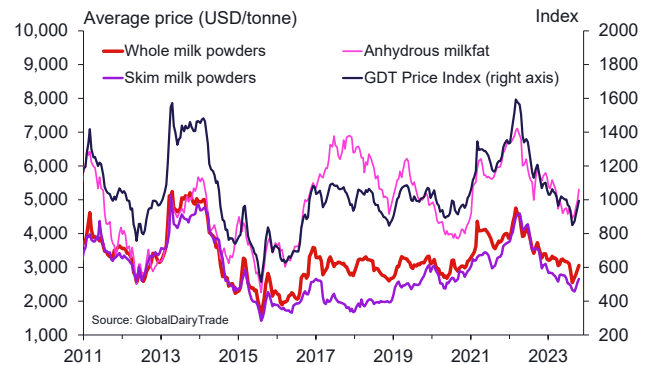
In contrast, we haven't yet seen a material improvement in Chinese demand. Indeed, Chinese buyers haven't changed their buyer patterns materially. Similarly, Chinese economic data is also inconclusive at this juncture.

On the supply side, the strength or otherwise of New Zealand spring production (supply) also has the potential to provide fresh direction to prices over coming months. At this juncture and given that 2022 spring production was weak, we anticipate some lift in annual terms. However, that is likely to be tempered by the fact that cashflow pressures are likely to mean that farmers' purchase less feed and other inputs. Later in the season, El Niño could lead to drought and put downward pressure on New Zealand production. While global dairy markets are acutely aware of this risk (and have factored this risk in to prices), we are more sanguine. Indeed, feed is currently ample and water tables are very high, so we expect that impact, if any, is likely to be somewhat muted.

#### GlobalDairyTrade auction results

	Change since last auction	Prices USD/tonne
<b>Whole Milk Powder (WMP)</b>	4.2%	\$3,059
<b>Skim Milk Powder (SMP)</b>	4.3%	\$2,659
<b>Anhydrous Milk Fat (AMF)</b>	7.1%	\$5,310
<b>Butter</b>	2.9%	\$4,940
<b>Cheddar</b>	0.2%	\$3,858
<b>GDT Price Index</b>	4.3%	994

#### GlobalDairyTrade auction prices



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