



# AGRI UPDATE

## GlobalDairyTrade auction results and milk price forecast update.



7 Feb 2024 | Kelly Eckhold, Chief Economist | +64 21 786 758 | kelly.eckhold@westpac.co.nz | X: @kellyenz

### Stronger dairy prices = higher farmgate returns

- Dairy prices posted a stronger than expected 4.2% increase.
- Another broad-based performance – whole milk powder up 3.4%.
- Butter bubbled up 10.3% - bad news for croissant prices!
- We have upgraded our forecast milk price to \$7.90/kg.
- Next season is looking a bit better again.

#### Farmgate milk price forecasts

	2023/24	
	Westpac	Fonterra
Milk price	\$7.90	\$7.00-\$8.00

#### Auction Results, 7 February 2024.

Dairy auction prices surprised and posted solid gains overnight. Overall prices were up 4.2%, while key whole milk powder (WMP) prices lifted 3.4%.

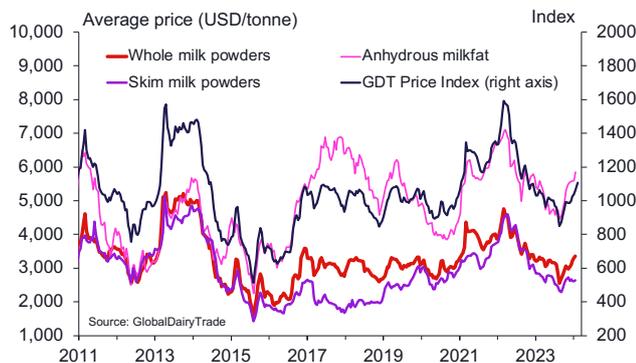
The result was broad based as almost all products posted price rises. Butter and cheese prices led the way, surging 10.3% and 6.3% respectively – further supporting those strong WMP prices.

This outcome was counter to our forecast for a consolidation in prices this time. The futures market had pointed to a small WMP price fall at this auction. We noticed that Chinese buyers were particularly aggressive in this auction – taking an additional 10% of product in this auction even though aggregate volumes offered were down a touch. We think this might be related to the timing of the Chinese New Year holiday period from 10-17 February and a desire for Chinese buyers to secure supply ahead of the holiday period (the next auction is 20 February).

Overall prices continue to sit at their highest since June 2023 and have lifted by around 29% since last year’s low in August 2023. On a longer horizon though, prices are only a touch above long-term averages. This demonstrates that these are hardly bumper years for dairy farmers even though the worst fears of 2023 haven’t been realised. This is especially so given the rise in on-farm costs over recent years.

The uptrend in dairy prices is interesting now that it seems to be extending into 2024. Chinese consumers still appear cautious which also makes us cautious about the

GlobalDairyTrade auction prices



strength of demand in the coming year. But forecasts of Chinese growth have stabilised in recent months as the authorities have increasingly provided support to the economy. Much of this support seems more focused on the industrial sector as opposed to consumers but it may be the case that some of this support might increasingly spill over into the soft commodities we export to China.

We are becoming more comfortable that the El Niño period is not going to significantly degrade production at the end of the current season. While parts of the country are dry, more generally the situation seems better than the concerns of a few months ago. This could be reflected in production in coming months and ultimately prices should demand falter.

The rise in prices means we are revising up our milk price forecast for this season to \$7.90/kg, placing us towards the upper end of Fonterra's guidance. We see this as consistent with prices remaining around current levels for the balance of the season on an aggregate basis.

We will be providing an initial forecast for the 2024/25 season with the release of our *Economic Overview* in a couple of weeks. However, based on current trends it looks like next year should be a touch better than this year – albeit not especially stellar. We see improving global demand helping lift prices and a further improvement in costs balanced with a firmer New Zealand dollar over the year ahead.

#### GlobalDairyTrade auction results

	Change since last auction	Prices USD/tonne
Whole Milk Powder (WMP)	3.4%	\$3,463
Skim Milk Powder (SMP)	4.6%	\$2,758
Anhydrous Milk Fat (AMF)	3.3%	\$6,033
Butter	10.3%	\$6,516
Cheddar	6.3%	\$4,469
GDT Price Index	4.2%	1106

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