



# AGRI UPDATE

## GlobalDairyTrade auction results.



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### Broad-based decline in prices at GDT auction

- Dairy prices pulled back significantly by 2.8% in today's auction.
- Auction prices were broadly weaker – whole milk powder (down 4.2%) and skim milk powder (down 4.8%) were especially weak.
- WMP prices are now down 8.6% from the early February peak. This suggests some modest downside risk to our \$7.90 current season estimate but is more relevant for next season's \$8.40 estimate should these weaker trends persist.
- Pre-auction indicators proved to be a poor guide.
- Demand was weaker from both Chinese and Middle Eastern buyers forcing other regions to take up the slack.
- On-farm cost inflation has now normalized and should now move in line with general consumer price inflation trends from here. This will be a partial offset to weaker farmgate prices.

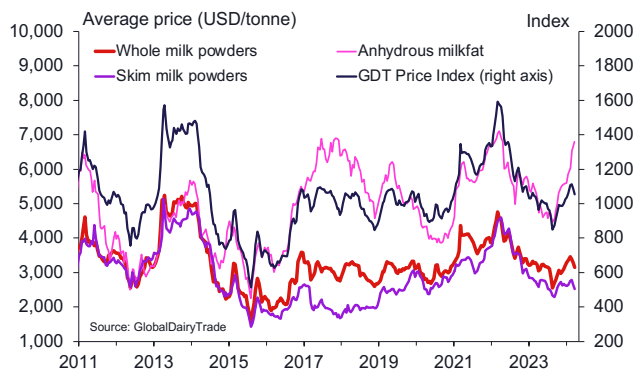
GlobalDairyTrade auction results

	Change since last auction	Prices USD/tonne
Whole Milk Powder (WMP)	-4.2%	\$3,143
Skim Milk Powder (SMP)	-4.8%	\$2,517
Anhydrous Milk Fat (AMF)	2.5%	\$6,794
Butter	-1.4%	\$6,408
Cheddar	-1.9%	\$4,192
GDT Price Index	-2.8%	1055

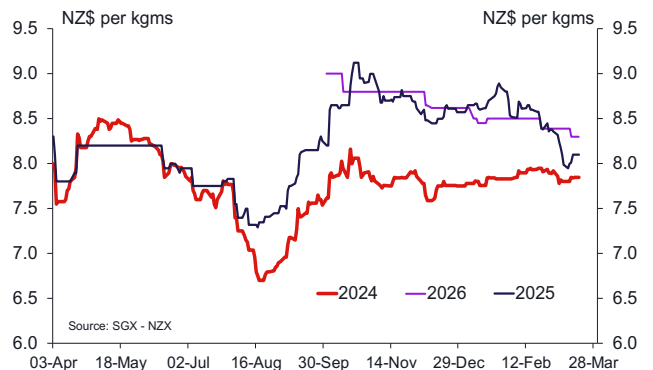
### Auction Results, 20 March 2024.

Dairy auction prices were weak overnight. Overall prices were down 2.8% and the key whole milk powder (WMP) prices fell 4.2%. Most products posted price falls – the exception was anhydrous milk fat which rose 2.5%. The auction was notably weaker than pre-auction expectations and futures market trends.

GlobalDairyTrade auction prices



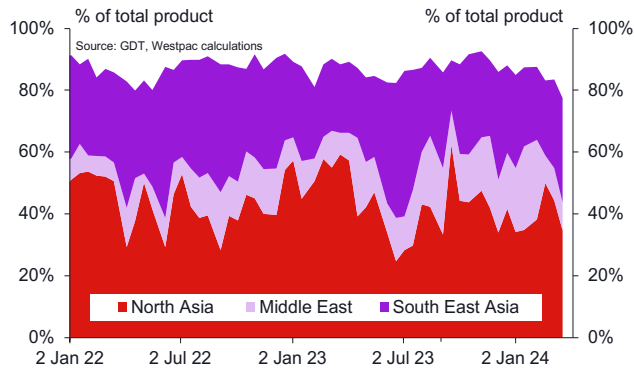
Futures prices – SGX Milk Prices



Interestingly, support from the three main regions that usually pick up the bulk of product in the auctions was weaker this time. Chinese buyers pulled back further as did Middle Eastern buyers a touch. In contrast to the weaker auctions last year, this time we saw regions that

don't usually feature in the top three purchasers have to pick up the slack in the auction – which presumably contributed to the weak result. Chinese demand remains around the 10-year average, however. Overall prices remain around long-term averages, but of course on-farm costs have increased significantly over this time.

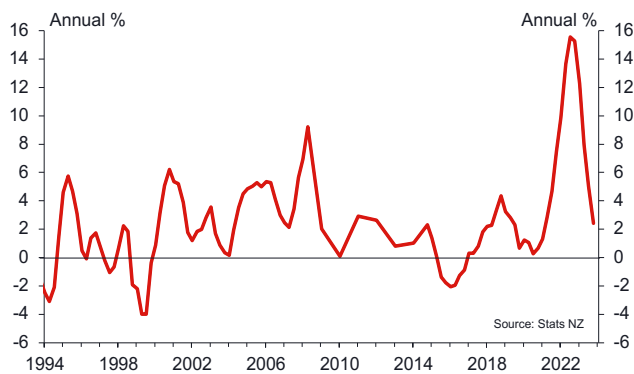
**Proportion of total volumes sold – top 3 regions**



**Updated estimates of on-farm inflation.**

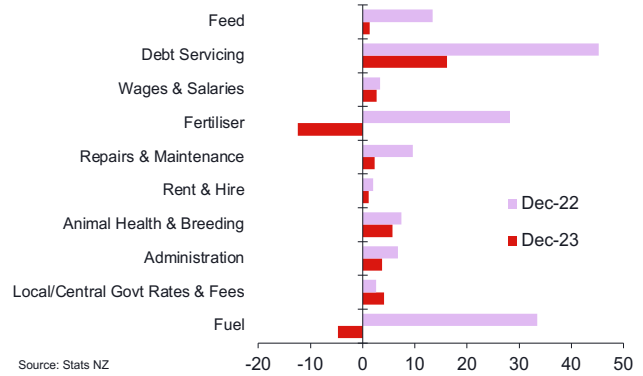
In the last few weeks, we received data on on-farm costs for the December quarter of 2023 which has allowed us to update our view of trends in costs for the coming years. Last year, we had anticipated a significant reduction in on-farm costs after a couple of years of very strong cost increases. In fact, cost increases on-farm normalized in 2023 and came in close to our forecasts at an average of 2.4% over 2023.

**Rural cost inflation dropping back**



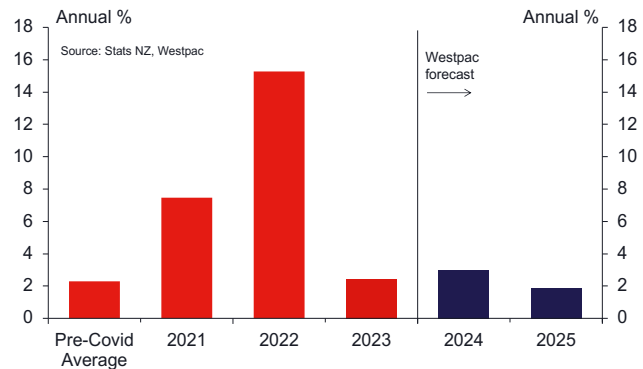
Costs inflation fell almost across the board – the only main area where costs inflation increased in 2023 compared to 2022 was with respect to central government and local authority rates and fees. These high and sticky cost increases have also been felt outside the farming sector. Significant declines in costs were seen in fertilizer, feed and fuel which was in large part due to the easing in supply chain pressures seen globally now that Covid and the impact of the Russian war in Ukraine are a bit further behind us.

**Rural inflation by top 10 largest categories (annual %)**



Debt servicing costs remain elevated and are expected to remain high over 2024 as the RBNZ brings inflation under control. A saving grace is that interest rates currently look to have peaked. Wages costs are expected to moderate from the very high levels seen in recent years as the labour market continues to ease.

**Cost inflation back to more normal levels**



The outlook for on-farm costs is relatively flat from here. As most cost categories have now normalized, we now see on-farm inflation trending close to aggregate economy inflation rates in the coming couple of years. That means on-farm cost inflation at around 3% in 2024 and 1.9% in 2025.

**Farmgate milk price forecasts**

	2023/24		2024/25
	Westpac	Fonterra	Westpac
Milk price	\$7.90	\$7.30-\$8.30	\$8.40

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