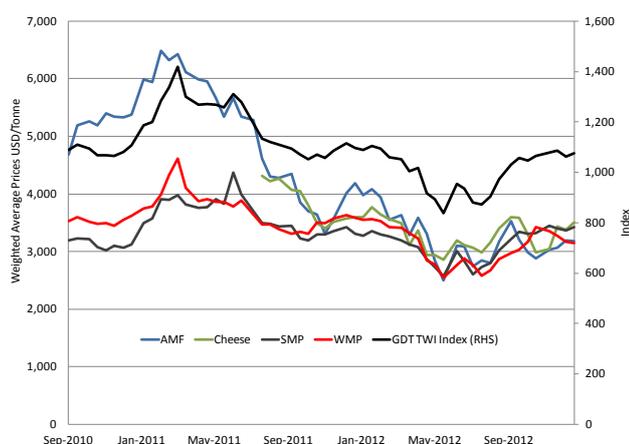




Fortnightly Dairy Update

19 December 2012

GDT Dairy Auction Prices



	Change since last auction	Price index USD/Tonne
Anhydrous Milk Fat	-0.1%	\$3,180
Butter Milk Power	-0.4%	\$3,600
Cheddar	4.9%	\$3,510
Skim Milk Powder	1.1%	\$3,419
Whole Milk Powder	-0.6%	\$3,147
TWI (All Products)	1.1%	

Westpac Payout Forecasts

	2012/13	2013/14	2014/15
Payout (before retentions)	\$6.00	\$6.20	\$6.70

Dairy prices posted modest gains in last night's GlobalDairyTrade auction, increasing 1.1% on a trade-weighted basis. The increase partially reverses last auction's 2.0% fall. Compared to the May lows, dairy prices are now around 28% higher.

However, the auction was mixed across products, with rises interspersed with falls, and a rise in the NZD eroded all of the gains. Volatile cheddar and casein recorded large rises of 4.9% and 6.9% respectively, explaining much of the overall rise. Benchmark WMP prices fell 0.6%, while SMP rose 1.1%. With the NZD rising around 2% between auctions, prices in NZD terms fell around 1%.

Looking beyond the noise from auction to auction, we see the general trend for dairy prices heading up for 2013. The effects of the northern hemisphere drought continue to linger. Coupled with improving Asian growth, particularly in China, we expect this will support dairy prices over 2013. As we expect the NZD to average USD 0.85 over 2013 (from USD 0.84 currently), prices should also improve in NZD terms, albeit more modestly.

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