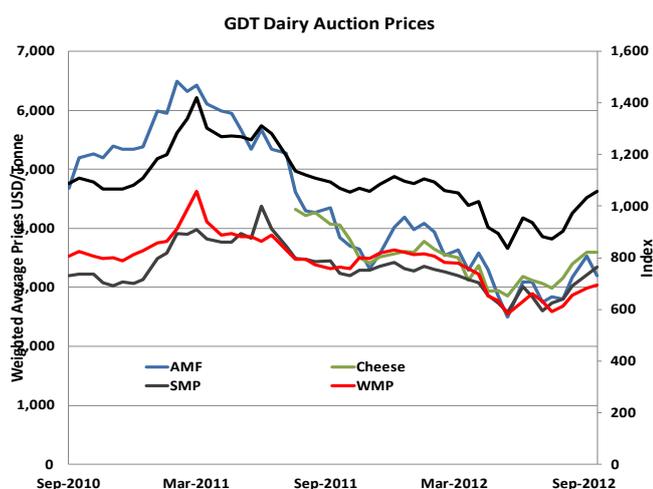




# Fortnightly Dairy Update

3 October 2012

## GDT Dairy Auction Prices



Dairy prices were down a touch in last night's GlobalDairyTrade auction, falling 0.9% on a trade-weighted basis. Cheddar led prices down, with a 7.4% fall, while SMP and AMF also recorded falls (down 0.9% and 6.4% respectively). However, WMP prices continued their recovery, rising 2.8% and are now 24% above the May 2012 low. Overall prices have moved by a similar amount since May, having increased by around 26%, however they remain around 32% below their March 2011 peak.

Today's auction was more mixed than the last few events which have seen four consecutive increases in the headline TWI measure of around 5%. However the direction for prices still appears upwards, though perhaps at a slower pace than we had seen previously.

Reflecting more the fall from the March 2011 peak, Fonterra confirmed last week a total payout of \$6.50/kg for the 2011/12 season. The payout was within their prior forecast range, although down from the bumper \$8.25 payout in 2010/11.

Setting aside last night's fall, world dairy prices have improved recently as drought conditions, particularly in the US, have hit world grain prices. Corn spot prices, for example, are up 30% since the end of 2011. This has contributed to higher feed costs for US dairy producers, in particular, and has constrained growth in world dairy supply. We expect this to support further dairy price increases over the remainder of 2012 and into 2013.

	Change since last auction	Price index USD/Tonne
Anhydrous Milk Fat	-6.4%	\$2,982
Butter Milk Power	4.0%	\$3,144
Cheddar	-7.4%	\$3,300
Skim Milk Powder	-0.9%	\$3,309
Whole Milk Powder	2.8%	\$3,167
TWI (All Products)	-0.9%	

## Westpac Payout Forecasts

	2011/12(a)	2012/13(f)	2013/14(f)
Payout (before retentions)	\$6.50	\$5.70	\$6.40

Fonterra has forecast a payout of \$5.65-5.75 for 2012/13, effectively the same as our own \$5.70 forecast. However we expect further improvement in 2013/14. Fonterra have now entered a blackout period on earnings forecasts prior to Trading Amongst Farmers launch later in the year.

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