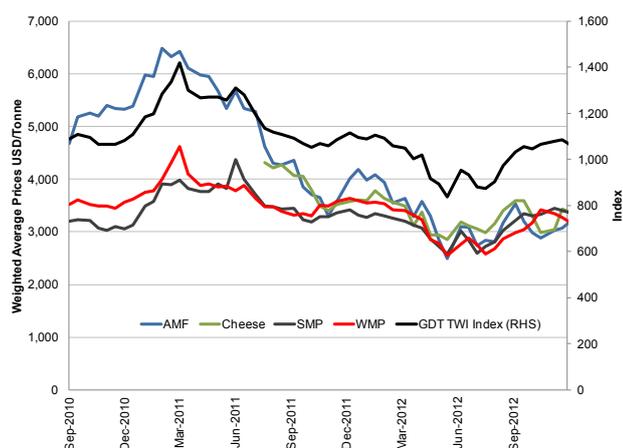




Fortnightly Dairy Update

5 December 2012

GDT Dairy Auction Prices



Dairy prices took a breather in last night's GlobalDairyTrade auction, falling 2.0% on a trade-weighted basis. WMP led the decrease with a 3.5% fall, while SMP and cheddar also recorded declines (down 1.0% and 2.4% respectively). AMF went against the grain, rising 3.7%.

Today's fall is the first since the 2 October auction, and overall, dairy prices have increased by 27.0% since May.

The effects of the northern drought continue to linger. Coupled with improving Asian growth, particularly in China, we expect this will support dairy prices over the remainder of 2012 and into 2013.

After hitting near record lows in late 2011, the ratio of dairy to lamb prices is on the rise. Moreover, our outlook for lamb prices is negative compared to our outlook for dairy prices. Lamb markets are concentrated in the weak Eurozone and the UK where sellers are unable to command premium prices, while New Zealand's main competitor Australia is increasing supply.

While relative returns in dairy have risen and are expected to improve further, the current low level of the ratio suggests only modest growth in livestock over the next year. In turn, this limits the growth potential for dairy production over the same period.

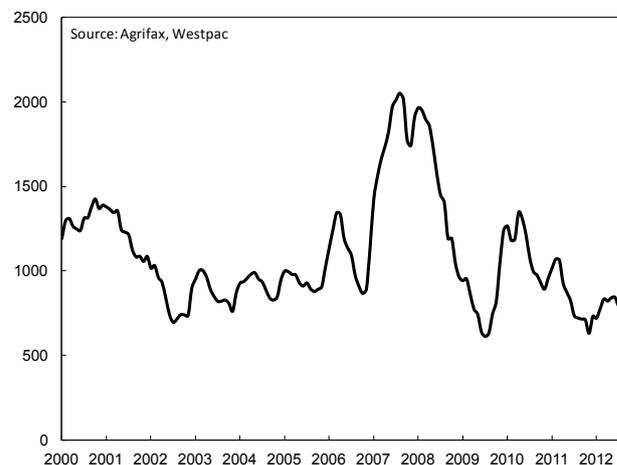
Nathan Penny
Economist

	Change since last auction	Price index USD/Tonne
Anhydrous Milk Fat	3.7%	\$3,197
Butter Milk Power	n/a	\$3,615
Cheddar	-2.4%	\$3,372
Skim Milk Powder	-1.0%	\$3,362
Whole Milk Powder	-3.5%	\$3,170
TWI (All Products)	-2.0%	

Westpac Payout Forecasts

	2011/12(f)	2012/13(f)	2013/14(f)
Payout (before retentions)	\$6.00	\$6.20	\$6.70

Dairy to Lamb price ratio



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