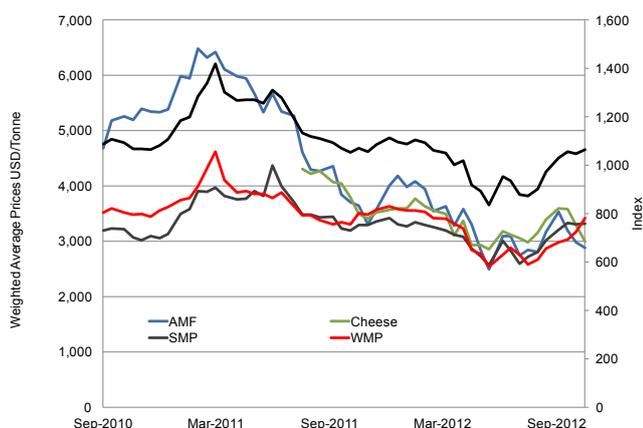




Fortnightly Dairy Update

17 October 2012

GDT Dairy Auction Prices



Dairy prices resumed their upward march in last night's GlobalDairyTrade auction, rising 1.8% on a trade-weighted basis. WMP led the charge with a 9.2% rise, while SMP and butter milk powder also recorded rises (up 0.8% and 4.3% respectively). WMP prices have recorded six consecutive rises to stand 34.3% higher than their May 2012 low. It wasn't all one-way traffic with, three of the six products on offer recording falls, including a 9.9% fall for cheddar.

Overall, dairy prices have increased by 27.3% since May. However, they remain around 25% below their March 2011 peak.

Today's gain follows a fall in the previous auction and four consecutive gains of around 5% before that. Looking through the noise, the direction for prices still appears upwards. However, we expect the increases from here may be more in line with today's overall result than the 5% gains seen previously.

World dairy prices have improved recently as drought conditions, particularly in the US, have hit world grain prices. This has contributed to higher feed costs for US dairy producers in particular. For example, US non-fat dry milk production fell 7.8% in July and August compared to the same period a year ago.

	Change since last auction	Price index USD/Tonne
Anhydrous Milk Fat	-3.2%	\$2,879
Butter Milk Power	4.3%	\$3,289
Cheddar	-9.9%	\$2,990
Skim Milk Powder	0.8%	\$3,325
Whole Milk Powder	9.2%	\$3,421
TWI (All Products)	1.8%	

Westpac Payout Forecasts

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

We expect the drought and associated tight global dairy supply conditions to support further dairy price increases over the remainder of 2012 and into 2013.

Note with two auctions per month, the next fortnightly dairy update will be in three weeks time (7 November).

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