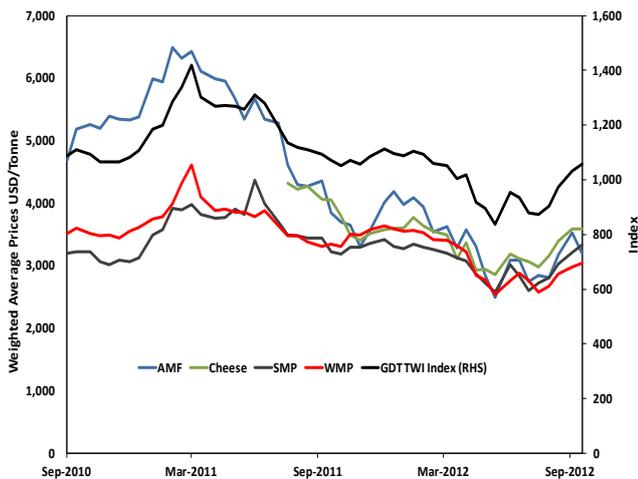




Fortnightly Dairy Update

19 September 2012

GDT Dairy Auction Prices



| | Change since last auction | Price index USD/Tonne |
|--------------------|---------------------------|-----------------------|
| Anhydrous Milk Fat | -9.8% | \$3,199 |
| Butter Milk Power | 2.0% | \$3,029 |
| Cheddar | 1.0% | \$3,589 |
| Skim Milk Powder | 4.7% | \$3,339 |
| Whole Milk Powder | 2.0% | \$3,036 |
| TWI (All Products) | 2.4% | |

Westpac Payout Forecasts

| | 2011/12(f) | 2012/13(f) | 2013/14(f) |
|----------------------------|------------|------------|------------|
| Payout (before retentions) | \$6.55 | \$5.70 | \$6.40 |

Dairy prices continued to move higher in last night's GlobalDairyTrade auction, though at a slightly slower pace. Prices were up 2.4% on a trade weighted basis - the fourth consecutive increase. Details included a 2% increase in WMP prices and a 4.7% increase in SMP prices. WMP prices have now risen about 18% from early June levels, while SMP prices have performed even more strongly, up around 30%.

The recent improvement in dairy prices has at least in part been driven by expectations of slower growth in global milk supply on the back of severe drought in the US (and poor conditions elsewhere) and sharply higher grain prices. This week, the USDA further pared back its forecast for 2012 milk production on the back of lower expected production per cow. They now expect US milk production to grow 1.9% in 2012, but to shrink by 0.5% in 2013. Heat has also affected dairy production in parts of Europe. This, combined with lower milk prices and increased feed costs are expected to slow European milk production growth to around 1-1.5% in 2012.

Domestically, reports are that the 2012/13 production season has had a good start across much of the country. Of interest to farmers next week (on Wed 26th Sept) will be the release of Fonterra's 2011/12 annual report. With it we'll get confirmation of the final payout for the 2011/12 season (Fonterra's current forecast is \$6.45-\$6.55 following a 30c downward revision in May) as well as an update on other key aspects of how the business performed over the year.

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