



Fortnightly Dairy Update

21 November 2012

Westpac Payout Forecasts

	2010/11	2011/12	2012/13(f)	2013/14(f)	2014/15(f)	Average (2011-15)
Fonterra	\$8.25	\$6.50	\$5.65-\$5.75			
Westpac Forecast			\$6.00	\$6.20	\$6.70	\$6.70

We have made the call to increase our 2012/13 season payout forecast from our earlier forecast of \$5.70 to \$6.00. This compares to Fonterra's forecast (made back in August) for the 2012/13 season payout of \$5.65-5.75 (for a 100% share-backed farmer).

Our forecast upgrade reflects the fact that dairy commodity prices have continued to improve as world dairy supply has been tight owing to drought conditions in much of the northern hemisphere. GlobalDairyTrade prices have risen 29.6% on a trade-weighted basis since the May trough in dairy prices. Over the same period, the NZD has increased by around 5%, only partially offsetting the world dairy price gains.

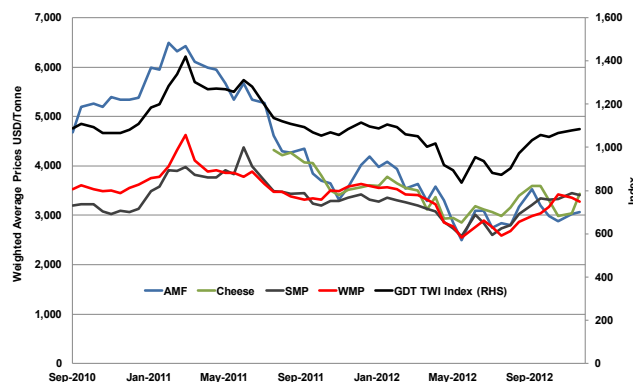
In last night's GlobalDairyTrade auction dairy prices consolidated their recent gains, rising 0.7% on a trade-weighted basis. Prices were a mixed bag with cheddar surging 12.4%, while WMP and SMP recorded falls. Seven auctions out of the last eight have now seen gains. However, they remain around 24% below their March 2011 peak.

The longer-term outlook remains positive with the world economy set to improve over 2013 and growth centred in the hungry part of the world (eg. China). These factors will underpin world dairy prices for the 2013/14 season, but we expect a high exchange rate to cap the payout at around \$6.20. With world growth improving further and a depreciating dollar over the 2014/15 season, we expect the payout to increase to \$6.70.

Nathan Penny
Economist

GDT Dairy Auction Prices

	Change since last auction	Price index USD/Tonne
Anhydrous Milk Fat	1.2%	\$3,066
Butter Milk Power	n/a	\$3,615
Cheddar	12.4%	\$3,436
Skim Milk Powder	-1.7%	\$3,402
Whole Milk Powder	-1.9%	\$3,276
TWI (All Products)	0.7%	



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