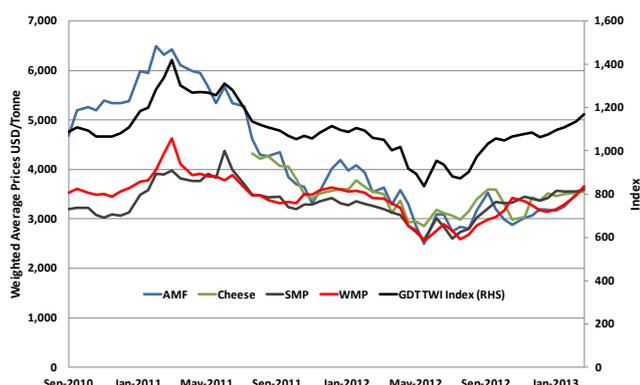




# Fortnightly Dairy Update

20 February 2013

## GlobalDairyTrade Dairy Auction Prices



### Summary

Dairy prices continued to accelerate in Tuesday night's GlobalDairyTrade auction as dry conditions squeeze local milk production.

Overall, dairy prices rose 3.1% on a trade-weighted basis in the Tuesday night auction. The increase builds on the buoyant start to 2013 in the first three auctions of the year.

Dry weather in the North Island is slowing milk production faster than normal for this time of the year. While conditions are much better in the South Island, this is contributing to upward pressure on dairy prices for now.

We see dairy prices heading up further over the first half of 2013. The tightening supply conditions in New Zealand, coupled with improving Asian growth, particularly in China, are providing upward pressure on dairy prices. As we expect the NZD to average US\$0.86 over 2013 (from the US\$0.84 currently), prices should also improve in NZD terms, albeit more modestly.

### Details

The trade-weighted dairy price index has risen in eight of the last nine auctions. In the four auctions to start 2013, prices have lifted 9%.

WMP prices led the way in last night's auction, increasing 5.8%. WMP is now trading at a premium to SMP, the first time since October. AMF and BMP also posted solid gains, both rising around 4%.

	Change since last auction	Price index USD/Tonne
Anhydrous Milk Fat (AMF)	4.0%	\$3,635
Butter Milk Power (BMP)	4.1%	\$3,318
Cheddar	1.8%	\$3,554
Skim Milk Powder (SMP)	1.0%	\$3,592
Whole Milk Powder (WMP)	5.8%	\$3,654
TWI (All Products)	3.1%	

### Westpac forecasts of Fonterra payout\*

	2012/13	2013/14	2014/15
Payout	\$6.00	\$6.20	\$6.70

\* Before retentions for a fully shared-up farmer.

The high NZD continues to take some of the gloss off rising dairy prices. The NZD rose by around 0.2% since the previous auction. After averaging around US\$0.81 over 2012, the NZD has averaged around US\$0.84 to date in 2013.

The dry summer is squeezing milk production, particularly in the Waikato and Taranaki. South Island production is faring much better with Canterbury and Southland continuing to post solid production gains compared to a year ago.

Milk production for season to date as at December 2012 was up around 7% on the previous season. However, more recent indicators show this falling in January and February. Overall for the season ending May 2013, we still expect annual production growth to be flat or 1%.

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