

SPECIAL ISSUE - Upgrade to Westpac's forecast of the Fonterra Milk Price

Westpac forecasts of Fonterra milk price

	2012/13		2013/14		2014/15
	Fonterra	Westpac	Fonterra	Westpac	Westpac
Milk Price	\$5.80	\$5.90	\$7.00	\$7.40	\$6.50
<i>plus</i>					
Dividends	\$0.32	N/A	N/A	N/A	N/A

- The combination of a weaker NZ dollar and persistently strong global prices has prompted us to upgrade our milk price forecast to \$7.40 per kg of milk solids for the 2013/14 season.
- Similarly, we expect Fonterra will lift its own milk price forecast (currently \$7.00 per kg) following its board meeting next Tuesday. Fonterra may even go north of our \$7.40 per kg forecast.
- Fonterra may also update its production outlook. We predict a rebound in production from drought of around 5% on last year's level, while Fonterra has previously signalled production growth of 2%.

Details

2013/14 is shaping up as a bumper dairy season. World prices remain very high, while growing conditions have been generally very good since the drought broke. The icing on the cake is a lower currency.

World dairy prices have stayed at very high levels. To be frank, we are surprised by that. This time three months ago, we expected world prices would be around 7% lower by the end of July.

Tight world supply has contributed to the buoyant prices. However, we doubt that the market has gotten its head around prospects for

growth in New Zealand production this season. We predict a rebound in production from drought of around 5% on last year's level. Fonterra has previously signalled production growth of 2% - any lingering difference in production outlooks, following Fonterra's update next week, may explain much of any difference in milk price forecasts.

As a result of our 5% forecast lift in production, we still expect world prices to fall over 20% by the end of 2013 from their July levels.

Nevertheless, the combination of a weaker NZ dollar and strong recent global prices has prompted us to upgrade our milk price forecast. We now expect a milk price of \$7.40 per kg of milk solids this season, representing a massive 90 cent lift from our previous forecast.

We have also upgraded our 2014/15 forecast by 30 cents to \$6.50 per kg on the back of a lower NZ dollar.

This price will allow the dairy sector to increasingly put the drought in the rear-view mirror.

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