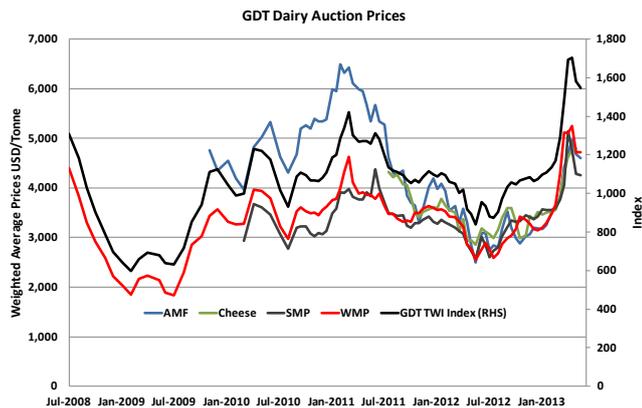




Fortnightly Dairy Update

16 May 2013

GlobalDairyTrade Dairy Auction Prices



Summary

World dairy prices continued a gradual descent from record highs in Wednesday night's GlobalDairyTrade auction as local drought concerns fade.

Overall, dairy prices fell 2.1% on a trade-weighted basis in the Wednesday night auction. Prices fell across all the main products, with the benchmark WMP series down 1.7%. However, overall prices are still the third highest on record and remain 85% higher than the same time last year.

Tempering this auction's price fall was a 4% fall in the currency against the US dollar. The currency is currently trading around US 82.3 cents after hitting over 85 cents at the time of the previous auction.

The falls over the last two auctions are in line with our expectations. Prices for the new season's product (contracts for delivery in four to six months time) now account for the majority of products on offer. Accordingly, as the new season's product continues to replace this season's drought-hit offerings, prices should drop further.

While world prices are evolving in line with our expectations, production data are coming in at the bottom end of earlier estimates. With less milk than expected being sold at higher prices, the weighted average milk price for the season is lower than earlier estimates. As a result, we have trimmed our milk price forecast to \$6.00/kg of milk solids (total payout of \$6.50). However, the positive outlook for the 2013/14 season remains with our milk price and total payout forecasts unchanged (\$6.20 and \$6.70/kg of milk solids respectively).

From here, we expect world dairy prices to descend further from their peak, but to remain at elevated levels by historical standards. Overall world dairy supply remains relatively tight. Coupled with strong Asian demand, particularly from China, these factors should see dairy prices higher on average over 2013 compared to 2012.

Nathan Penny, Economist

	Change since last auction	Price index USD/Tonne
Anhydrous Milk Fat (AMF)	-0.2%	\$4,598
Butter Milk Power (BMP)	-5.1%	\$3,876
Cheddar	N/A	N/A
Skim Milk Powder (SMP)	-2.8%	\$4,252
Whole Milk Powder (WMP)	-1.7%	\$4,722
TWI (All Products)	-2.1%	

Westpac forecasts of Fonterra payout*

	2012/13	2013/14	2014/15
Total Payout*	\$6.50	\$6.70	\$6.70
Including:			
Milk Price	\$6.00	\$6.20	\$6.20
Earnings per share	\$0.50	\$0.50	\$0.50

* Before retentions for a fully shared-up farmer.

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