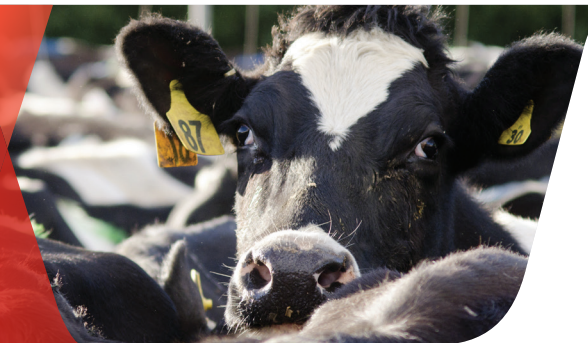


Dairy Update.

20 May 2020



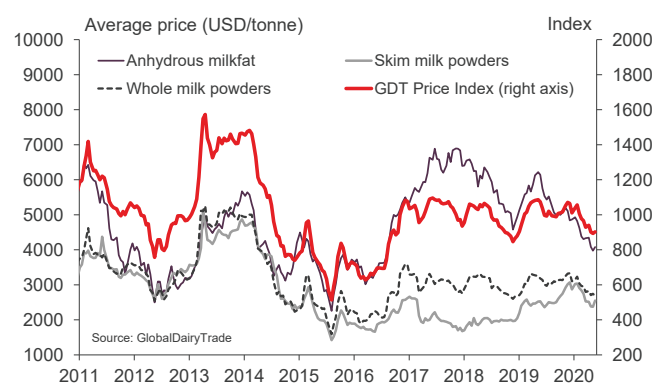
GlobalDairyTrade Auction Results, 20 May 2020

	Change since last auction	Prices USD/tonne
Anhydrous Milk Fat (AMF)	2.7%	\$4,079
Butter	-1.9%	\$3,803
Butter Milk Powder (BMP)	-	-
Cheddar	-6.0%	\$3,864
Lactose	15.6%	\$1,341
Rennet Casein	-1.9%	\$8,719
Skim Milk Powder (SMP)	6.7%	\$2,549
Whole Milk Powder (WMP)	-0.5%	\$2,677
GDT Price Index	1.0%	902

Farmgate milk price forecasts

	2019/20		2020/21
	Westpac	Fonterra	Westpac
Milk price	\$7.00	\$7.00-\$7.60	\$6.30

Dairy prices



Imre Speizer, Market Strategist

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Last night's GlobalDairyTrade auction resulted in a slight rise in the headline price index of 1.0%, a slightly better outcome than we or the market had expected.

Our key export product, whole milk powder, was little changed (down 0.5%), the result largely predicted by yesterday's futures market which had pointed to a 1% fall. That said, it is now 17% below the year's peak in January, and at US\$2677, it is 12% below the average of the past three years (\$3040).

Skim milk powder prices were the main surprise overnight, rising 6.7%. Butter fell 1.9%, anhydrous milk fats rose 2.7%, and cheddar cheese fell 6.0%.

Looking at the regional breakdown for last night's auction, there were a few interesting changes. North Asian share (a proxy for China demand), while still the largest of all regions, slipped slightly further, and the Middle Eastern share fell back to its lowest since mid-2019 – unsurprising given oil prices remain near multi-year lows even after the recent rebound.

The supply-demand story should continue to cap prices in the near term. Production in the Northern Hemisphere and South America remains above the previous year's levels. And global demand could be slow to recover to pre-Covid levels, even after restrictions on activity have been lifted, since uncertainty about the economy and job prospects will continue to dampen consumption of goods such as dairy.

That said, our forecast for the Fonterra milk price for the 2020/21 season of \$6.30 assumes further weakness in global dairy markets. The futures market is not much different to our own forecast, pricing it at \$6.14 currently, which is less pessimistic than the \$5.93 it priced a few weeks ago. Fonterra will announce its own opening forecast during the week ahead.



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