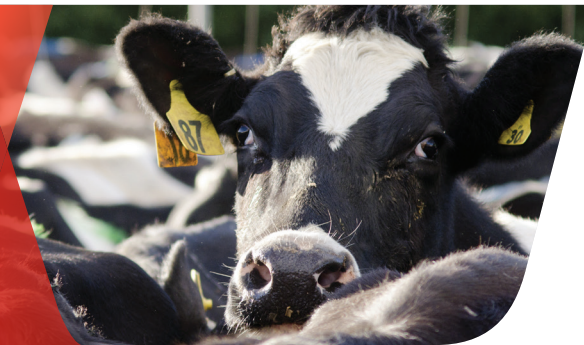


Dairy Update.

8 July 2020



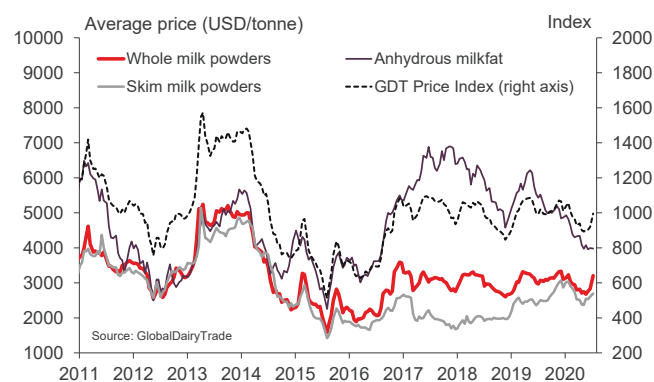
Back where we started.

- Dairy auction prices surged overnight.
- Effectively, the price lift has wiped out the COVID-related price falls earlier in the year.
- While we expect some of the overnight gains are likely to prove temporary, overall the result reaffirms our 2020/21 milk price forecast of \$6.50/kg.

GlobalDairyTrade Auction Results, 8 July 2020

	Change since last auction	Prices USD/tonne
Whole Milk Powder (WMP)	14.0%	\$3,208
Skim Milk Powder (SMP)	3.5%	\$2,694
Anhydrous Milk Fat (AMF)	-0.2%	\$3,981
Butter	3.0%	\$3,717
GDT Price Index	8.3%	996

Dairy prices



Nathan Penny, Senior Agri Economist

+64 9 348 9114

Dairy auction prices surged overnight, with whole milk powder (WMP) prices leading the charge. For the record, WMP prices jumped 14.0%, while overall auction prices rose a more modest 8.3%.

In that sense, WMP accounted for the lion's share of the overall price lift. Indeed, while six out of the seven products we monitor posted price gains, the next biggest price lift was butter milk powder at 3.8%.

Effectively, the price lift overnight wipes out the COVID-related price falls from January through May. Precisely, WMP prices are now 1.2% ahead of where they sat at the end of January.

The 14% WMP price jump exceeded our expectations and then some! We had pencilled in a circa 5% lift, based on futures prices prior to the auction. In addition, the WMP lift was the largest since November 2016.

So do we believe it?

In a word, yes, but some of this lift is likely to prove temporary.

The overnight price lift fits with a broader improvement in market sentiment over recent weeks. This improvement follows easing of lockdown restrictions and a subsequent lift in activity. It follows that global dairy demand and now prices have improved.

Looking at the WMP volumes offered, they were normal for this time of the year. In other words, nothing untoward stands out or invalidates the result. Moreover, WMP prices remain have now merely moved into the middle of the price range since August 2016.

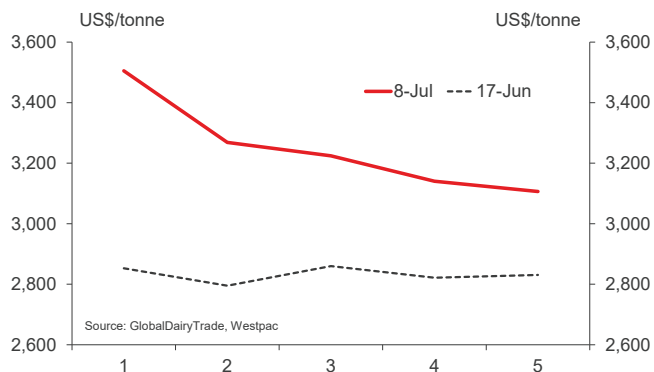
The oversized WMP lift suggests this is a New Zealand phenomenon as New Zealand dominates global WMP exports. Again, this makes sense as the auction falls within New Zealand winter and the amount offered at this auction was relatively low (as it normally is).

Accordingly, as auction volumes increase into spring we expect WMP prices to give back some of these gains. We can see from the overnight result that prices were higher for the shorter dated contracts than for the later dated ones (see chart over page). In other words, buyers are unwilling to pay



the same price for later dated contracts knowing that larger quantities of product will be on offer at upcoming auctions.

Whole milk powder prices



The new season is starting on the front foot, but risks remain very high.

The result overnight is consistent with our \$6.50/kg milk price forecast for 2020/21. Our forecast contains a temporary pick up in dairy prices, although admittedly we had expected a more gradual lift. In that sense, this result, if sustained, suggests some upside to our forecast.

However, we have also built in some weakness to prices later in the season as the global recession weighs on global dairy demand later in the year. Indeed, we have factored in for global dairy prices to weaken over the peak New Zealand production months as the extra dairy volumes combine with softening global demand.

With that in mind, it pays to note that it is still early days in the season and the uncertainties around the COVID impact through the full dairy season remain large. On this basis, we recommend that farmers approach the season with ‘eyes wide open’ and continue to closely follow dairy market developments.

Farmgate milk price forecasts

	2019/20		2020/21	
	Westpac	Fonterra	Westpac	Fonterra
Milk price	\$7.20	\$7.10-\$7.30	\$6.50	\$5.40-\$6.90

Contact the Westpac economics team.

Dominick Stephens, Chief Economist

+64 9 336 5671

Michael Gordon, Senior Economist

+64 9 336 5670

Satish Ranchhod, Senior Economist

+64 9 336 5668

Nathan Penny, Senior Agri Economist

+64 9 348 9114

Paul Clark, Industry Economist

+64 9 336 5656

Any questions email:

economics@westpac.co.nz

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