



AGRI UPDATE

GlobalDairyTrade auction results.

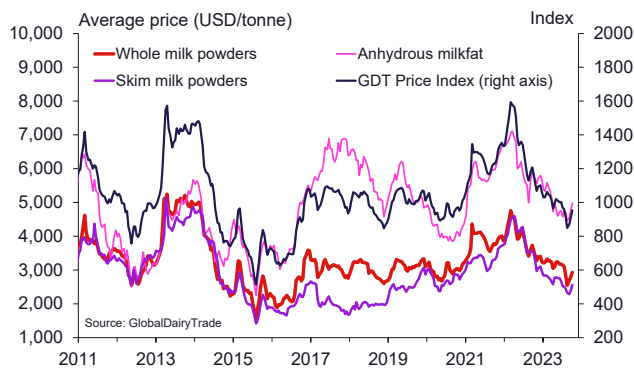


4 Oct 2023 | Nathan Penny, Senior Agri Economist | +64 21 743 579 | nathan.penny@westpac.co.nz

Three's company

- Global dairy prices lifted for the third successive auction overnight.
- After a prolonged fall, prices have now found a bottom.
- However, we remain cautious on the outlook and maintain our 2023/24 milk price forecast of \$6.75/kg.
- That said, we do note that the risks around our forecast are now more balanced than they were previously.

GlobalDairyTrade auction prices



GlobalDairyTrade auction results

| | Change since last auction | Prices USD/tonne |
|--------------------------|---------------------------|------------------|
| Whole Milk Powder (WMP) | 4.8% | \$2,931 |
| Skim Milk Powder (SMP) | 6.6% | \$2,558 |
| Anhydrous Milk Fat (AMF) | 3.7% | \$4,979 |
| Butter | 1.3% | \$4,806 |
| Cheddar | -4.8% | \$3,853 |
| GDT Price Index | 4.4% | 953 |

Auction results, 4 October.

Dairy auction prices rose for the third successive auction overnight. Overall prices and key whole milk powder (WMP) prices posted solid gains of 4.4% and 4.8%, respectively.

The price rise was also broad-based. Five products posted price rises against one price fall. Skim milk powder prices led the way, jumping 6.6%, while anhydrous milk fat also lifted by 3.7%. Only cheddar prices headed in the opposite direction (down 4.8%).

The WMP price rise was roughly in line with market expectations. The futures market had pointed to a WMP price rise of around 4%, although we had pencilled in a smaller increase of 1%.

While the recent positive results are welcome, global dairy prices remain low. Moreover, WMP prices have yet to fully make up the lost ground over August when prices fell 18% – prices remain around 5% below the level as at the end of July. Looking over a longer period, WMP prices sit at 16% below their five-year average.

With that in mind, it's difficult to judge yet whether prices have fully turned a corner. To make that call we will need to see further price lifts over the remainder of the year. Indeed, the recent price rises may have much to do

with the fact that low prices have brought buyers back to the market rather than any fundamental change or improvement in global dairy demand.

At the same time, we will cross-check price movements in market fundamentals i.e. supply and demand. On the demand front, we have seen a recent increase in oil prices and this has coincided with an uptick in buying from the Middle East. In contrast, Chinese buyers haven't changed their buyer patterns materially, although we note there were fewer buyers at this auction (which we put down to the Golden Week holidays in China).

Looking ahead, the strength or otherwise of New Zealand spring production (supply) also has the potential to provide fresh direction to prices over coming months. At this juncture and given that 2022 spring production was weak, we anticipate some lift in annual terms. However, that is likely to be tempered by the fact that cashflow pressures are likely to mean that farmers' purchase less feed and other inputs.

All up, we maintain our 2023/24 milk price forecast at \$6.75/kg. In terms of risks to this forecast, we now see them as balanced. On the upside and as well as the recent positive auction results, the NZD/USD has traded at relatively low levels recently and is providing an additional boost the milk price. El niño, leading to a potential drought, is also a small upside risk to prices come summer and autumn. That said, feed is currently ample and water tables are very high so impact, if any, is likely to be somewhat muted. On the downside, we see risks that New Zealand spring production is stronger than many in global dairy markets anticipate. For example, Fonterra expects production to fall this season compared to last. In addition, the timing of the recovery in Chinese demand remains highly uncertain. In other words, there's a lot of water still to go under the bridge this season.

Farmgate milk price forecasts

| | 2022/23 | | 2023/24 | |
|-------------------|---------|---------------|---------|---------------|
| | Westpac | Fonterra | Westpac | Fonterra |
| Milk price | \$8.20 | \$8.10-\$8.30 | \$6.75 | \$6.00-\$7.50 |

CONTACT

Westpac Economics Team | westpac.co.nz/economics | nzeconomics@westpac.co.nz

Kelly Eckhold, Chief Economist | +64 9 348 9382 | +64 21 786 758 | kelly.eckhold@westpac.co.nz

Satish Ranchhod, Senior Economist | +64 9 336 5668 | +64 21 710 852 | satish.ranchhod@westpac.co.nz

Darren Gibbs, Senior Economist | +64 9 367 3368 | +64 21 794 292 | darren.gibbs@westpac.co.nz

Nathan Penny, Senior Agri Economist | +64 9 348 9114 | +64 21 743 579 | nathan.penny@westpac.co.nz

Paul Clark, Industry Economist | +64 9 336 5656 | +64 21 713 704 | paul.clark@westpac.co.nz

Shania Bonenkamp, Graduate | +64 21 796 895 | shania.bonenkamp@westpac.co.nz

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