



AGRI UPDATE

GlobalDairyTrade auction results.

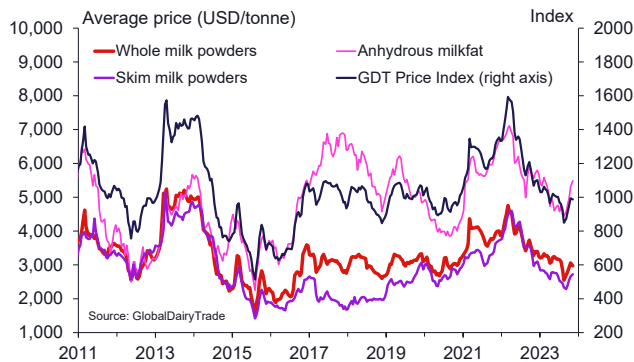


8 Nov 2023 | **Nathan Penny**, Senior Agri Economist | +64 21 743 579 | nathan.penny@westpac.co.nz

Taking a breather

- Dairy auction prices fell overnight.
- By product, the result was more mixed.
- All up, we remain cautious and reaffirm our 2023/24 milk price forecast at \$7.25/kg.

GlobalDairyTrade auction prices



GlobalDairyTrade auction results

	Change since last auction	Prices USD/tonne
Whole Milk Powder (WMP)	-2.7%	\$2,971
Skim Milk Powder (SMP)	2.3%	\$2,724
Anhydrous Milk Fat (AMF)	3.1%	\$5,489
Butter	-1.6%	\$4,890
Cheddar	4.5%	\$4,042
GDT Price Index	-0.7%	987

Auction Results, 8 November

Dairy auction prices fell overnight. Overall prices and key whole milk powder (WMP) prices dipped 0.7% and 2.7%, respectively.

By product, the result was more mixed. The number of price rises actually outnumbered the falls by five to two. Lactose prices spiked over 19%, while skim milk powder, cheddar, anhydrous milk fat and butter milk powder prices all rose between 2% and 4%. Butter was the other product to post a price fall (down 1.6%).

The WMP price fall was roughly in line with market expectations. The futures market had pointed to a WMP price fall of around 3%, although we had pencilled in a smaller decline of 1% (back on Friday).

The result follows a run of four consecutive price rises, so in that sense, prices were due a breather. During that period, WMP prices had lifted by over 20%, albeit following a very steep fall in August. After the fall overnight, that lift moderates back to around 17%.

New Zealand spring production has started on a firm note so that may also explain the price fall. September production was up 1.3% compared to September 2022.

Dairy markets previously had been factoring in drought risk on the back of the El Niño weather pattern. In our

view, this has been overdone as New Zealand water tables are generally very high and most farmers have ample feed on hand. This will help mitigate or dampen any drought impact. Moreover, we expect ongoing firm production in annual change terms over the remainder of spring.

Meanwhile, Chinese demand is hinting at a pickup. Recent economic data have been more positive than expected so this may translate into higher demand over time. Also, we noticed that WMP contracts 4 and 5 (i.e. for delivery in 4 and 5 months' time) were 8% and 9% higher, respectively, than contract 1. This is the clearest sign to date that the removal of the 10% tariff from January will boost Chinese demand.

On balance, we remain cautious. Developments, both positive and negative, since we lifted our milk price forecast have largely cancelled each other out. With that in mind, we reaffirm our milk price forecast for this season at \$7.25/kg.

Farmgate milk price forecasts

	2023/24	
	Westpac	Fonterra
Milk price	\$7.25	\$6.50-\$8.00

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