

WESTPAC DAIRY UPDATE

GlobalDairyTrade auction results.

20 September 2023

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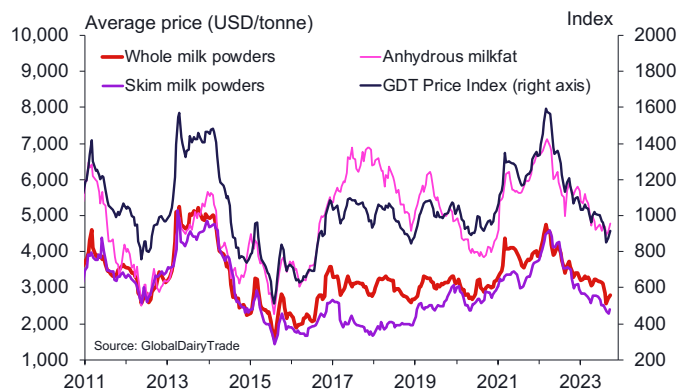
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Two in a row.

- Global dairy prices lifted for the second successive auction overnight.
- Despite the rise we think it's too early to say that prices "have turned a corner."
- All up, we maintain our 2023/24 milk price forecast of \$6.75/kg.
- Although, we do note that the risks around our forecast are now more balanced than they were a month ago.

GlobalDairyTrade auction prices



GlobalDairyTrade auction results

	Change since last auction	Prices USD/tonne
Whole Milk Powder (WMP)	4.6%	\$2,799
Skim Milk Powder (SMP)	5.4%	\$2,400
Anhydrous Milk Fat (AMF)	5.3%	\$4,787
Butter	3.8%	\$4,723
Cheddar	-1.7%	\$4,044
GDT Price Index	4.6%	913

Auction Results, 20 September.

Dairy auction prices rose for the second successive auction overnight. Both overall prices and key whole milk powder (WMP) prices jumped by 4.6%.

The price rise was also broad-based. Four products posted price rises against one price fall. Leading the way were skim milk powder and anhydrous milk fat prices, with both products recording rises of over 5%. Meanwhile, butter prices posted a 3.8% gain.

The WMP price rise was roughly in line with expectations. We had pencilled in a 3% WMP price lift late last week, while the futures market, immediately ahead of the auction, had pointed to a WMP price rise of around 7%.

While the positive result is welcome, global dairy prices remain low. In annual terms, WMP and overall prices are still down by 25% and 24%, respectively. Recall also that WMP prices fell 18% over August. Indeed, WMP prices are still around 10% below the level back at the end of July.

With that in mind, it's difficult to judge yet whether prices have turned a corner. To make that call we will need to see further price lifts over October and into November. Indeed, the recent price rises may have more 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.

Looking ahead, the strength or otherwise of New Zealand spring production 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.

At the same time, we continue to monitor developments in China for signs of a pickup in dairy demand. For now, there have been few developments of note. As a result, we continue to expect that demand will not improve until late 2023 at the earliest, but more likely in the new year.

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 better auction results over September, the NZD/USD has weakened recently and is providing an additional boost to the milk price. 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

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