

WESTPAC DAIRY UPDATE

GlobalDairyTrade auction results.

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As flat as a pancake.

- Global dairy prices were as flat as a pancake overnight.
- This result is consistent with an effective stalemate between soft global dairy demand and soft global dairy production.
- This stalemate may take some time to resolve – we are in watch and wait mode, particularly for signs of a pickup or otherwise in Chinese dairy demand.
- Meanwhile, we introduce a new Cheese price and dividend watch.

GlobalDairyTrade auction results

	Change since last auction	Prices USD/tonne
Whole Milk Powder (WMP)	0.0%	\$3,172
Skim Milk Powder (SMP)	-2.3%	\$2,667
Anhydrous Milk Fat (AMF)	0.5%	\$4,758
Butter	5.5%	\$5,379
Cheddar	-3.3%	\$4,533
GDT Price Index	0.0%	1002

Auction Results, 21 June.

Dairy auction prices were unchanged overnight. Indeed, both overall prices and key whole milk powder (WMP) prices were flat.

By product, prices were more mixed. In addition to the flat WMP result, there were two price rises balanced out by two price falls. Milk fat prices recorded solid gains, with butter prices jumping 5.5%. Heading in the opposite direction were skim milk powder and cheddar prices, down 2.3% and 3.3%, respectively.

The result was better than expected. We and the futures market had expected WMP prices to fall by around 2%.

Stepping back, this result does little in terms of setting direction for prices over coming months. For now, soft global dairy demand and soft global dairy production are effectively in a stalemate.

Looking ahead, we see two possible circuit breakers: one is the long-awaited rebound in Chinese dairy demand; and the other is spring New Zealand dairy production. Our view is that Chinese dairy demand still comes through and lifts global dairy prices. Though admittedly, the risks are that the expected demand rebound is pushed out even further. Meanwhile, spring production can shift the global dairy price dial in either direction.

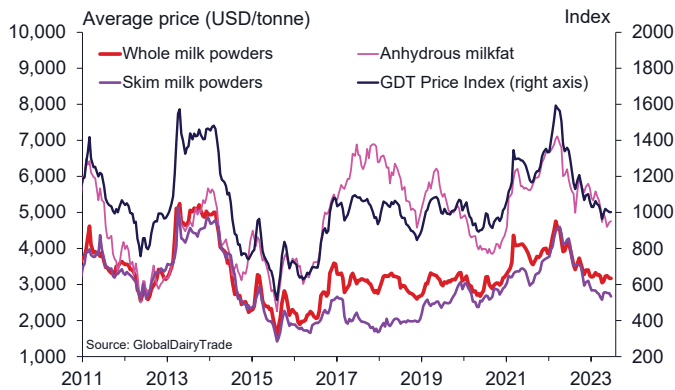
We anticipate a modest 1% production lift over the 2023/24 season compared to 2022/23. However, there is a wide range of possibilities. One possibility is a stronger production rebound on an improved spring relative to the weak production over spring 2022/23. Alternatively, tight cashflows could see lower fertiliser use and other cost-saving measures in say animal health resulting in lower production. Which factors dominate will be revealed in spring production data which we note come with a lag. September data, for example, won't be available until around 20 October.

Turning to the milk price, the result overnight reveals little in terms of fresh price direction. With that in mind, we maintain our 2023/24 milk price forecast at \$8.90/kg.

Farmgate milk price forecasts

	2022/23		2023/24	
	Westpac	Fonterra	Westpac	Fonterra
Milk price	\$8.20	\$8.10-\$8.30	\$8.90	\$7.25-\$8.75

GlobalDairyTrade auction prices



Farmgate milk prices

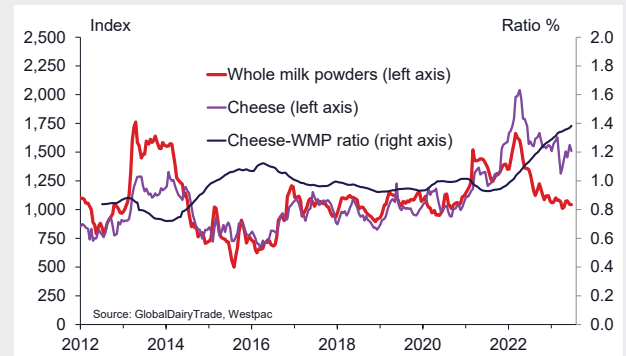


Cheese price and dividend watch.

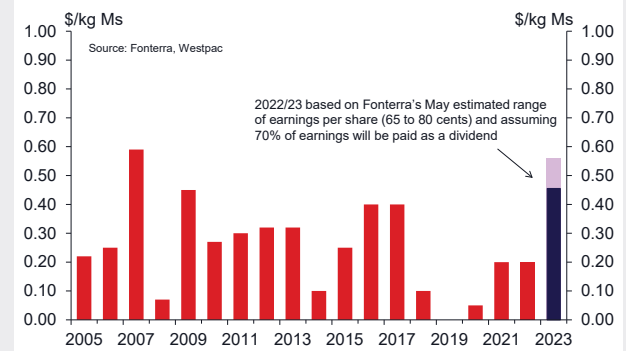
Following on from our report last at the last auction, we will begin to monitor cheese prices (relative to WMP) and therefore what that hints at in terms of the Fonterra dividend for the season just gone and the new season.

As discussed previously, over recent years the Fonterra dividend has been low. But Fonterra expects to pay a significantly larger dividend for the 2022/23 season and at this early juncture, the cheese premium over WMP indicates that this may continue over 2023/24. As a result, a dividend of a similar magnitude may be likely.

Cheese and whole milk powder prices



Fonterra dividend



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