

WESTPAC DAIRY UPDATE

Forecast update and GlobalDairyTrade auction results.

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Perfect storm.

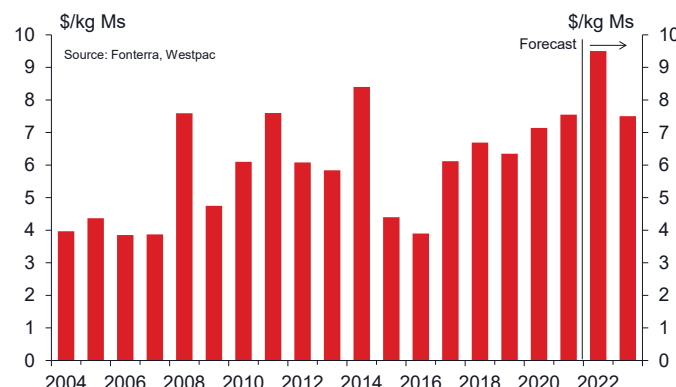
- Bad weather and surging costs have hit New Zealand dairy production from all sides.
- Accordingly, we now expect 2021/22 production to fall 3% compared to the 2020/21 season.
- At the same time and as a result of lower production, we have bumped our 2021/22 milk price forecast up by 50 cents to \$9.50/kg.

Farmgate milk price forecasts

	2021/22		2022/23
	Westpac	Fonterra	Westpac
Milk price	\$9.50	\$8.90-\$9.50	\$7.50

We have upgraded our 2021/22 farmgate milk price forecast by 50 cents to \$9.50/kg. This revision puts our forecast at the top of Fonterra's updated forecast range of \$8.90 to \$9.50/kg.

Farmgate milk prices



Bad weather and surging costs are squeezing production from all sides.

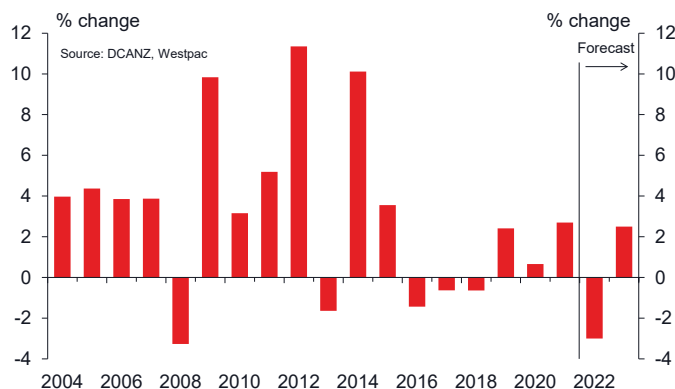
The key catalyst for the 2021/22 forecast revision is the downgrade to our production forecast for the season. We now expect New Zealand production to fall by 3.0% compared to last season. Previously, we expected production to fall by 1.5%.

This season, the weather has conspired to slam the brakes on New Zealand production. First, winter and spring were either wet or cold or both in many parts of the country. Now, a dry summer, particularly in the Waikato, has added to the

production woes. As a result, production for the first seven months of the season is running 3.2% behind the same stage of last season.

We expect this production softness to continue over the remainder of the season. Indications are that January production will be similarly weak. Moreover, with costs sky-high (including for feed) farmers don't have the incentive to increase production that one might normally expect given the record-high milk price.

Dairy production growth (all NZ suppliers)



Global production is similarly soft.

Meanwhile, dairy production elsewhere is also soft. Indeed, a similar combination of bad weather and high feed and other costs has hit production in other key exporters such as the EU and US.

We expect EU production to post a small fall over calendar 2021 compared to calendar 2020. While the US may post modest production growth over the same period, this is still a significant slowing from the previous period.

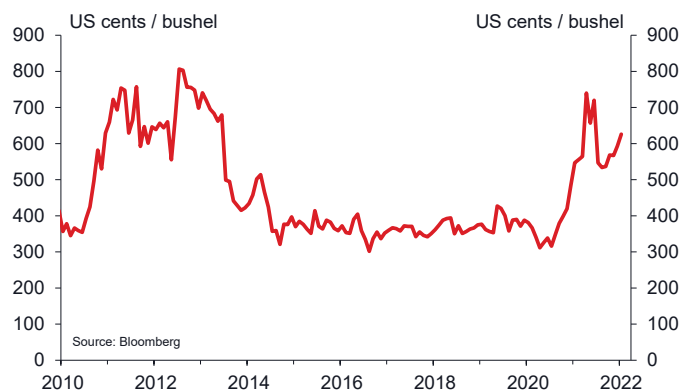
Dairy production growth weighted by export share – Top 3 exporters

Exporter	2021 forecast % change	2022 forecast % change	Export share	2021 weighted forecast % change	2022 weighted forecast % change
New Zealand	0.4	0.7	37%	0.2	0.3
EU	-0.2	0.6	41%	-0.1	0.2
USA	1.3	0.7	22%	0.3	0.1
Weighted total by export share				0.3	0.7

Source: DCANZ, Westpac, EU Commission, USDA

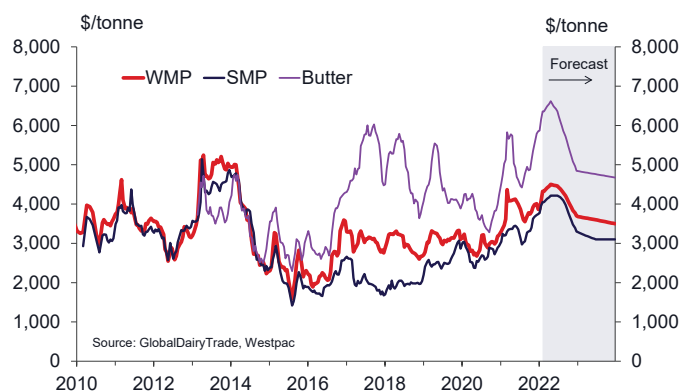
Notably, global feed costs have spiked again (see chart) and we expect this to continue to constrain EU and US production. In addition, other costs are also sky-high (think fertiliser and fuel for example) further constraining production.

Corn prices



All up, we expect the milk price ducks to continue to line up for dairy farmers over the remainder of the season. That's not to say there aren't risks. And on that front, we continue to highlight the cost pressures that farmers are facing. Keeping a lid on costs wherever possible, will remain key to making the most of this purple milk price patch.

Key dairy commodity prices and forecasts



Auction results, 2 February.

Dairy auction prices posted strong gains overnight for the second successive auction. Overall prices lifted by 4.1%, while key whole milk powder (WMP) prices surged by 5.8%.

The jump in prices builds on the gains from the previous auction. Overall prices and WMP prices have lifted by around 9% and 12%, respectively since the start of the year. Taking a longer-term perspective, overall prices are around 38% above their five-year average.

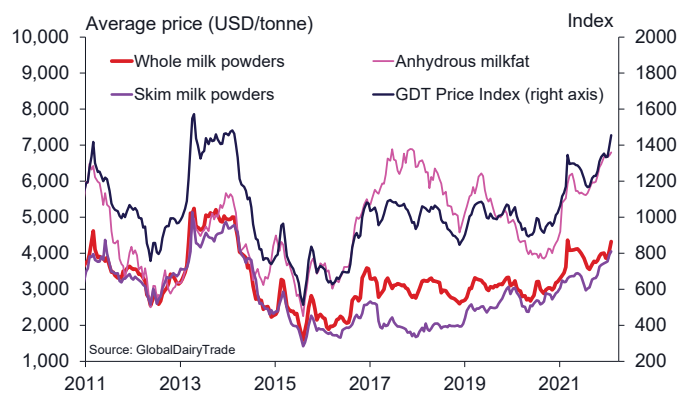
The price strength overnight was broad based. All of the products that we monitor posted price gains. WMP prices led the price gains, with butter prices posting the next-biggest gain of 3.3%. Notably, butter and cheddar prices posted fresh record highs.

The result was in line with our expectations. We had expected a 5% lift in WMP prices, while the futures market had expected a larger increase in the vicinity of 7%.

GlobalDairyTrade auction results

	Change since last auction	Prices USD/tonne
Whole Milk Powder (WMP)	5.8%	\$4,324
Skim Milk Powder (SMP)	2.1%	\$4,051
Anhydrous Milk Fat (AMF)	1.4%	\$6,800
Butter	3.3%	\$6,359
GDT Price Index	4.1%	1,455

Global dairy prices



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