

Dairy Update.

2 June 2021



Kia kaha Canterbury.

- Recent data suggest that dairy production has ended 2020/21 season on a strong note.
- However, the 100-year flood event in Canterbury increases risk that 2021/22 production gets off to a sluggish start come spring.
- Meanwhile, dairy prices slipped a touch overnight.
- Effectively, though, prices have trended sideways at healthy levels over the last five auctions.

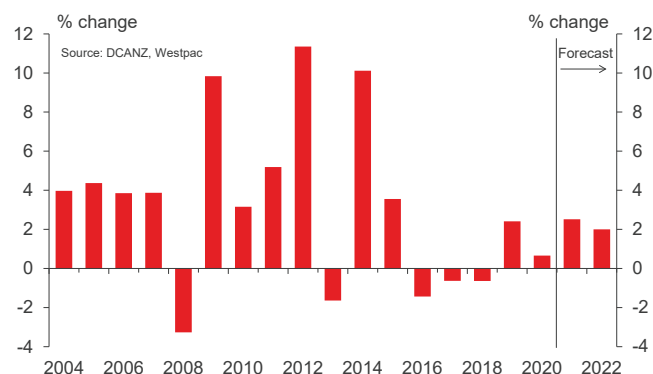
Kia kaha Canterbury! The Westpac Economics Team would like to send a message of support to all Canterbury farmers and communities hit by the severe flooding.

Dairy production strong, but...

With the new dairy season officially underway yesterday, we await the final production data for the 2020/21 season. Last week data showed that April production set a new record high for April months. Production was up a whopping 11.6% versus April 2020, with production now up 2.4% for the season to date.

On this basis, we expect production to end around 2.5% higher than 2019/20 and therefore set a new record high. The result is even more impressive when you take into account that last season was also a record high level and that last season included an extra day (2020 was a leap year).

Dairy production growth (all NZ suppliers)



Nathan Penny, Senior Agri Economist

+64 9 348 9114

... the Canterbury floods may slow the start to 2021/22.

However, the recent Canterbury floods pose a risk for the new season's production outlook. Notably, many farmers have lost winter feed during the floods, with feed stores already low given earlier dry conditions. While this may not necessarily impact production levels from the spring, any additional adverse weather events certainly will.

At this juncture, we expect a 2% lift in nationwide production next season, with the very strong milk price likely to drive production higher, even with compliance and regulatory constraints acting in the opposite direction.

Milk price outlook still bullish.

The strong production end to the 2020/21 season has few implications for the farmgate milk price. Recall at this late stage of the season, we have adopted the midpoint of Fonterra's updated forecast range i.e. \$7.55/kg. Note the milk price can move modestly from this point of the season, but the movements are usually within 10 cents per kg either way.

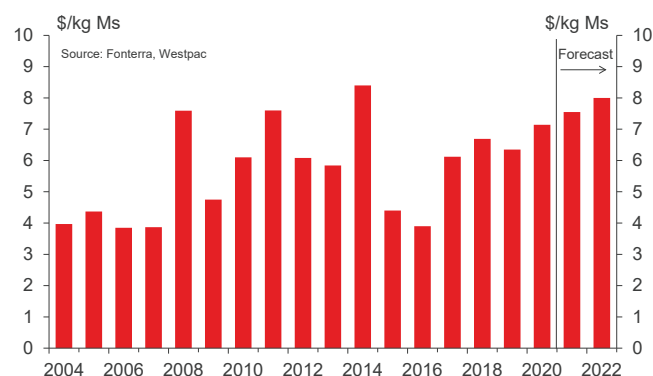
Looking to the 2021/22 season, the implications are more mixed. The strong end to the season sets the bar high for the



2021/22 season. However, the lost winter feed in Canterbury suggests that production in that region may start the spring somewhat behind the eight ball.

In other words, the risks to our 2021/22 farmgate milk price remained balanced. Recall that our 2021/22 farmgate milk price forecast stands at \$8.00/kg.

Farmgate milk prices



Farmgate milk price forecasts

	2020/21		2021/22	
	Westpac	Fonterra	Westpac	Fonterra
Milk price	\$7.55	\$7.45-\$7.65	\$8.00	\$7.25-\$8.75

Auction Results, 2 June 2021.

Dairy auction prices slipped a touch overnight. Whole milk powder (WMP) slipped 0.5%, while overall prices dipped by 0.9%.

The result continues the sideways trend of the last few auctions. Both overall and WMP prices have recorded movements in either direction of less than 1% over the last five auctions.

Accordingly, prices remain at very healthy levels. WMP prices for example sit circa 48% higher than at the same auction a year ago. In addition, WMP prices are currently over a third above their 5-year average.

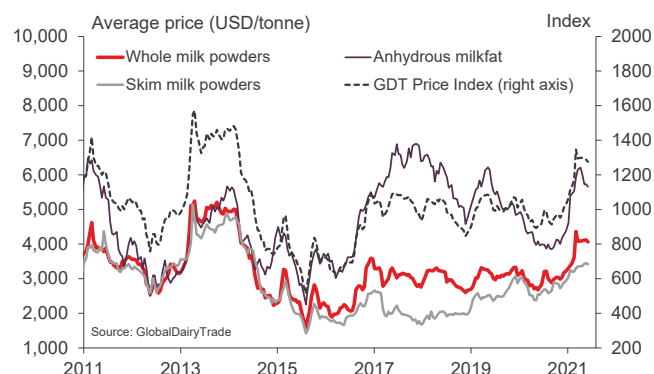
The softness in prices was broad based. Five of the six products that we monitor posted price falls. Notably, butter prices slid for a fourth consecutive auction (down 5.4%), with prices now 19% back from their April peak. Otherwise, the price falls were modest of around 1%.

The result was a touch below our expectations. The futures market was pointing to flat WMP prices immediately prior to the auction, while we had pencilled in a similar result last week.

GlobalDairyTrade auction results


	Change since last auction	Prices USD/tonne
Whole Milk Powder (WMP)	-0.5%	\$4,062
Skim Milk Powder (SMP)	-0.5%	\$3,415
Anhydrous Milk Fat (AMF)	-0.8%	\$5,654
Butter	-5.4%	\$4,690
GDT Price Index	-0.9%	1,276

Global dairy prices



Contact the Westpac economics team.


Michael Gordon, Acting Chief Economist

 +64 9 336 5670


Satish Ranchhod, Senior Economist

 +64 9 336 5668

Nathan Penny, Senior Agri Economist

 +64 9 348 9114

Paul Clark, Industry Economist

 +64 9 336 5656

Gregorius Steven, Economist

 +64 9 367 3978

Any questions email:

 economics@westpac.co.nz

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