

WESTPAC DAIRY UPDATE

GlobalDairyTrade auction results.

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2022 price momentum continues to build.

- Dairy prices jumped overnight, with cheddar and butter prices setting new record highs.
- Unfavourable weather conditions and adverse geopolitical events are supporting price gains.
- This strong result suggests there are upside risks to our 2021/22 farmgate milk price forecast of \$9.50/kg.

GlobalDairyTrade auction results

	Change since last auction	Prices USD/tonne
Whole Milk Powder (WMP)	5.7%	\$4,757
Skim Milk Powder (SMP)	4.7%	\$4,481
Anhydrous Milk Fat (AMF)	2.1%	\$7,048
Butter	5.9%	\$7,086
GDT Price Index	5.1%	1,593

Dairy auction prices jumped again overnight. Overall prices lifted 5.1%, while key whole milk powder (WMP) prices accelerated by 5.7%.

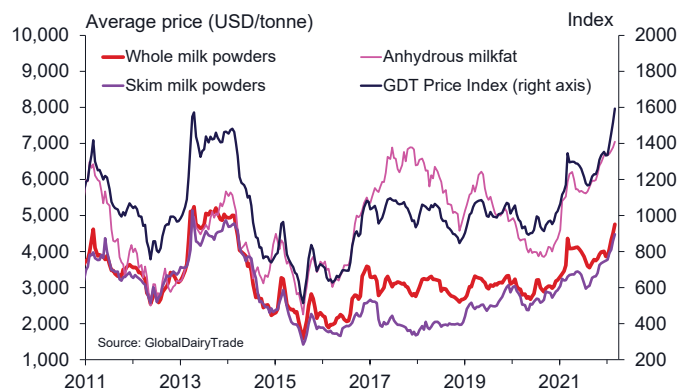
Overall prices are now at their highest level since January 2013, with the latest increases representing the fifth consecutive auction where gains have been recorded.

Price gains were seen across all five products that we monitor. Cheddar prices led the gains with a 10.9% jump, while butter prices rose by 5.9%. Both have posted new record highs. Meanwhile, skim milk powder prices increased by 4.7% and anhydrous milk fat prices rose by a more modest 2.1%.

This result was largely in line with expectations. Prior to the auction, the futures market had indicated a circa 6% lift in WMP prices.

Short-term, we expect that weakness in New Zealand dairy production due to unfavourable weather conditions will continue to support global dairy prices. Similarly, bad weather

Global dairy prices



conditions and rising input costs are also likely to have affected production in other key exporters such as the EU and the US.

The Russia-Ukraine conflict is not expected to weigh on world dairy prices, and if anything could push them higher. That's a notable contrast to the Crimean invasion in 2014, when Russia placed a ban on food imports from countries that had placed sanctions on it. While New Zealand wasn't included in that group, it meant that other major food exporters had to find other markets for their product, pushing down prices. Russia has never removed that import ban, which means that it lacks any additional leverage over food-exporting nations this time.

Fonterra has announced that it will suspend shipments to Russia. New Zealand sold \$113m of dairy products to Russia last year (mostly butter), accounting for 0.7% of our total dairy exports. This product could be redirected to other markets without having a significant impact on prices.

Meanwhile, Russia is a major exporter of wheat and of some of the raw materials used for making fertiliser. Fears of supply disruptions have seen feed and fertiliser prices spike higher, adding to the pressure on already constrained production levels. This should further support world dairy prices in the near term.

In the longer term, we expect prices to moderate over the season as global dairy supply eventually rebounds.

The strong result cements our 2021/22 farmgate milk price forecast at \$9.50/kg. The risks though are clearly on the upside, and as such we will continue to review the forecast.

Farmgate milk price forecasts

	2021/22		2022/23
	Westpac	Fonterra	Westpac
Milk price	\$9.50	\$9.30-\$9.90	\$8.50

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