

Dairy Update.

3 March 2021



Boom!

- We lift our 2020/21 farmgate milk price forecast by 40 cents to \$7.90/kg.
- Dairy auction prices skyrocketed overnight, adding to recent strong gains and prompting the forecast revision.
- While the current auction price spike will prove temporary, we expect the prices to settle at a firm level.
- We maintain our 2021/22 milk price forecast at \$7.25/kg, while noting the clear upside risks. Accordingly, we place the 2021/22 forecast under review.

Farmgate milk price forecasts

	2020/21		2021/22
	Westpac	Fonterra	Westpac
Milk price	\$7.90	\$6.90-\$7.50	\$7.25

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We have lifted our 2020/21 farmgate milk price forecast by 40 cents to \$7.90/kg. This lift puts our forecast 40 cents above Fonterra's current forecast range of \$6.90/kg to \$7.50/kg. Meanwhile, we have maintained our 2021/22 milk price forecast at \$7.25/kg, though note on balance that there are clear upside risks. Accordingly, we place the 2021/22 forecast under review.

Farmgate milk prices



The forecast lift is on the back of a further surge in global dairy prices, including a 15% surge in overall dairy prices at last night's auction. Indeed, the price surge over February and March has now well surpassed what we previously factored in. Putting numbers around the surprising surge, we were expecting whole milk powder (WMP) prices to jump around 10% over February and March. Instead, we got nearly 30%.

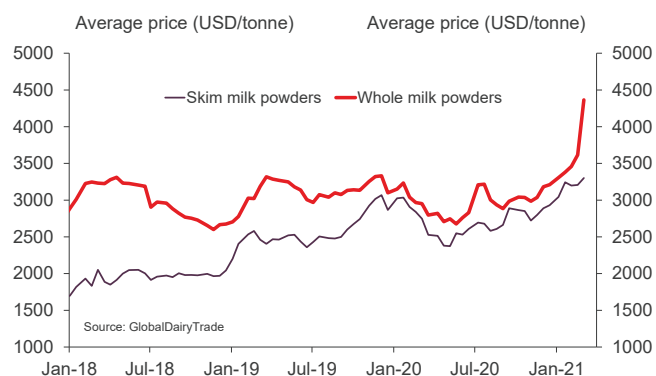
Notably, WMP prices are on a tear. Prices are up by nearly a half since November. When taken with the similarly large increases in milk fat prices (butter and anhydrous milk fat) we can assert that this lift has a New Zealand angle to it. New Zealand is the largest exporter of both WMP and milk fats. Skim milk powder prices, in contrast, which the EU and US also heavily export, have increased by a more modest 22% since November.

The implication is that this latest increase will prove temporary. New Zealand has entered its autumn and the season is winding down. Markets know that New Zealand supply will not be able to catch up to surging demand until the spring, so prices are rising right now. But equally, once Spring



does arrive we expect key WMP (and milk fat) prices to start moderating as New Zealand production starts its spring flush.

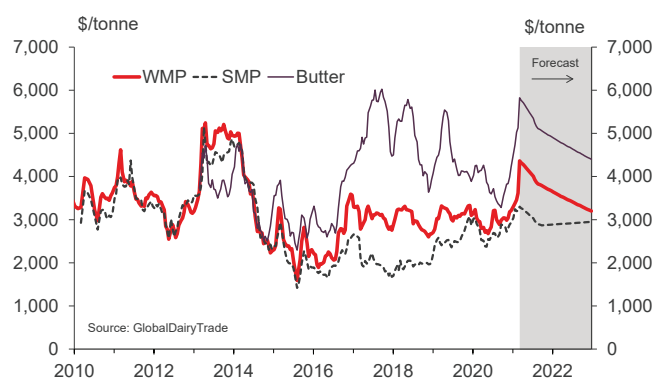
Whole and skim milk powder prices



We do think that one driver of the recent strength will prove longer-lasting. As we have noted over recent months, Chinese and more recently South-East Asian demand is underpinning the price strength and we expect this to be ongoing through 2021.

That said, global dairy supply will eventually respond. The impact of this response will come to bear from around mid-year, with prices beginning to moderate at this time. So we now have two reasons to expect prices to moderate over the second half of 2021.

Key dairy commodity prices and forecasts



Looking to the 2021/22 season, the balance of risks have shifted upwards. However, for now we stick with our farmgate milk price forecast of \$7.25/kg. We will continue to review this forecast and in particular watch for where the dust settles following the out-sized auction result overnight.

Auction Results, 3 March.

Dairy auction prices spiked higher overnight. WMP prices skyrocketed (up 21.0%), while overall prices jumped 15.0%. The WMP price increase was the largest since March 2010. And WMP prices now sit at their highest level since March 2014.

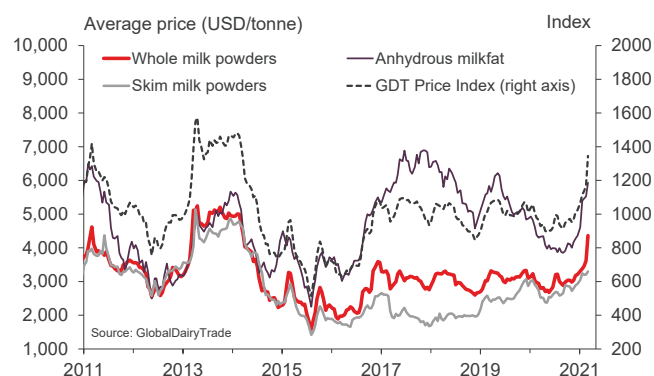
Six out of seven products posted price gains. Milk fat prices also jumped higher, with butter and Anhydrous milk fat prices, rising 13.7% and 7.4%, respectively. In contrast, skim milk powder prices posted a relatively modest gain of 3.5%.

The result blew market expectations out of the water. The futures market was pointing to a WMP lift of around 6% immediately prior to the auction, while last week, we had pencilled in a circa 3% lift.

GlobalDairyTrade Auction Results, 3 March 2021

	Change since last auction	Prices USD/tonne
Whole Milk Powder (WMP)	21.0%	\$4,364
Skim Milk Powder (SMP)	3.5%	\$3,302
Anhydrous Milk Fat (AMF)	7.4%	\$5,929
Butter	13.7%	\$5,826
GDT Price Index	15.0%	1,346

Global dairy prices



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