

Dairy Update.

6 October 2021



Production down, milk price up.

- We upgrade our 2021/22 farmgate milk price forecast by 75 cents to \$8.50/kg.
- The key catalyst for the forecast revision is the significant downgrade to our production forecast for the season.
- We now expect New Zealand production to fall this season, and along with soft production in other key dairy producers, we expect weak global supply to underpin global dairy prices at or around current high levels for at least the rest of year.

Nathan Penny, Senior Agri Economist

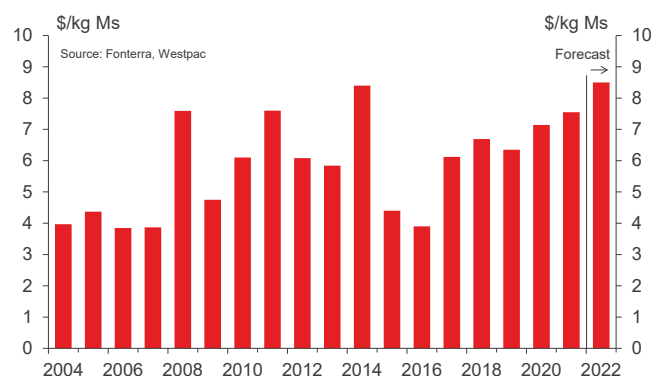
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Farmgate milk price forecasts

	2020/21		2021/22	
	Westpac	Fonterra	Westpac	Fonterra
Milk price	\$7.55	\$7.45-\$7.65	\$8.50	\$7.25-\$8.75

We have upgraded our 2021/22 farmgate milk price forecast by 75 cents to \$8.50/kg. If achieved, this would be a record high, surpassing the previous record of \$8.40/kg set back in 2013/14.

Farmgate milk prices



The key catalyst for the forecast revision is the downgrade to our production forecast for the season. We now expect New Zealand production to fall by 1% compared to last season. Previously, we expected production to lift by 1%.

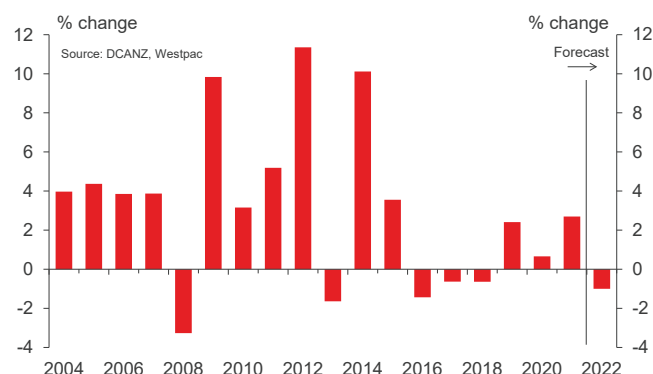
New Zealand production has started the season on the back foot. Winter and spring so far have been either wet or cold or both in many parts of the country. As a result, production for the first three months of the season is running at 1.8% behind the same stage of last season.

We expect this production softness to continue in the short term. Most of the weakness to date was concentrated in August, which came in 4.2% below August 2020. Anecdotes also suggest that September will be similarly weak. With the first four months of the year accounting for around 20% of the season's production, it will be very difficult for production to



be made up later, particularly relative to last season's record level of production.

Dairy production growth (all NZ suppliers)



Meanwhile, dairy production elsewhere is also soft. Weather has also impacted European production, with production for the first seven months of the year down 0.1% compared to the same time a year ago. In addition, Chinese (domestic) and US production continue to be constrained by very high feed costs and limited feed availability.

Recent auction results also reflect the slowdown in global dairy production. Overall and WMP auction prices have lifted by around 5% since August. Moreover, we anticipate that when weak September New Zealand production data are released officially in two weeks' time, they will reinforce prices at their current high levels.

The New Zealand dollar has also been helpfully low recently. The NZD/USD is trading at around 0.6960. And while we expect the dollar to strengthen from here, the longer it stays at around current levels the more upside there is for the milk price. For the season as a whole, we expect an effective NZD/USD rate of 0.70.

We do add a note of caution though. At \$8.50/kg we believe that the milk price is getting towards the upper limit of what Fonterra can pay. There are two factors in play in this regard. Firstly, the higher the milk price the harder it becomes for Fonterra's consumer businesses. In that sense, Fonterra could cap the milk price to prevent losses in these other businesses. The other factor is that Fonterra has limited processing capacity for its various products. In 2013/14 for example, we saw that Fonterra was constrained in product mix choices and therefore not fully able to take advantage of very high WMP prices over that season.

Auction results, 6 October.

Dairy auction prices were largely unchanged overnight. Whole milk powder (WMP) prices fell 0.4%, while overall prices were flat.

The result further consolidates the September auction price gains. WMP prices are up 5.2% since August. And looking over a longer horizon, WMP prices are 24% higher than as at the same auction last year.

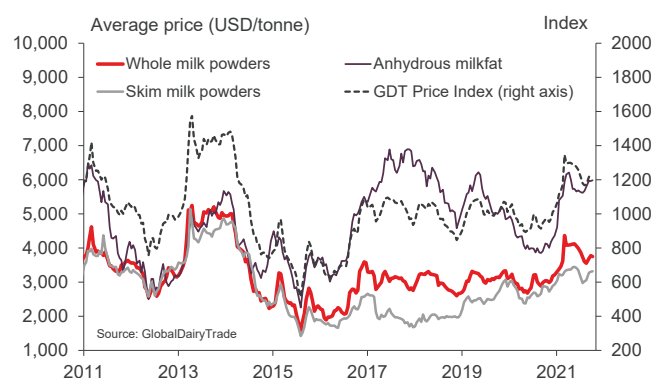
By product the auction result was more positive. Six out of the seven products we monitor posted price gains, with WMP the exception. All of the price gains were modest at less than one percent.

The result was weaker than expectations. Futures market pricing was signalling a WMP price lift of 2%, similar to the lift we had pencilled in last week.

GlobalDairyTrade auction results


	Change since last auction	Prices USD/tonne
Whole Milk Powder (WMP)	-0.4%	\$3,749
Skim Milk Powder (SMP)	0.5%	\$3,315
Anhydrous Milk Fat (AMF)	0.4%	\$5,984
Butter	0.4%	\$4,878
GDT Price Index	0.0%	1,229

Global dairy prices



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