

WESTPAC DAIRY UPDATE

Forecast update and GlobalDairyTrade auction results.

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Stronger for longer.

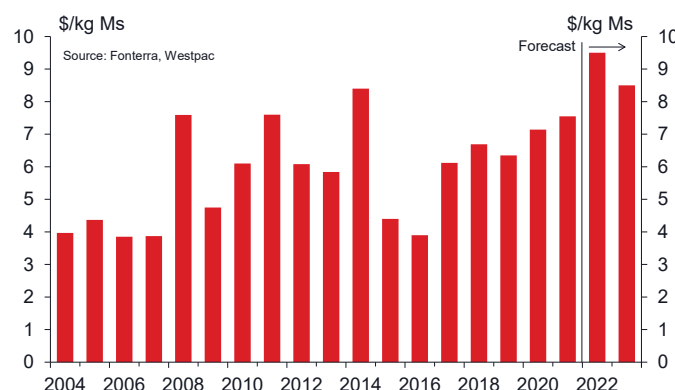
- Global dairy prices are on a tear. Indeed, prices are surging well beyond what we previously expected.
- With this ongoing price strength, we have lifted our 2022/23 farmgate milk price forecast by \$1.00 to \$8.50/kg.
- At the same time, there are upside risks growing to our already record high forecast for the 2021/22 season of \$9.50/kg.

Farmgate milk price forecasts

	2021/22		2022/23
	Westpac	Fonterra	Westpac
Milk price	\$9.50	\$8.90-\$9.50	\$8.50

On the back of stronger for longer global dairy prices, we have upgraded our 2022/23 farmgate milk price forecast by \$1.00 to \$8.50/kg. A weaker NZD/USD is also supporting a higher forecast.

Farmgate milk prices



The perfect storm for global dairy prices.

Global dairy prices continue to surge. Already, overall prices have lifted nearly 14% so far over 2022, while whole milk powder (WMP) prices have lifted over 16%.

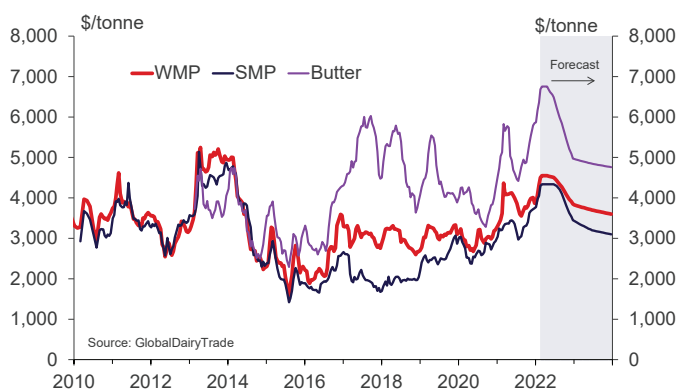
On the global dairy supply side, essentially everything that could go wrong has gone wrong. Over the year to date, bad New Zealand weather has slammed the brakes on New Zealand dairy production. Indeed, we now expect New Zealand

production to fall by 3.0% compared to last season. Previously, we expected production to fall by 1.5%.

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 can now add Ukraine-Russia tensions to the supply mix. Both countries are major grain producers, while Russia is a major oil and gas producer. As a result, the tensions are putting further upward pressure on already sky-high global grain and fertiliser prices. In turn, this is adding even more upward pressure on global dairy prices.

With the above in mind, we now expect global dairy prices to start the 2022/23 season from a higher starting point. We still expect prices to moderate over the season as global dairy supply eventually rebounds, nonetheless prices for the season as a whole are likely to average higher than we previously expected.

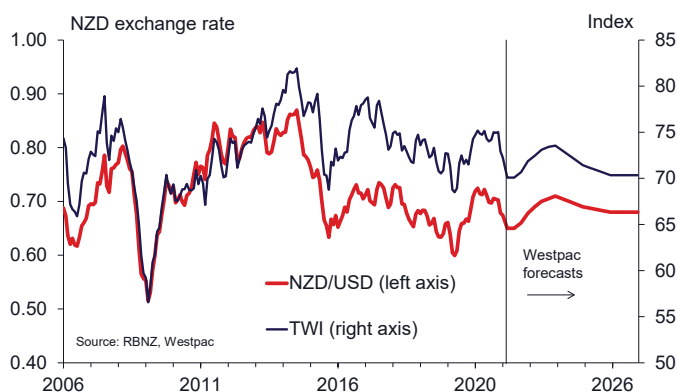
Key dairy commodity prices and forecasts



The New Zealand dollar is also playing ball.

The weaker New Zealand dollar has also helped boost our milk price forecast. The NZD/USD is currently trading at around US\$0.66 from over US\$0.70 in late 2021.

Exchange rates



In the short term, we expect this weakness to continue. Over the March and June quarters, we expect the NZD/USD to trade at around US\$0.65, before increasing heading into the end of the year.

We anticipate that Fonterra will be taking advantage of the lower NZD/USD particularly for the 2022/23 season. In contrast, there will be limited benefit to this season's milk price as Fonterra will already be largely hedged for the season.

Auction results, 16 February.

Dairy auction prices are on a roll. There were strong gains overnight for the third successive auction. Overall and WMP prices lifted by 4.2%.

The jump in prices builds on the gains from the previous auction. Overall prices and WMP prices have lifted by around 14% and 16%, respectively since the start of the year. Taking a longer-term perspective, overall prices are around 43% above their five-year average.

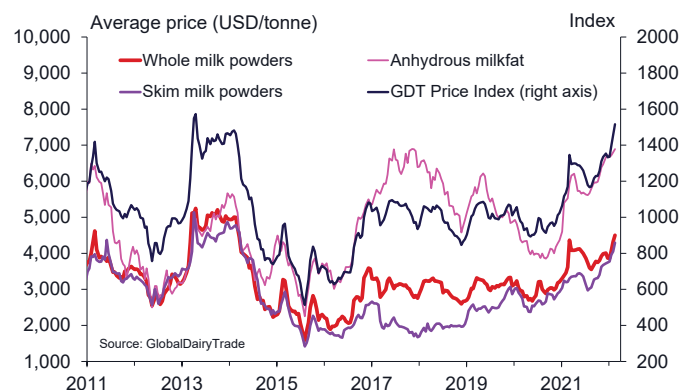
The price strength overnight was broad based. All of the products that we monitor posted price gains. Skim milk powder prices led the price gains (up 6.0%), with butter prices posting the next-biggest gain of 5.1%. Notably, butter and cheddar prices posted fresh record highs, while anhydrous milk fat prices are now the second-highest on record.

The result was stronger than our expectations. We had expected a 2% lift in WMP prices (back on Friday), while yesterday the futures market had expected a larger increase in the vicinity of 5%.

GlobalDairyTrade auction results

	Change since last auction	Prices USD/tonne
Whole Milk Powder (WMP)	4.2%	\$4,503
Skim Milk Powder (SMP)	6.0%	\$4,295
Anhydrous Milk Fat (AMF)	1.2%	\$6,889
Butter	5.1%	\$6,686
GDT Price Index	4.2%	1,516

Global dairy prices



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