

Dairy Update.

16 June 2021



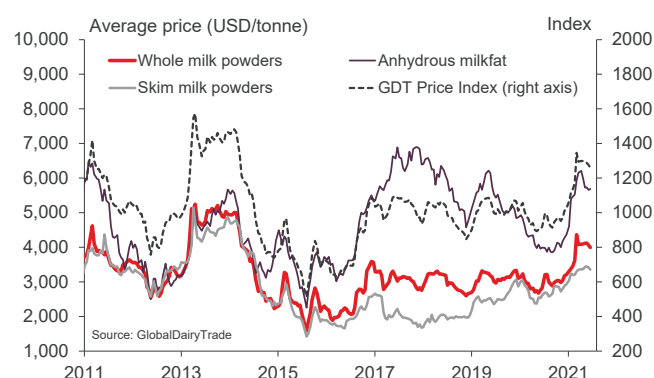
Cashing in.

- Dairy prices fell overnight for the fifth consecutive auction.
- The price falls reflect the strong end to the production season and an element of cashing in at very high prices.
- Prices remain consistent with our 2021/22 farmgate milk price forecast of \$8.00/kg.

GlobalDairyTrade auction results

	Change since last auction	Prices USD/tonne
Whole Milk Powder (WMP)	-1.8%	\$3,997
Skim Milk Powder (SMP)	-1.7%	\$3,356
Anhydrous Milk Fat (AMF)	0.6%	\$5,687
Butter	-1.7%	\$4,612
GDT Price Index	-1.3%	1,259

Global dairy prices



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Dairy prices fell overnight. Overall prices dipped 1.3% while whole milk powder (WMP) prices dropped 1.8%. Overall prices fell for the fifth consecutive auction, though for WMP it was the third consecutive fall.

The result was more mixed by product. Of the six products we monitor, three price falls were matched by three price gains. WMP prices led the drop (down 1.8%), with butter and skim powder prices each falling 1.7%. Anhydrous milk fat prices headed the other way, rising 0.6%, while cheddar and lactose prices also gained.

The result was a little weaker than we had expected. Last week, we pencilled in a circa 1% fall in WMP prices. Futures market pricing had pointed to a similar fall. The larger than expected fall took WMP prices below US\$4,000/MT for the first time since February.

The recent downward trend in prices reflects two factors. Firstly, production has ended 2020/21 on a high. April production was up a whopping 11.6% on the same month last year. As a result, we expect production to end the season a solid 2.5% ahead of the 2019/20 season.

Secondly, there has been an element of cashing in at very high prices in recent months. For example, the quantity sold over the last three months is around 17% higher than the same three months a year ago. Similarly, over the same period, Fonterra has offered WMP contract 6 (i.e. product for delivery in 6 months' time) in another attempt to make the most of the very high prices. The last time Fonterra offered contract 6 was back in 2018.

The second factor bodes well for the new season's farmgate milk price. Indeed, Fonterra has pre-sold more than it would normally have at this stage of the season, and it has done so at very high prices.

As a result, we continue to expect a healthy 2021/22 farmgate milk price of \$8.00/kg.


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




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