

# WESTPAC DAIRY UPDATE

## GlobalDairyTrade auction results.

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## Just when we thought...

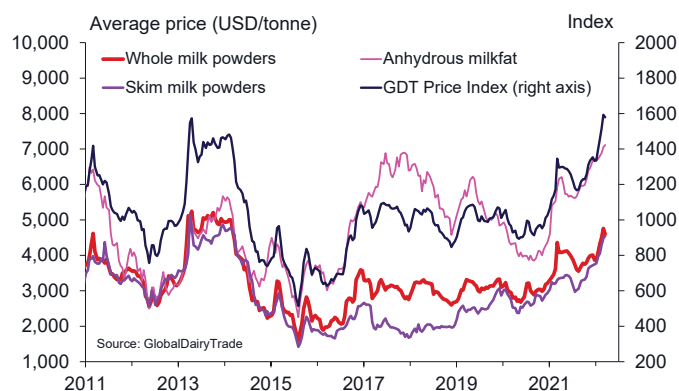
- Dairy auction prices fell overnight, snapping their run of five consecutive price rises.
- Uncertainties arising from surging Covid numbers in China are likely to have weighed on prices.
- This result reduces some of the upside risks to our 2021/22 and 2022/23 farmgate milk price forecasts. Nonetheless we keep both forecasts under review.

### GlobalDairyTrade auction results

	Change since last auction	Prices USD/tonne
Whole Milk Powder (WMP)	-2.1%	\$4,596
Skim Milk Powder (SMP)	1.6%	\$4,545
Anhydrous Milk Fat (AMF)	0.4%	\$7,111
Butter	-1.8%	\$6,958
GDT Price Index	-0.9%	1,579

Dairy auction prices dipped overnight. Overall prices fell 0.9%, while key whole milk powder (WMP) prices slid by 2.1%.

### Global dairy prices



The price fall overnight was the first this year, and thus snapped a run of five consecutive price rises. Despite the fall, overall and WMP prices still sit 18% and 20% higher, respectively, than as at the end of 2021.

Prices were mixed by product; with three out of the six products we monitor posting price falls. WMP led the price falls, while butter prices also dipped by 1.8%. On the positive side of the ledger, skim milk powder (SMP) prices lifted a further 1.6%, while cheddar and anhydrous milk fat prices also posted gains.

This result was weaker than expectations. Last week, we pencilled in a 4% price rise for WMP. Immediately prior to the auction, the futures market had indicated a circa 5% lift in WMP prices.

## Just when we thought prices could only go up, they fall.

Before last night's auction, global dairy prices had surged over 2022. WMP prices had lifted 23% as both dry weather in New Zealand and the Ukraine-Russia conflict reinforced the existing tightness in global dairy supply. That in turn pushed global dairy prices up from what were already high levels.

Eventually though, and as we saw overnight, something does go the other way. An Omicron outbreak and surging Covid case numbers in China has introduced uncertainty around global dairy demand in the world's largest dairy market.

Indeed, the fact that WMP and butter posted the largest price falls points to conditions in China as being the key development for dairy markets. Recall that New Zealand is the largest exporter of WMP and butter to China, so any factors affecting demand there will soon be reflected in these prices on the auction platform.

In contrast, SMP and cheddar prices continued to rise. New Zealand is a smaller exporter of these products, with the EU the dominant exporter. As a result, the price rises for these products suggests that the Ukraine-Russia conflict and its impact on grain feed prices is continuing to put the squeeze on EU dairy production.

This result partially reduces the upside risks to our farmgate milk price forecasts. And while we keep both forecasts under review, for now, we stick with \$9.50/kg and \$8.50/kg for 2021/22 and 2022/23, respectively.

### 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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