WESTPAC DAIRY UPDATE

GlobalDairyTrade auction results.

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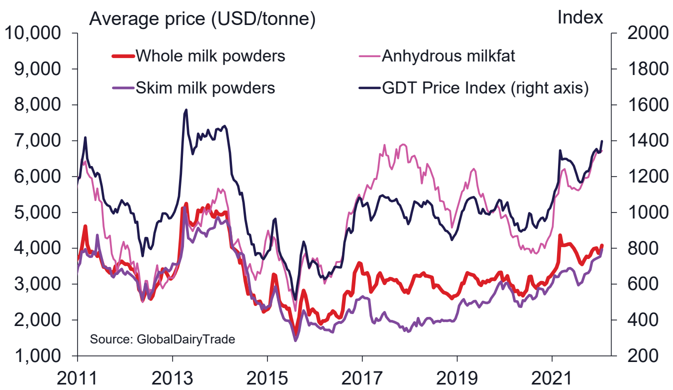
2022 gets off to a hot start.

- Dairy prices jumped overnight, with cheddar and butter prices setting record highs.
- The hot start to the year reflects recent dry weather that has further crimped already sluggish dairy production.
- The strong result cements our 2021/22 farmgate milk price forecast at $9.00/kg.

Global dairy prices



GlobalDairyTrade auction results

	Change since last auction	Prices USD/tonne
Whole Milk Powder (WMP)	5.6%	$4,082
Skim Milk Powder (SMP)	5.0%	$3,963
Anhydrous Milk Fat (AMF)	0.6%	$6,720
Butter	5.0%	$6,158
GDT Price Index	4.6%	1,397

Dairy auction prices jumped overnight. Overall prices lifted 4.6%, while key whole milk powder (WMP) prices lifted by 5.6%.

Overall prices are now at their highest level since March 2014. Moreover, both cheddar and butter prices set record highs overnight. The jump in prices also erases the ground lost in the second December auction.

The price strength was across the board, with five out of the five products that we monitor posting price gains. WMP prices led the gains, while skim milk powder and butter prices also gained 5.0%. Anhydrous milk fat and cheddar prices posted more modest gains in the vicinity of 1%.

The result was largely in line with expectations. Prior to the auction, the futures market had indicated a circa 5% lift in WMP prices.

From here, we expect that weakness in New Zealand dairy production will further underpin global dairy prices at least in the short term. After a run of cold and wet weather earlier in the season, dry weather is now compounding the weakness in New Zealand production. Indeed, last week, Fonterra lowered its milk collections forecast for the season by 1.6%. Recall that production in other key regions like the EU and US is similarly sluggish.

The strong result cements our 2021/22 farmgate milk price forecast at $9.00/kg. In the short term, the risks to our forecast are mostly on the upside. For example, ongoing dry weather could put additional dents in New Zealand production and push prices higher again. Meanwhile, omicron-related supply chain issues could also lead prices higher.

Farmgate milk price forecasts

	2021/22		2022/23
	Westpac	Fonterra	Westpac
Milk price	$9.00	$8.40-$9.00	$7.50

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