

Dairy Update.

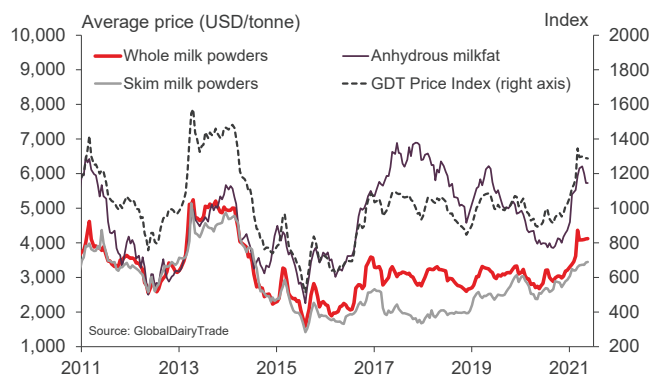
19 May 2021



Treading high water.

- Dairy prices slipped a touch overnight.
- Effectively, though, prices have trod water at very healthy levels over the last four auctions.
- With strong prices over recent auctions, in the week ahead we expect Fonterra to lift and narrow its 2020/21 milk price forecast range towards our forecast of \$7.90/kg.
- We also expect Fonterra to announce a healthy opening 2021/22 season milk price forecast midpoint with something comfortably north of \$7.00/kg.

Global dairy prices



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GlobalDairyTrade auction results

	Change since last auction	Prices USD/tonne
Whole Milk Powder (WMP)	-0.2%	\$4,123
Skim Milk Powder (SMP)	0.7%	\$3,447
Anhydrous Milk Fat (AMF)	-0.1%	\$5,730
Butter	-2.2%	\$4,929
GDT Price Index	-0.2%	1,287

Dairy auction prices slipped a touch overnight. Both whole milk powder (WMP) and overall prices slipped by 0.2%.

The result continues the sideways trend of the last few auctions. Both overall and WMP prices have recorded movements in either direction of less than 1% over the last four auctions.

Accordingly, prices remain at very healthy levels. WMP prices for example now sit 54% higher than at the same auction a year ago. In addition, WMP prices are currently over a third above their 5-year average.

The result was also mixed by product. Three price falls were matched by three price rises. Notably, milk fat prices fell for the third successive auction, with butter prices sliding 2.2%. Heading the other way, lactose and cheddar prices posted gains of 1% or more, while skim milk powder also lifted 0.7%.

The result was below our expectations. The futures market was pointing to a WMP rise of around 2% immediately prior to the auction, which was also what we had pencilled in last week.

Fonterra set to lift its 2020/21 forecast...

This result is consistent with our milk price forecasts of \$7.90/kg and \$8.00/kg for 2020/21 and 2021/22, respectively. In the week ahead, we expect that Fonterra will lift and narrow its 2020/21 forecast range towards our forecast. Currently, Fonterra's forecast range sits at \$7.30/kg to \$7.90/kg.



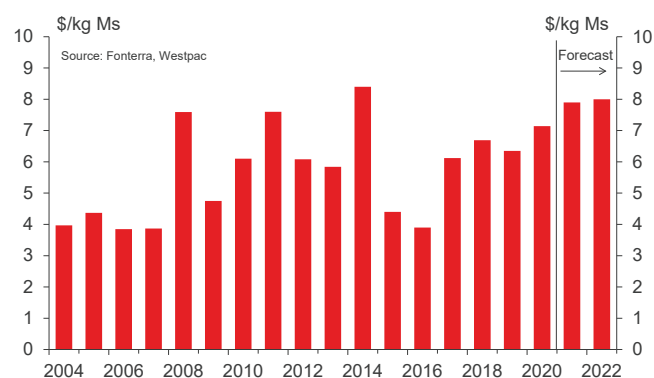
... and open 2021/22 relatively strong.

Fonterra will also announce its opening forecast for the 2021/22 season. We expect Fonterra to pitch its opening forecast lower than ours in order to reduce the risk of having to lower its forecast later in the season. On that basis, we expect the midpoint of Fonterra's opening forecast to be between \$7.00/kg and \$7.60/kg. Note that Fonterra publishes a wide range opening forecast of up to \$1.00/kg, i.e if the midpoint of its forecast range is \$7.25, then it would announce a forecast range of \$6.75/kg to \$7.75/kg.

Farmgate milk price forecasts


	2020/21		2021/22
	Westpac	Fonterra	Westpac
Milk price	\$7.90	\$7.30-\$7.90	\$8.00

Farmgate milk prices




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