WESTPAC DAIRY UPDATE

Forecast update and GlobalDairyTrade auction results.

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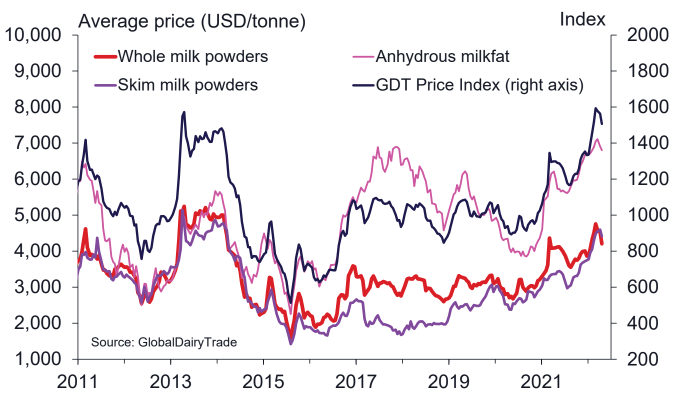
Omicron outbreak outweighs other concerns.

- Dairy auction prices slid for the third consecutive auction overnight.
- The Omicron outbreak in China is now broadly weighing on global dairy demand and prices.
- At this stage, we expect this price weakness to prove temporary as Covid lockdown restrictions in China should eventually ease.

Global dairy prices



GlobalDairyTrade auction results

	Change since last auction	Prices USD/tonne
Whole Milk Powder (WMP)	-4.4%	$4,207
Skim Milk Powder (SMP)	-4.2%	$4,408
Anhydrous Milk Fat (AMF)	-1.3%	$6,802
Butter	-3.7%	$6,640
GDT Price Index	-3.6%	1,507

Dairy auction prices slid overnight. Overall prices fell 3.6%, while key whole milk powder (WMP) prices slid by 4.4%.

The price fall overnight was the third consecutive fall, with overall and WMP prices down a combined 5.4% and 7.8% over this period, respectively. Despite the fall, overall and WMP prices still both sit 13% higher than as at the end of 2021.

Prices were weak across the board, with all six products that we monitor posting price falls. WMP led the price falls, with skim milk powder (SMP) not far behind (down 4.2%). Notably, this was the first SMP price fall for the year.

This result was in line with expectations. Immediately prior to the auction, the futures market had indicated a circa 4% fall in WMP prices.

The auction price fall follows the Omicron outbreak in China. China is New Zealand's key dairy market and reportedly up to 400 million Chinese have been in some form of lockdown this past week. With this in mind, it's not surprising that dairy demand and auction prices have taken a hit.

The magnitude and breadth of today's fall indicates that China's Omicron outbreak has surpassed all other dairy market concerns. In the two prior auctions, SMP prices had remained firm. As mentioned in previous updates, SMP is dominated by European producers and therefore the impact from the Ukraine conflict was the more pressing concern. Now, with the Omicron outbreak in China encompassing so many, even SMP prices have started to fall.

At this stage, however, we expect this price weakness to prove temporary. The experience in other countries is that Omicron waves eventually pass. And as we go to print, some lockdown restrictions are already scheduled to lift.

With that in mind, we stick with our $9.60/kg and $9.25/kg farmgate milk price forecasts for 2021/22 and 2022/23, respectively.

Farmgate milk price forecasts

	2021/22		2022/23
	Westpac	Fonterra	Westpac
Milk price	$9.60	$9.30-$9.90	$9.25

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