

Dairy Update.

21 July 2021



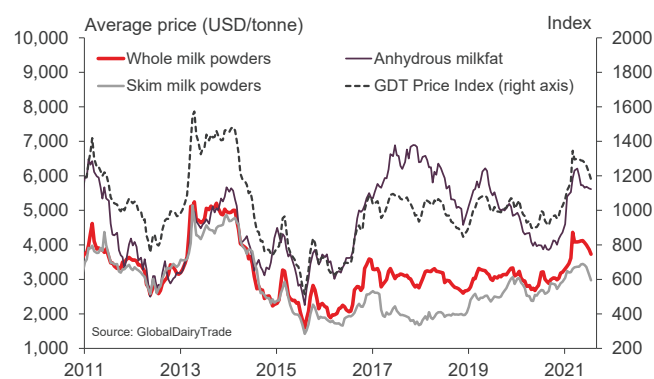
Delta variant changes.

- Dairy auction prices dipped overnight.
- The overnight price drop follows heightened dairy and broader market concerns around the delta variant and the global resurgence in Covid cases.
- The price fall overnight and the fresh Covid uncertainty has introduced downside risks to our 2021/22 farmgate milk price forecast 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

Global dairy prices



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Covid is not going quietly. The delta variant has thrown a spanner in the works and financial and commodity markets have hit pause on the earlier optimism around vaccine rollouts and subsequent economic recovery.

Indeed, the earlier exuberance in sharemarkets and key commodity markets has decidedly cooled this week. For example, oil prices slumped 6.8% on Monday, while the S&P 500 shed 1.6% (although these markets have recovered some of these falls since). With that in mind, it's no surprise that dairy prices dropped at the auction overnight.

However, we do mark a distinction between last night's fall and falls over recent months. Price falls at previous auctions were due to the very strong end to the New Zealand dairy season. Production for the three months from March through May was up a whopping 10% on the same three months back in 2020.

From here, we draw a line on last season and look to the spring for direction on dairy supply and in turn on prices. At this very early point in the new season, it appears that winter has been colder than in recent seasons, and when combined with a lack of winter feed, New Zealand production may get off to a quiet start come spring.

On the demand side of the equation, the renewed Covid concerns have clouded what was previously a very rosy picture. That said, it will take some time to digest what this means for dairy markets and prices. As a result, we'll be keeping a close eye on Covid and dairy demand developments over the coming weeks, with a particular focus on key dairy markets in Asia.

On balance, the risks to the milk price outlook have clearly shifted to the downside. However, for now we stick with our 2021/22 milk price forecast of \$8.00/kg.

Auction results, 21 July.

Dairy auction prices slid overnight. Overall prices dropped 2.9%, while whole milk powder (WMP) prices dipped 3.8%. Overall prices have now fallen for seven consecutive auctions. Both overall and WMP prices have dropped by around 9% from their recent peaks.



The price falls were broad-based. Five out of the six products that we monitor posted price falls. Lactose prices led the fall, sliding 8.9%. Skim milk powder prices were also down significantly (down 5.2%). Only cheddar prices posted a price gain (up 1.3%).

The price falls also exceeded expectations. The futures market had pointed to more modest WMP price falls of around 1%. And last week, we had expected a 1% WMP price rise, although that pick preceded the falls in oil and share prices this week.


The renewed Covid concerns also superseded major changes by Fonterra to auction volumes on offer. Prior to the auction Fonterra reduced the WMP volumes on offer by 1,000MT or 8% compared to its previous forecast, and an additional 19,500 or 14% in total over the next four months. Normally, this volume reduction on the auction platform would have led to a temporary lift in prices. Note that fundamental dairy supply has not changed, so any resulting change would not have been permanent.

GlobalDairyTrade auction results

	Change since last auction	Prices USD/tonne
Whole Milk Powder (WMP)	-3.8%	\$3,730
Skim Milk Powder (SMP)	-5.2%	\$2,971
Anhydrous Milk Fat (AMF)	-0.3%	\$5,615
Butter	-0.8%	\$4,419
GDT Price Index	-2.9%	1,179

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