

Dairy Update.

21 October 2020



Lucky Seven.

- We have lifted our 2020/21 milk price forecast by 50 cents to \$7.00/kg.
- The lift reflects firm global dairy demand.
- Indeed, Chinese demand is leading the way as the Chinese economy rebounds strongly post Covid.

Farmgate milk price forecasts

	2020/21	
	Westpac	Fonterra
Milk price	\$7.00	\$6.30-\$7.30

We have lifted our 2020/21 milk price forecast to \$7.00/kg from \$6.50/kg previously.

The forecast change is due to better than expected global dairy demand. In particular, the Chinese economy has rebounded strongly post Covid. The Chinese economy is on track to post modest growth over 2020, the only major global economy likely to do so. In addition, economies in other key dairy markets in Asia are also faring better than expected.

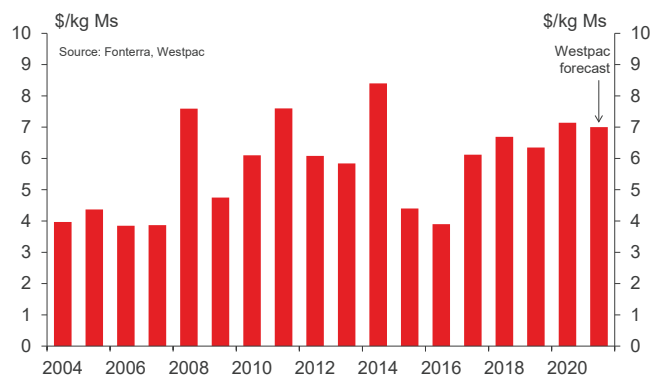
More broadly, New Zealand agricultural exports, including dairy, have proved more resilient than we expected earlier in the year. In this vein, we now expect global dairy prices to hold at or around current levels over the remainder of the season. This updated view contrasts with our previous view that prices would weaken as the global recession weighed on global dairy demand.

The strength in demand has seen prices firm over three consecutive auctions. Importantly, this sets up the milk price well for the season as this price strength has coincided with the peak in spring production and similarly high auction volumes.

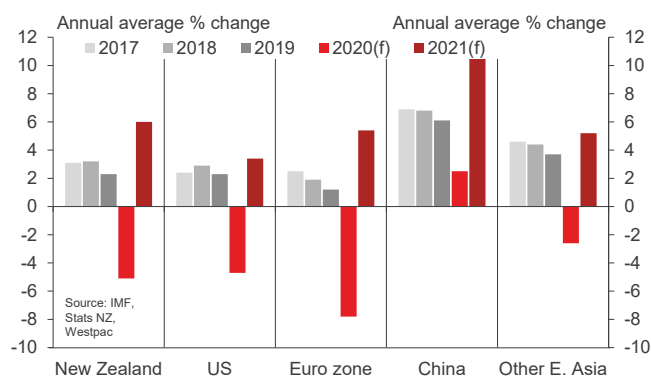
Our updated forecast puts us slightly higher than the midpoint (\$6.80/kg) of Fonterra's new forecast range (\$6.30/kg to \$7.30/kg). In essence, we agree with Fonterra's shift higher. Although, we argue that uncertainty around this season's milk price has eased. Thus, a modest narrowing in Fonterra's forecast range may have been warranted as well as the overall forecast range lift.

From here, we see the risks around our forecast as balanced. New Zealand production has started the season on the front foot, but this is balanced by the developing La Niña weather pattern and the prospect of dry weather later in the season. Also, any further rebound in dairy demand could be tempered by high stocks in some markets (some buyers have reportedly purchased buffer stocks to guard against any potential

Farmgate milk prices



Global GDP growth



supply chain disruptions). Meanwhile, Covid uncertainties are ongoing and developments on this front still have the ability to surprise.

Auction results, 21 October.

Dairy auction prices lifted a touch overnight. Whole milk powder (WMP) prices posted a 0.3% gain, while overall auction prices lifted 0.4%.

Butter prices led the price gains, jumping 3.3%. This lift builds on the 8.4% increase at the previous auction.

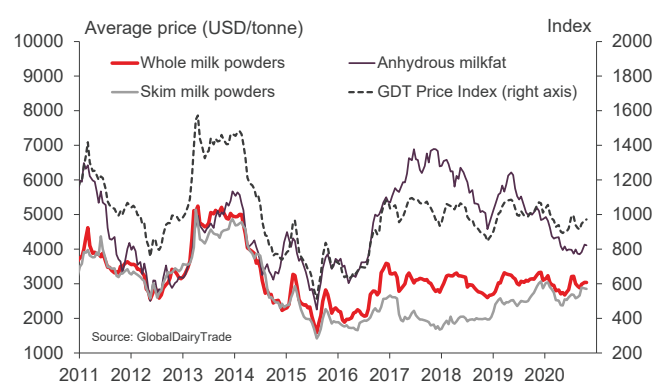
However, other prices were more mixed. Price rises for three products were matched for price falls for the other three products on offer. Most notably, skim milk powder prices fell for the second consecutive auction (down 0.2%) after a strong run over September.

Last night's 0.3% WMP price rise was largely in line with our expectations. We had pencilled in a 1% lift. However, it was less bullish than futures pricing ahead of the auction.

GlobalDairyTrade Auction Results, 21 October 2020

	Change since last auction	Prices USD/tonne
Whole Milk Powder (WMP)	0.3%	\$3,037
Skim Milk Powder (SMP)	-0.2%	\$2,851
Anhydrous Milk Fat (AMF)	-0.5%	\$4,110
Butter	3.3%	\$3,678
GDT Price Index	0.4%	971

Dairy prices



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