

WESTPAC DAIRY UPDATE

GlobalDairyTrade auction results.

2 August 2023

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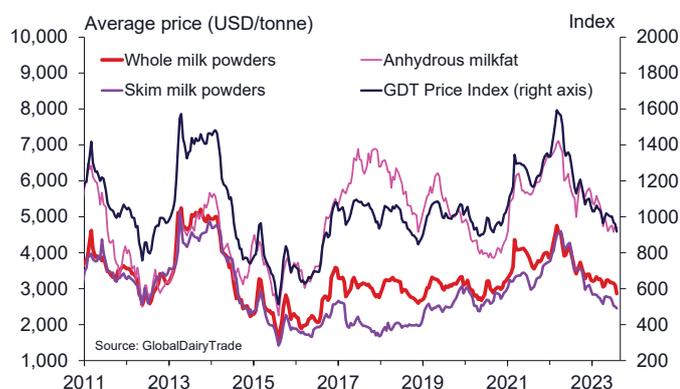
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Low ebb.

- Global dairy prices dipped sharply overnight.
- The price fall overnight reinforces that global dairy market confidence remains at a low ebb, with few signs of a turnaround on the immediate horizon.
- While it's still very early days in the season, the weaker than expected result overnight suggests some downside risk to our 2023/24 milk price forecast of \$7.80/kg.

GlobalDairyTrade auction prices



GlobalDairyTrade auction results

	Change since last auction	Prices USD/tonne
Whole Milk Powder (WMP)	-8.0%	\$2,864
Skim Milk Powder (SMP)	-1.4%	\$2,454
Anhydrous Milk Fat (AMF)	-0.5%	\$4,705
Butter	-0.7%	\$4,680
Cheddar	-1.4%	\$3,910
GDT Price Index	-4.3%	918

Auction Results, 2 August.

Dairy auction prices dipped further overnight. Overall prices fell 4.3%, while key whole milk powder (WMP) prices dipped sharply (down 8.0%). In annual change terms, WMP and overall prices are down 21% and 19%, respectively.

Price falls in last night's auction were broad based, with five out of the six products on offer posting falls. Aside from the steep WMP price decline, most price falls were modest. For example, skim milk powder and butter fell 1.4% and 0.7%, respectively. This pattern is the mirror image of the July auctions where WMP prices posted relatively modest falls, while other product prices generally fell sharply.

The WMP price fall was weaker than expectations. We had pencilled in a 2% WMP price fall late last week, while the futures market, immediately ahead of the auction, had expected WMP prices to fall by around 3%.

At this point of the dairy price cycle, we had expected prices to continue to fall in the short term. Recall that global demand is weak, notably from our key market in China. Indeed, when we recently revised our 2023/24 milk price down to \$7.80/kg, we had factored in further price falls over August and September (with expectations for a stabilisation and recovery later in the season).

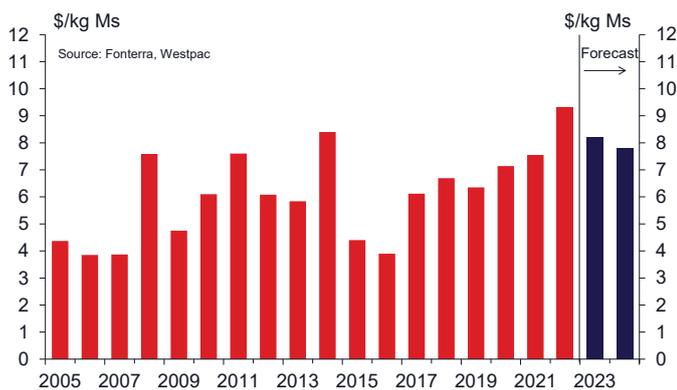
That said, the fall overnight was larger than we had expected. And while it is difficult to read too much into one auction result, it does point to prices potentially falling by more than our updated forecast suggests.

With that in mind, we continue to note that it's still early days in the season and a wide range of milk prices are possible. In that sense, Fonterra's forecast range is a useful tool. Using their \$1.50/kg range and our \$7.80/kg forecast as the midpoint, would give a range of \$7.05/kg to \$8.55/kg (Fonterra's current range is \$7.25/kg to \$8.75/kg).

Farmgate milk price forecasts

	2022/23		2023/24	
	Westpac	Fonterra	Westpac	Fonterra
Milk price	\$8.20	\$8.10-\$8.30	\$7.80	\$7.25-\$8.75

Farmgate milk prices



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