

WESTPAC DAIRY UPDATE

GlobalDairyTrade auction results.

16 August 2023

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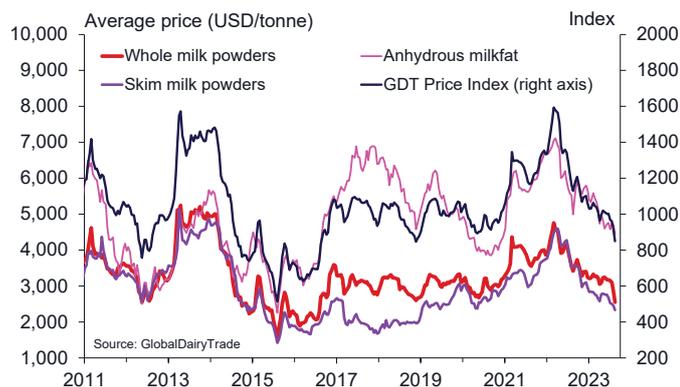
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Spilt milk.

- Global dairy prices plunged overnight.
- Whole milk powder prices are now at their lowest point in seven years.
- The price plunge follows a sudden increase in auction volumes on offer.

GlobalDairyTrade auction prices



GlobalDairyTrade auction results

	Change since last auction	Prices USD/tonne
Whole Milk Powder (WMP)	-10.9%	\$2,548
Skim Milk Powder (SMP)	-5.2%	\$2,333
Anhydrous Milk Fat (AMF)	-5.3%	\$4,452
Butter	-3.0%	\$4,539
Cheddar	5.8%	\$4,127
GDT Price Index	-7.4%	850

Auction Results, 16 August.

Dairy auction prices plunged overnight. Overall prices slumped 7.4%, while key whole milk powder (WMP) prices plunged 10.9%. Both WMP and overall prices have fallen by a quarter over the past year. Looking over a longer period, WMP prices are now at a seven-year low.

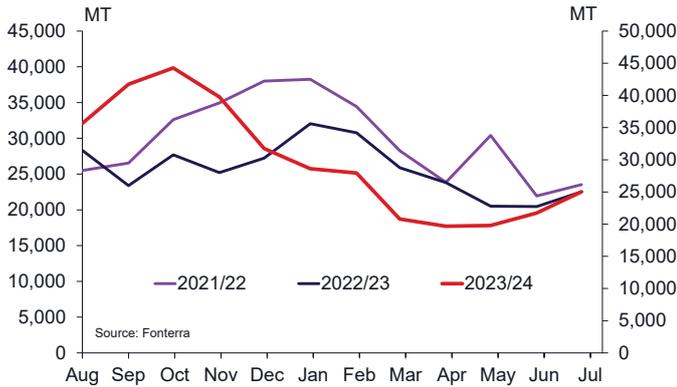
The auction result was weaker than expectations. We had pencilled in a 5% WMP price fall late last week, while the futures market, immediately ahead of the auction, had expected WMP prices to fall by around 7%.

The auction price decline was broad based. Four out of five products on offer posted falls. After the WMP price fall, anhydrous milk fat posted the next biggest fall (down 5.3%). Only cheddar prices bucked the trend, rising 5.8%.

The catalyst for the price slump was a sudden increase in auction volumes on offer. Ahead of the auction, Fonterra

announced an 11.1% increase in WMP volumes for this auction compared to what they had previously signalled. Moreover, Fonterra announced a 5.6% increase in auction volumes over the next 12 months.

Whole milk powder auction volumes on offer



It's unclear what's driven the sudden increase in volumes. Fonterra stated rather unhelpfully that "[t]hese changes are the result of movements in market demand."

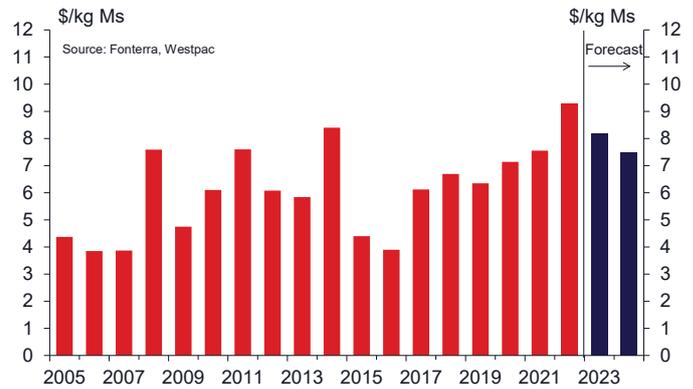
We speculate that buyers see an opportunity to purchase at lower prices on the auction platform. To this end, these buyers may have signalled to Fonterra that they no longer want to buy direct from Fonterra on a contracted basis. As a result, Fonterra has had to shift this product that it would have sold on contract to the auction platform. One factor supporting this theory was an increase in the number of buyers at this auction, notably from North Asia (read China).

When we revised down our 2023/24 milk price forecast to \$7.50/kg last week, 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.

However, 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.

To that end, Fonterra's forecast range is a useful tool to keep in mind. After Fonterra's recent update, the range stands at \$6.25/kg to \$7.75/kg. Indeed, we continue to note that it's still early days in the season and a wide range of milk prices are possible.

Farmgate milk prices



Farmgate milk price forecasts

	2022/23		2023/24	
	Westpac	Fonterra	Westpac	Fonterra
Milk price	\$8.20	\$8.10-\$8.30	\$7.50	\$6.25-\$7.75

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