

# Dairy Update.

18 August 2021



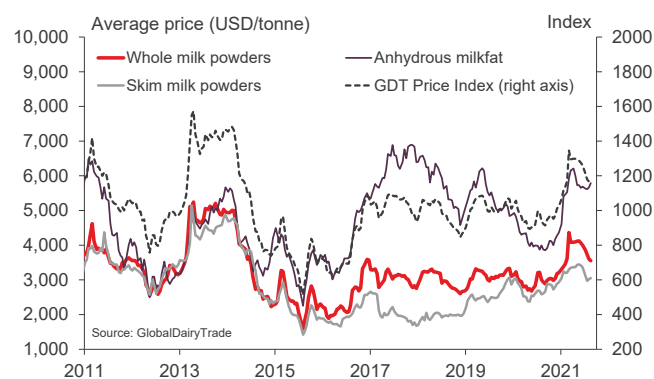
## Mixed bag.

- Dairy prices were largely unchanged overnight.
- However, the result masked diverging global dairy price trends by product, stemming from earlier New Zealand production strength and recent European production softness.
- Meanwhile, we stick with our farmgate milk price forecast of \$7.75/kg for 2021/22 and continue to note that it's still early days in the season.

### Farmgate milk price forecasts

	2020/21		2021/22	
	Westpac	Fonterra	Westpac	Fonterra
Milk price	\$7.55	\$7.45-\$7.65	\$7.75	\$7.25-\$8.75

### Global dairy prices



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Overall dairy auction prices were largely unchanged overnight, although the 0.3% price lift did break the run of eight consecutive falls. Prices remain around 13% lower than the recent peak in March, while prices are 27% up on year ago levels.

However, auction prices by product were mixed. Key whole milk powder (WMP) prices slid 1.5% and are now down 18% over the last seven auctions.

Other prices fared better. Butter prices jumped 4%, while skim milk powder (SMP) and anhydrous milk fat (AMF) prices both recorded gains of more than 1%. Of the six products on offer at this auction, four posted price gains, one fell, and one was unchanged.

The result was roughly in line with expectations. Prior to the auction, the futures market had predicted a similar fall in WMP prices, while we had pencilled in a 1% decline back on Friday.

For the second consecutive auction, global dairy prices have continued to reflect recent divergent trends.

With New Zealand the dominant global WMP exporter, WMP prices remain under pressure, reflecting the ongoing effects of record high production in the New Zealand autumn. Recall that New Zealand production jumped a whopping 10% over the autumn months compared to autumn 2020, with production also setting a record high for the season as a whole.

By contrast, SMP and cream (butter and AMF) prices have moved in the opposite direction, firming over the last two auctions. This firming may reflect dry weather in Europe and, in turn, softer recent European production.

In the short term and with stable global dairy demand, we expect the fortunes of New Zealand and European production will drive WMP, and SMP and cream prices, respectively. For WMP, the strength or otherwise of New Zealand spring production will begin to provide fresh impetus for prices in either direction, with official spring production data first becoming available in mid to late October.



Stepping back from the short-term price (and production) fluctuations, we see the global dairy market as being largely balanced at this point. On that basis, we stick with our \$7.75/kg farmgate milk price forecast for 2021/22. At the same time, we continue to note that it's early in the season and there remains a wide range of possible milk price outcomes on both sides of this figure.

#### GlobalDairyTrade auction results

	Change since last auction	Prices USD/tonne
Whole Milk Powder (WMP)	-1.5%	\$3,552
Skim Milk Powder (SMP)	1.1%	\$3,052
Anhydrous Milk Fat (AMF)	1.5%	\$5,791
Butter	4.0%	\$4,771
GDT Price Index	0.3%	1,170

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