ANZ Research

NZ Forecast Update: Farmgate milk price

10 August 2023

This is not personal advice nor financial advice about any product or service. It does not take into account your financial situation or goals. Please refer to the Important Notice.

Contact

Susan Kilsby for more details.

Confused by acronyms or jargon? See a glossary here.

Milk price revised down further

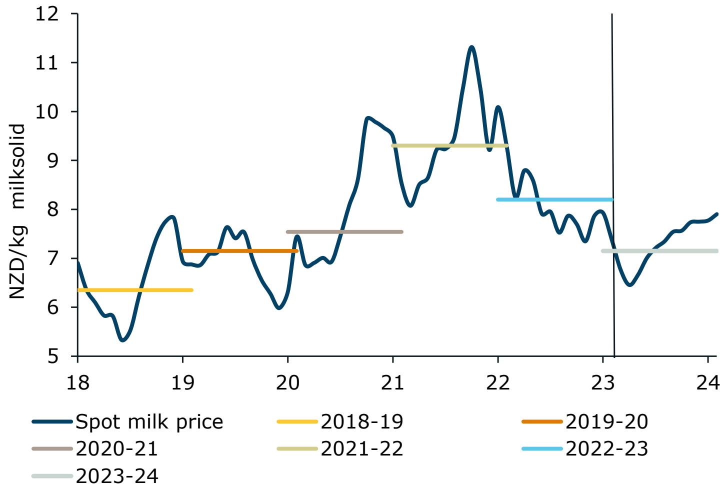
Key points

- We have revised down our farmgate milk price forecast for the 2023-24 season by 60c to $7.15/kg milksolid.
- Our forecast for 2022-23 remains unchanged at $8.20/kg milksolid.
- Economic conditions in China have deteriorated further and their demand for dairy products has eased.
- The relatively weak NZD remains supportive of the farmgate milk price but is certainly not sufficient to offset the impact of lower dairy commodity prices.

Milk price revised down yet again

Dairy commodity prices have dropped sharply over the past month, and further weakness is forecast for the near term. Some recovery in prices is expected but not until 2024, by which time much of the current season's production will already be sold.

Figure 1. Farmgate milk prices



Source: Fonterra, Global Dairy Trade, ANZ Research

We now forecast a farmgate milk price of $7.15/kg milksolid (MS) for the 2023-24 season, 60 cents lower than our previous guidance. Our forecast is now 15c above the $7.00 mid-point of Fonterra's recently revised price guidance of $6.25-$7.75/kg MS.

Milk price futures are currently priced at $7.15/kg MS for the 2023-24 season, having retreated quickly over the past month.

Economic conditions in China are currently weak, and this is impacting global demand for many goods, including dairy products. China is by far the largest global importer of dairy products. Indeed, they typically purchase volumes equivalent to the next eight largest dairy-importing nations combined.

China is currently experiencing a period of deflation. Consumer confidence is weak, unemployment levels are rising, and the property sector is struggling. Exports are also under pressure. All of these factors are encouraging China's consumers to save rather than spend.

Stocks of milk powder have built up in China. Consumption of liquid milk was curtailed during the lockdowns late last year, and the excess milk was dried, contributed to the stockpiles of milk powder. It is difficult to ascertain exact inventory levels, but it is certainly elevated. China continues to be one of the major buyers of milk powder on the Global Dairy Trade platform, but the volumes being purchased are a little smaller than normal and this reduced demand has been sufficient to see prices drop sharply in the past month.

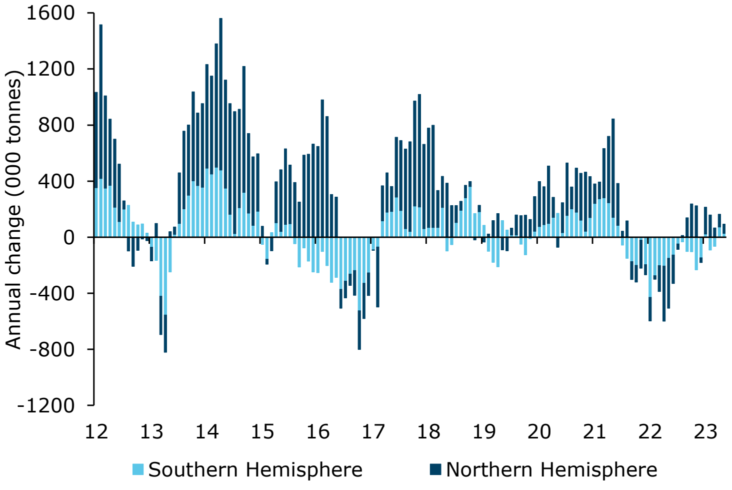
We now expect ongoing weakness in demand from China for the rest of the 2023 calendar year, leading us to revise down our milk price forecast. Our forecast assumes dairy commodity prices will weaken further before starting to rebound in late 2023 or early 2024.

Based on our analysis we see Fonterra's forecast as more circumspect than normal relative to where dairy commodity futures are currently trading. This prudent approach to their forecasting means dairy commodity prices can recede a little further without resulting in a revision of the milk price estimate. The timeliness of the updated forecast also provides farmers with an opportunity to better manage their expenditure and plan for reduced cashflows this season.

Global milk supplies to ease

Global milk supplies have been growing at a very modest pace over the past 12 months, and output is expected to slow further as low returns impact the profitability of farming operations across the globe. Most dairy farmers are not as exposed to the volatile global dairy markets as New Zealand farmers are. Farm profits are nonetheless under pressure across the globe despite farm incomes in many countries being supported by relatively stable domestic markets and subsidies.

Figure 2. Milk production growth in major dairy-exporting countries



Source: DCANZ, Dairy Australia, EuroStat, USDA, CLAL.

This means global milk production is unlikely to expand in the year ahead. In the past 12 months output has been relatively subdued, with minimal growth amongst the major dairy-exporting countries. China and India have been growing their dairy production, but growth is expected to slow considerably in China this year as their costs of production are far higher than most other parts of the world. Milk powders can be imported much more cheaply than they can be produced domestically in China.

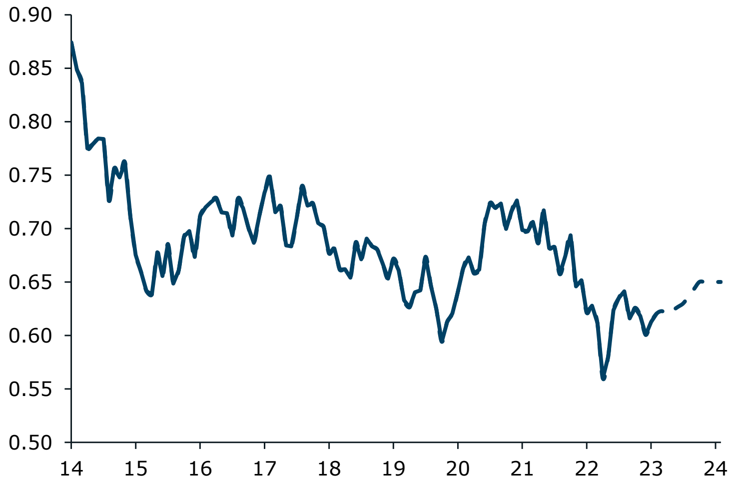
In Europe, lower prices and environmental restrictions will curb milk production. The European Commission is forecasting milk production to fall 0.2% in 2023 due to a 1% increase in the number of stock slaughtered. This downward trend is likely to continue well into 2024 as a permanent reduction in stock numbers occurs. In some areas in the Netherlands where nitrogen levels are excessively high farmers are being compensated for shutting their farms down. The European Commission has provided €1.47 billion to fund this scheme. It is expected to run until 2028 and is likely to result in the closure of as many as 3,000 farms (~6% of all farms), many of which will be dairy farms.

Meanwhile in Ireland it has been suggested that 200,000 cows will need to be culled over the next three years to reduce greenhouse gas emissions. This is approximately 13% of the national herd. Dairy cow numbers in Ireland have expanded by 40% in the past decade.

Meanwhile lower returns are likely to negatively impact yields and will also contribute to further reductions in cow numbers.

This reduction in global supply will eventually help prices for dairy products to improve, but it will also be dependent on how quickly demand recovers. In the very near term demand looks like it will remain weak; we therefore anticipate we won't see a substantial improvement in the market until 2024.

Figure 3. NZD vs USD



Source: RBNZ, ANZ Research

New Zealand dairy farmers are benefitting from a relatively weak NZD. The NZD is forecast to firm a little as the season progresses, but hedging means much of the impact of the lower dollar in the past year will be felt in the 2024 dairy season rather than this one. Risks are skewed towards the NZD staying lower for longer. If the NZD is able to remain at USD0.61 for the rest of the season then this could benefit returns this season by about 10c/kg MS with a greater benefit occurring the following season. But a lower NZD isn't a free lunch in any case; as it increases the cost of imported inputs including fuel and fertiliser.

Summary

Global dairy markets are continuing to weaken and are now expected to remain soft for the rest of 2023. Global milk supplies are easing, which will help rebalance the market, but at this stage prices are likely to be driven still lower due to soft demand.

Fonterra's recent downwards revision to its milk price was more drastic than expected, but signalling this fall in expected returns so early in the season will allow farmers to better plan for the anticipated reduction in returns.

The current weakness in the NZD is providing some assistance to farmgate pricing but hasn't been sufficient to offset the reduction in the price of dairy commodities.

For farmgate milk prices to improve we need to see both a reduction in milk supply and an improvement in demand. Both are expected, but the timing of stronger demand is uncertain.

Table 1. Farmgate milk price sensitivity table (2022-23 season)

			NZD/USD effective				
		USD/t	0.650	0.655	0.660	0.665	0.670
Commodity price basket	10%	3930	9.40	9.30	9.25	9.15	9.05
	5%	3750	8.90	8.80	8.70	8.65	8.55
	Base	3570	8.35	8.25	**8.20**	8.10	8.05
	-5%	3390	7.80	7.75	7.65	7.60	7.50
	-10%	3210	7.30	7.20	7.15	7.10	7.00
	-15%	3030	6.75	6.70	6.65	6.55	6.50

Source: ANZ Research

Table 2. Farmgate milk price sensitivity table (2023-24 season)

			NZD/USD effective				
		USD/t	0.60	0.61	0.62	0.63	0.64
Commodity price basket	15%	3480	8.90	8.70	8.55	8.40	8.20
	5%	3180	7.95	7.80	7.60	7.45	7.30
	Base	3030	7.45	7.30	**7.15**	7.00	6.85
	-5%	2880	7.00	6.85	6.70	6.55	6.45
	-10%	2730	6.50	6.40	6.25	6.10	6.00
	-20%	2420	5.55	5.40	5.30	5.15	5.05

Source: ANZ Research

Contact us

Meet the team

We welcome your questions and feedback. Click here for more information about our team.

Sharon Zollner
Chief Economist

Follow Sharon on Twitter
@sharon_zollner

Telephone: +64 9 357 4094
Email: sharon.zollner@anz.com

General enquiries:
research@anz.com

Follow ANZ Research
@ANZ_Research (global)

David Croy
Senior Strategist

Market developments, interest rates, FX, unconventional monetary policy, liaison with market participants.

Telephone: +64 4 576 1022
Email: david.croy@anz.com

Susan Kilsby
Agricultural Economist

Primary industry developments and outlook, structural change and regulation, liaison with industry.

Telephone: +64 21 633 469
Email: susan.kilsby@anz.com

Miles Workman
Senior Economist

Macroeconomic forecast co-ordinator, fiscal policy, economic risk assessment and credit developments.

Telephone: +64 21 661 792
Email: miles.workman@anz.com

Henry Russell
Economist

Macroeconomic forecasting, economic developments, labour market dynamics, inflation and monetary policy.

Telephone: +64 21 629 553
Email: henry.russell@anz.com

Kyle Uerata
Economic Statistician

Economic statistics, ANZ proprietary data (including ANZ Business Outlook), data capability and infrastructure.

Telephone: +64 21 633 894
Email: kyle.uerata@anz.com

Natalie Denne
PA / Desktop Publisher

Business management, general enquiries, mailing lists, publications, chief economist's diary.

Telephone: +64 21 253 6808
Email: natalie.denne@anz.com

Important notice

Last updated: 18 April 2023

The opinions and research contained in this document (which may be in the form of text, image, video or audio) are (a) not personal financial advice nor financial advice about any product or service; (b) provided for information only; and (c) intended to be general in nature and do not take into account your financial situation or goals.

This document may be restricted by law in certain jurisdictions. Persons who receive this document must inform themselves about and observe all relevant restrictions.

Disclaimer for all jurisdictions: This document is prepared by ANZ Bank New Zealand Limited (ANZ Centre, 23-29 Albert Street, Auckland 1010, New Zealand). This document is distributed in your country/region by Australia and New Zealand Banking Group Limited (ABN11 005 357 522) (**ANZ**), a company incorporated in Australia or (if otherwise stated), by its subsidiary or branch (herein collectively referred to as **ANZ Group**). The views expressed in this document are those of ANZ Economics and Markets Research, an independent research team of ANZ Bank New Zealand Limited.

This document is distributed on the basis that it is only for the information of the specified recipient or permitted user of the relevant website (**recipients**).

This document is solely for informational purposes and nothing contained within is intended to be an invitation, solicitation or offer by ANZ Group to sell, or buy, receive or provide any product or service, or to participate in a particular trading strategy.

Distribution of this document to you is only as may be permissible by the laws of your jurisdiction, and is not directed to or intended for distribution or use by recipients resident or located in jurisdictions where its use or distribution would be contrary to those laws or regulations, or in jurisdictions where ANZ Group would be subject to additional licensing or registration requirements. Further, any products and services mentioned in this document may not be available in all countries.

ANZ Group in no way provides any personal financial, legal, taxation or investment advice to you in connection with any product or service discussed in this document. Before making any investment decision, recipients should seek independent financial, legal, tax and other relevant advice having regard to their particular circumstances.

Whilst care has been taken in the preparation of this document and the information contained within is believed to be accurate, ANZ Group does not represent or warrant the accuracy or completeness of the information, except with respect to information concerning ANZ Group. Further, ANZ Group does not accept any responsibility to inform you of any matter that subsequently comes to its notice, which may affect the accuracy of the information in this document.

Preparation of this document and the opinions expressed in it may involve material elements of subjective judgement and analysis. Unless specifically stated otherwise: they are current on the date of this document and are subject to change without notice; and, all price information is indicative only. Any opinions expressed in this document are subject to change at any time without notice.

ANZ Group does not guarantee the performance of any product mentioned in this document. All investments entail a risk and may result in both profits and losses. Past performance is not necessarily an indicator of future performance. Any products and services described in this document may not be suitable for all investors, and transacting in these products or services may be considered risky.

ANZ Group expressly disclaims any responsibility and shall not be liable for any loss, damage, claim, liability, proceedings, cost or expense (**Liability**) arising directly or indirectly and whether in tort (including negligence), contract, equity or otherwise out of or in connection with this document to the extent permissible under relevant law. Please note, the contents of this document have not been reviewed by any regulatory body or authority in any jurisdiction.

ANZ Group may have an interest in the subject matter of this document. They may receive fees from customers for dealing in any products or services described in this document, and their staff and introducers of business may share in such fees or remuneration that may be influenced by total sales, at all times received and/or apportioned in accordance with local regulatory requirements. Further, they or their customers may have or have had interests or long or short positions in any products or services described in this document, and may at any time make purchases and/or sales in them as principal or agent, as well as act (or have acted) as a market maker in such products. This document is published in accordance with ANZ Group's policies on conflicts of interest and ANZ Group maintains appropriate information barriers to control the flow of information between businesses within the group.

Your ANZ Group point of contact can assist with any questions about this document including for further information on these disclosures of interest.

Australia. ANZ holds an Australian Financial Services licence no. 234527. For a copy of ANZ's Financial Services Guide please click here or request from your ANZ point of contact.

Brazil. This document is distributed on a cross border basis and only following request by the recipient. No securities are being offered or sold in Brazil under this document, and no securities have been and will not be registered with the Securities Commission - CVM.

Brunei, Japan, Kuwait, Malaysia, Switzerland, Taiwan. This document is distributed in each of these jurisdictions by ANZ on a cross-border basis.

Cambodia. The information contained in this document is confidential and is provided solely for your use upon your request.

This does not constitute or form part of an offer or solicitation of any offer to engage services, nor should it or any part of it form the basis of, or be relied in any connection with, any contract or commitment whatsoever. ANZ does not have a licence to undertake banking operations or securities business or similar business, in Cambodia. By requesting financial services from ANZ, you agree, represent and warrant that you are engaging our services wholly outside of Cambodia and subject to the laws of the contract governing the terms of our engagement.

Canada. This document is general information only, is intended for institutional use only – not retail, and is not meant to be tailored to the needs and circumstances of any recipient. In addition, this document is not intended to be an offer or solicitation to purchase or sell any security or other financial instrument or to employ a specific investment strategy.

Chile. You understand and agree that ANZ is not regulated by Chilean Authorities and that the provision of this document is not subject to any Chilean supervision and is not guaranteed by any regulatory or governmental agency in Chile.

Fiji. For Fiji regulatory purposes, this document and any views and recommendations are not to be deemed as investment advice. Fiji investors must seek licensed professional advice should they wish to make any investment in relation to this document.

Hong Kong. This document is issued or distributed in Hong Kong by the Hong Kong branch of ANZ, which is registered at the Hong Kong Monetary Authority to conduct Type 1 (dealing in securities), Type 4 (advising on securities) and Type 6 (advising on corporate finance) regulated activities. The contents of this document have not been reviewed by any regulatory authority in Hong Kong. If you are in any doubt about any of the contents of this document, you should obtain independent professional advice.

India. If this document is received in India, only you (the specified recipient) may print it provided that before doing so, you specify on it your name and place of printing.

Israel. ANZ is not a holder of a licence granted in Israel pursuant to the Regulation of Investment Advising, Investment Marketing and Portfolio Management Law, 1995 ("Investment Advice Law") and does not hold the insurance coverage required of a licensee pursuant to the Investment Advice Law. This publication has been prepared exclusively for Qualified Clients as such term is defined in the First Schedule to the Investment Advice Law. As a prerequisite to the receipt of a copy of this publication a recipient will be required to provide confirmation and evidence that it is a Qualified Client. Nothing in this publication should be considered Investment Advice or Investment Marketing as defined in the Investment Advice Law. Recipients are encouraged to seek competent investment advice from a locally licensed investment adviser prior to making any investment.

Macau. Click here to read the disclaimer for all jurisdictions in Mandarin. **澳门.** 点击此处阅读所有司法管辖区的免责声明的中文版。

Myanmar. This document is intended to be general and part of ANZ's customer service and marketing activities when implementing its functions as a licensed bank. This document is not Securities Investment Advice (as that term is defined in the Myanmar Securities Transaction Law 2013).

Important notice

New Zealand. This document is distributed in New Zealand by ANZ Bank New Zealand Limited. The material is for information purposes only and is not financial advice about any product or service. We recommend you seek advice about your financial situation and goals before acquiring or disposing of (or not acquiring or disposing of) a financial product.

Oman. ANZ neither has a registered business presence nor a representative office in Oman and does not undertake banking business or provide financial services in Oman. Consequently ANZ is not regulated by either the Central Bank of Oman (**CBO**) or Oman's Capital Market Authority (**CMA**). The information contained in this document is for discussion purposes only and neither constitutes an offer of securities in Oman as contemplated by the Commercial Companies Law of Oman (Royal Decree 4/74) or the Capital Market Law of Oman (Royal Decree 80/98), nor does it constitute an offer to sell, or the solicitation of any offer to buy non-Omani securities in Oman as contemplated by Article 139 of the Executive Regulations to the Capital Market Law (issued vide CMA Decision 1/2009). ANZ does not solicit business in Oman and the only circumstances in which ANZ sends information or material describing financial products or financial services to recipients in Oman, is where such information or material has been requested from ANZ and the recipient understands, acknowledges and agrees that this document has not been approved by the CBO, the CMA or any other regulatory body or authority in Oman. ANZ does not market, offer, sell or distribute any financial or investment products or services in Oman and no subscription to any securities, products or financial services may or will be consummated within Oman. Nothing contained in this document is intended to constitute Omani investment, legal, tax, accounting or other professional advice.

People's Republic of China (PRC). This document may be distributed by either ANZ or Australia and New Zealand Bank (China) Company Limited (**ANZ China**). Recipients must comply with all applicable laws and regulations of PRC, including any prohibitions on speculative transactions and CNY/CNH arbitrage trading. If this document is distributed by ANZ or an Affiliate (other than ANZ China), the following statement and the text below is applicable: No action has been taken by ANZ or any affiliate which would permit a public offering of any products or services of such an entity or distribution or re-distribution of this document in the PRC. So, the products and services of such entities are not being offered or sold within the PRC by means of this document or any other document. This document may not be distributed, re-distributed or published in the PRC, except under circumstances that will result in compliance with any applicable laws and regulations. If and when the material accompanying this document relates to the products and/or services of ANZ China, the following statement and the text below is applicable: This document is distributed by ANZ China in the Mainland of the PRC.

Peru. The information contained in this document has not been, and will not be, registered with or approved by the Peruvian Superintendency of the Securities Market (Superintendencia del Mercado de Valores, **SMV**) or the Lima Stock Exchange (Bolsa de Valores de Lima, **BVL**) or under the Peruvian Securities Market Law (Legislative Decree 6 861), and will not be subject to Peruvian laws applicable to public offerings in Peru. To the extent this information refers to any securities or interests, it should be noted the securities or interests may not be offered or sold in Peru, except if (i) such securities or interests were previously registered with the Peruvian Superintendency of the Securities Market, or (ii) such offering is considered a private offering in Peru under the securities laws and regulation of Peru.

Qatar. This document has not been, and will not be:

- lodged or registered with, or reviewed or approved by, the Qatar Central Bank (**QCB**), the Qatar Financial Centre (**QFC**) Authority, QFC Regulatory Authority or any other authority in the State of Qatar (**Qatar**); or
- authorised or licensed for distribution in Qatar, and the information contained in this document does not, and is not intended to, constitute a public offer or other invitation in respect of securities in Qatar or the QFC.

The financial products or services described in this document have not been, and will not be:

- registered with the QCB, QFC Authority, QFC Regulatory Authority or any other governmental authority in Qatar; or
- authorised or licensed for offering, marketing, issue or sale, directly or indirectly, in Qatar.

Accordingly, the financial products or services described in this document are not being, and will not be, offered, issued or sold in Qatar, and this document is not being, and will not be, distributed in Qatar. The offering, marketing, issue and sale of the financial products or services described in this document and distribution of this document is being made in, and is subject to the laws, regulations and rules of, jurisdictions outside of Qatar and the QFC. Recipients of this document must abide by this restriction and not distribute this document in breach of this restriction. This document is being sent/issued to a limited number of institutional and/or sophisticated investors (i) upon their request and confirmation that they understand the statements above; and (ii) on the condition that it will not be provided to any person other than the original recipient, and is not for general circulation and may not be reproduced or used for any other purpose.

Singapore. To the extent that this document contains any statements of opinion and/or recommendations related to an investment product or class of investment product (as defined in the Financial Advisers Act 2001), this document is distributed in Singapore by ANZ solely for the information of "accredited investors", "expert investors" or (as the case may be) "institutional investors" (each term as defined in the Securities and Futures Act 2001 of Singapore). ANZ is licensed in Singapore under the Banking Act 1970 of Singapore and is exempted from holding a financial adviser's licence under Section 23(1)(a) of the Financial Advisers Act 2001 of Singapore. In respect of any matters arising from, or in connection with, the distribution of this document in Singapore, please speak to your usual ANZ contact in Singapore.

United Arab Emirates (UAE). This document is distributed in the UAE or the Dubai International Financial Centre (**DIFC**) (as applicable) by ANZ. This document does not, and is not intended to constitute: (a) an offer of securities anywhere in the UAE; (b) the carrying on or engagement in banking, financial and/or investment consultation business in the UAE under the rules and regulations made by the Central Bank of the UAE, the Emirates Securities and Commodities Authority or the UAE Ministry of Economy; (c) an offer of securities within the meaning of the Dubai International Financial Centre Markets Law (**DIFCML**) No. 12 of 2004; and (d) a financial promotion, as defined under the DIFCML No. 1 of 200. ANZ DIFC Branch is regulated by the Dubai Financial Services Authority (**DFSA**). The financial products or services described in this document are only available to persons who qualify as "Professional Clients" or "Market Counterparty" in accordance with the provisions of the DFSA rules.

United Kingdom. This document is distributed in the United Kingdom by Australia and New Zealand Banking Group Limited (**ANZ**) solely for the information of persons who would come within the Financial Conduct Authority (**FCA**) definition of "eligible counterparty" or "professional client". It is not intended for and must not be distributed to any person who would come within the FCA definition of "retail client". Nothing here excludes or restricts any duty or liability to a customer which ANZ may have under the UK Financial Services and Markets Act 2000 or under the regulatory system as defined in the Rules of the Prudential Regulation Authority (**PRA**) and the FCA.
ANZ considers this document to constitute an Acceptable Minor Non-Monetary Benefits (**AMNMB**) under the relevant inducement rules of the FCA. ANZ is authorised in the United Kingdom by the PRA and is subject to regulation by the FCA and limited regulation by the PRA. Details about the extent of our regulation by the PRA are available from us on request.

United States. Except where this is a FX-related document, this document is distributed in the United States by ANZ Securities, Inc. (**ANZ SI**) which is a member of the Financial Regulatory Authority (**FINRA**) (www.finra.org) and registered with the SEC. ANZSI's address is 277 Park Avenue, 31st Floor, New York, NY 10172, USA (Tel: +1 212 801 9160 Fax: +1 212 801 9163). ANZSI accepts responsibility for its content. Information on any securities referred to in this document may be obtained from ANZSI upon request. This document or material is intended for institutional use only – not retail. If you are an institutional customer wishing to effect transactions in any securities referred to in this document you must contact ANZSI, not its affiliates. ANZSI is authorised as a broker-dealer only for institutional customers, not for US Persons (as "US person" is defined in Regulation S under the US Securities Act of 1933, as amended) who are individuals. If you have registered to use our website or have otherwise received this document and are a US Person who is an individual: to avoid loss, you should cease to use our website by unsubscribing or should notify the sender and you should not act on the contents of this document in any way. Non-U.S. analysts may not be associated persons of ANZSI and therefore may not be subject to FINRA Rule 2242 restrictions on communications with the subject company, public appearances and trading securities held by the analysts. Where this is a FX-related document, it is distributed in the United States by ANZ's New York Branch, which is also located at 277 Park Avenue, 31st Floor, New York, NY 10172, USA (Tel: +1 212 801 916 0 Fax: +1 212 801 9163).

Vietnam. This document is distributed in Vietnam by ANZ or ANZ Bank (Vietnam) Limited, a subsidiary of ANZ.