

NZ Forecast Update: Farmgate milk price

22 February 2024



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Milk price revised up

Key points

- We have revised up our farmgate milk price forecast for the 2023-24 season by 15c to \$7.85/kg milksolid.
- Our forecast for the 2024-25 season is unchanged at \$8.50/kg MS.
- Global milk supplies are decreasing, which has helped markets find balance in the face of softer demand.
- The relatively weak NZD continues to support the farmgate milk prices for both this season and next.

Farmgate milk prices lift

Our farmgate milk price forecast for the current 2023-24 season has been revised up by 15c to \$7.85/kg MS. Dairy commodity prices have trended higher, up 25% in the six months to February. Prices are expected to remain near current levels for the remainder of the 2023-24 season.

Earlier in February Fonterra lifted its milk price forecast for the 2023-24 season to a range of \$7.30-\$8.30. The mid-point of the range is now 30c higher at \$7.80/kg MS. The range has not yet been tightened but we would need to see a significant drop in commodity prices from here to see a milk price at the bottom end of Fonterra's range.

Figure 1. Farmgate milk prices



Source: Fonterra, Global Dairy Trade, ANZ Research

2025 season and beyond

Our milk production forecast for the 2024-25 season remains unchanged at \$8.50/kg MS. Fonterra will not release its opening milk price forecast for this season until May.

Milk price futures for the 2024-25 season are currently trading at \$8.50/kg MS. For the 2025-26 season futures latest daily settlement price is also at \$8.50/kg MS but the bid offer range is wide at \$8.20-\$9.00/kg MS and there has been limited trading in this contract thus far.

China buying less

Global dairy demand remains soft, primarily due to reduced demand from China. China imported smaller quantities of dairy products in 2023 and this trend is expected to continue throughout 2024. NZ has generally exported less dairy products to China in 2023, particularly whole milk powder (WMP) and milkfat products, but exports of skim milk powder and cheese have increased. European dairy exports to China have decreased more sharply.

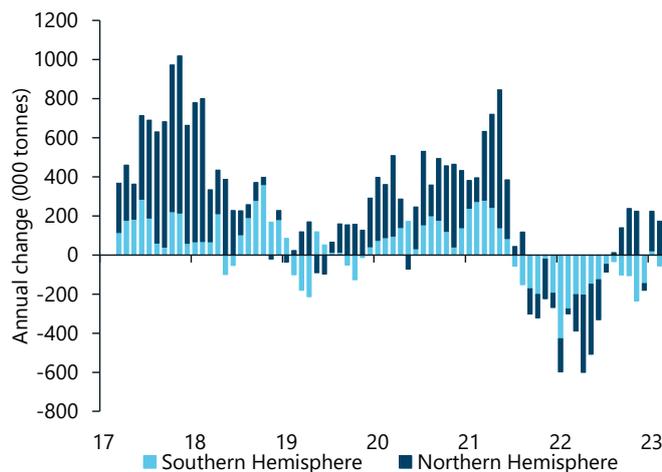
Until we see a significant lift in consumer confidence in China we are not likely to see an improvement in demand. Demand for infant formula and ingredients used in its manufacture has eased due to the slowing birth rate. China has also been relatively successful in improving the perceived quality of its domestically produced infant formula brands, which is also impacting demand for imported product.

In other parts of the world demand for dairy products remains relatively strong despite slower economic growth. New Zealand exported a lot more WMP to South-East Asia, North Africa, and the Middle East in the 2023 calendar year.

Global milk production slows

Growth in global milk production has now stalled. This trend is evident across the three major dairy-exporting regions: NZ, the EU, and the US.

Figure 2. Global milk production trend y/y



Milk production is slowing considerably in the Northern Hemisphere, primarily due to low profitability. Tighter environmental regulations are limiting dairy cow numbers in some countries, which has impacted milk production. Looking forward, milk volumes are expected to stabilise in most major dairy-producing regions. Some growth is still expected in countries such as India and China, but this will be absorbed by domestic demand. China's volume growth is expected to be curtailed by falling profitability.

Milk production in NZ is tracking ahead of last season. In the seven months to December milk production was 1.1% higher y/y. This part of the season typically accounts for approximately two thirds of the season's total production. Dry conditions in some regions are starting to impact production so we may see some slowing in production across the remainder of the season, but output is still expected to be up about 1% for the full season.

Dairy cow numbers in NZ are decreasing and so too is the area of land dedicated to dairy farming. These trends are expected to continue as environmental rules tighten and the focus moves towards higher output per cow. Thus far productivity growth has largely offset the reduction in cow numbers but at best this will keep milk output steady rather than allow for future growth.

Low NZD helping out

We are forecasting the NZD to increase only slightly throughout the forecast horizon, reaching USD0.63 by December 2024, then trending up to USD0.64 in 2025. The relatively low NZD has helped support the farmgate milk price.

Figure 3. NZD/USD



Source: Bloomberg, ANZ Research

Fonterra recently announced that as at 7 December it was 84% hedged for its expected foreign exchange requirements for the season. If it is assumed that the remaining 16% was hedged at the spot rate on 7 December then this provides an average exchange rate of USD0.6144. This is very similar to the exchange rate used in our own milk price calculation, so this has now effectively removed the risk of a major 'miss' on this part of the milk price calculation.

Table 1. Farmgate milk price sensitivity table (2023-24 season)

		USD/t	NZD/USD effective				
			0.605	0.610	0.615	0.620	0.625
Commodity price basket	10%	3580	9.05	8.95	0.61	8.80	8.70
	5%	3410	8.50	8.45	8.35	8.25	8.15
	Base	3250	8.00	7.95	7.85	7.75	7.70
	-5%	3090	7.50	7.45	7.35	7.25	7.20
	-10%	2930	7.00	6.90	6.85	6.80	6.70
	-15%	2760	6.45	6.40	6.30	6.25	6.20

Source: ANZ Research

Table 2. Farmgate milk price sensitivity table (2024-25 season)

		USD/t	NZD/USD effective				
			0.600	0.610	0.620	0.630	0.640
Commodity price basket	20%	4190	11.10	10.85	10.65	10.45	10.25
	10%	3840	9.95	9.75	9.60	9.40	9.20
	Base	3490	8.85	8.70	8.50	8.35	8.15
	-5%	3320	8.30	8.15	8.00	7.80	7.65
	-15%	2970	7.20	7.05	6.90	6.75	6.60
	-25%	2620	6.10	5.95	5.80	5.70	5.55

Source: ANZ Research



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