

NZ Forecast Update: Farmgate milk price

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Milk prices trend higher

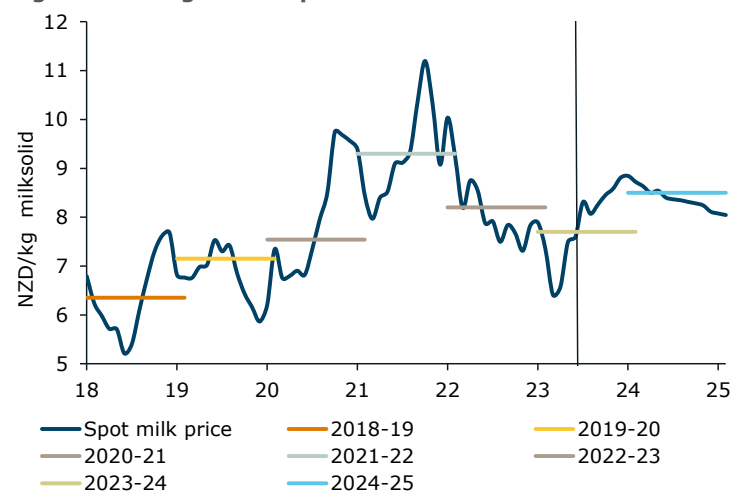
Key points

- We have revised up our farmgate milk price forecast for the 2023-24 season by 55c to \$7.70/kg milksolid.
- Our opening forecast for the 2024-25 season is \$8.50/kg MS.
- Global demand for dairy products remains subdued due to weaker economic conditions.
- The relatively weak NZD is helping to support the farmgate milk price with only a gradual firming expected across the current dairy season.

Farmgate milk prices lifting

Our farmgate milk price forecast for the current 2023-24 season has been revised up by 55c to \$7.70/kg MS. Our previous forecast was released in August and since this time dairy commodity prices have generally trended higher.

Figure 1. Farmgate milk prices



Source: Fonterra, Global Dairy Trade, ANZ Research

Global dairy demand is still fragile but is generally improving. Pricing lifted quickly earlier in the season but there has been some sideways movement recently. Positively, prices did not fall as Global Dairy Trade offer volumes lifted, in-line with the seasonal increase in milk production.

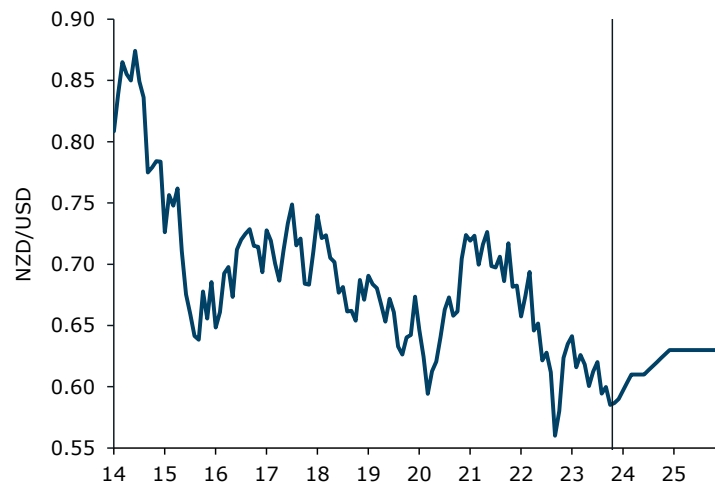
New Zealand's milk supply started the season a little subdued but has improved through the peak. An El Niño is forecast for this summer but is yet to deliver the drought conditions typically associated with El Niño. It is still early in the season, but farms are generally well positioned at present in terms of feed. There is plenty of supplementary feed being preserved on farms at present which will be available to offset drier conditions later in the season.

Globally milk production is growing at a modest pace. Dairy prices are not high enough to stimulate a surge in production in the other major dairy exporting regions – ie the US and the EU. Milk production in China is reported to be higher, but there are also numerous reports of farms struggling financially and therefore this will curb future production growth.

Milk price futures for the Sept 2024 contract (ie 2024-25 season) are priced at \$7.90/kg MS at present. Fonterra's current milk price forecast is \$6.50 - \$8.00 with a mid-point of \$7.25/kg MS. Synlait recently revised up their forecast to \$7.25/kg MS which sits near the bottom end of their 90% probability range (\$7.15 - \$8.00/kg MS).

Our \$7.70/kg MS forecast does assume dairy commodity prices will continue to lift as the season progresses. It also assumes the NZD will remain relatively low. A large proportion of this season's foreign exchange exposure will already be locked in, either through completed sales, or hedged using futures and options products. Future movements in the NZD will have a larger impact on the 2024-25 season milk price than the price for the current season.

Figure 2. NZD/USD



Source: Bloomberg, ANZ Research

We are forecasting the NZD to increase slightly throughout the forecast horizon reaching US\$0.63 by December 2024. The lower NZD has certainly gone some way towards supporting the farmgate milk price. If the NZD was 10c higher (against the USD) then that would effectively reduce the milk price forecast by approximately 70c/kg MS.

If the NZD remains at current levels or weakens further this will support farmgate milk prices, particularly next season's price, for which the exposure to movements in foreign exchange is greater.

However, while a lower NZD supports a higher farmgate milk price it does mean the cost of imported inputs such as fuel, fertiliser and machinery are considerably more expensive. Overseas holidays will also be more expensive.

Next season's milk price forecast to lift

Our inaugural forecast for the 2024-25 season sits a little higher at \$8.50/kg MS. There is considerable uncertainty and risk in forecasting this far in advance, so it is important to take this into consideration when planning ahead.

If the forecast milk price is achieved, it would be the second highest farmgate milk price on record.

Milk price futures for the 2024-25 season are currently priced at \$8.70/kg MS and there has been considerable trading as buyers and sellers look to mitigate price risk. At present there are 2687 open contracts for next season which represents 16.1 million kg MS which is just under 1% of New Zealand's milk supply.

A lot could change between now and the end of the 2024-25 season. Milk supplies are expected to remain relatively subdued due to the lack of profitability in dairy farming in the major supply regions. Global economic conditions are expected to gradually improve. The current reforms taking place in China will hopefully improve consumer confidence in this region which in turn should translate into stronger demand for imported products and stronger prices.

Summary

Global dairy commodity prices have improved considerably in recent months, but demand remains delicate. Global milk supplies are growing but only at a modest pace. Most dairy farmers around the globe are struggling financially as the current modest returns are struggling to cover operating costs and service debt.

Dairy companies have revised up milk price forecasts but remain cautious. Dairy commodity futures pricing points towards ongoing increases in prices as this season progresses and into next season. The low NZD is helping returns and should continue to do so throughout the forecast horizon.

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

		NZD/USD effective					
		USD/t	0.600	0.605	0.610	0.615	0.620
Commodity price basket	10%	3470	8.90	8.80	8.75	8.65	8.55
	5%	3310	8.40	8.30	8.20	8.15	8.05
	Base	3150	7.90	7.80	7.70	7.65	7.55
	-5%	2990	7.40	7.30	7.20	7.15	7.05
	-10%	2840	6.90	6.85	6.75	6.70	6.60
	-15%	2680	6.40	6.30	6.25	6.20	6.10

Source: ANZ Research

Table 2. Farmgate milk price sensitivity table (2024-24 season)

		NZD/USD effective					
		USD/t	0.59	0.60	0.61	0.62	0.63
Commodity price basket	20%	4080	11.05	10.85	10.65	10.45	10.25
	10%	3740	9.95	9.75	9.55	9.40	9.20
	Base	3400	8.85	8.70	8.50	8.35	8.15
	-5%	3230	8.30	8.15	7.95	7.80	7.65
	-15%	2890	7.20	7.05	6.90	6.75	6.60
	-25%	2550	6.10	6.00	5.85	5.70	5.60

Source: ANZ Research



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