

NZ Forecast Update: Farmgate milk price for this season and next revised up to \$10/kgMS

9 May 2025

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Outperforming expectations

Bottom line

- We are revising up our farmgate milk price forecast for the 2024-25 season from \$9.85 to \$10.00/kg milksolid (MS), and our 2025-26 season forecast from \$9.00 to \$10.00/kg milksolid (MS).
- Dairy prices have well outperformed expectations of late on constrained global supply. Some of these constraints will persist, but dark clouds over global growth mean it's reasonable to assume some of this price strength will recede over the year ahead.

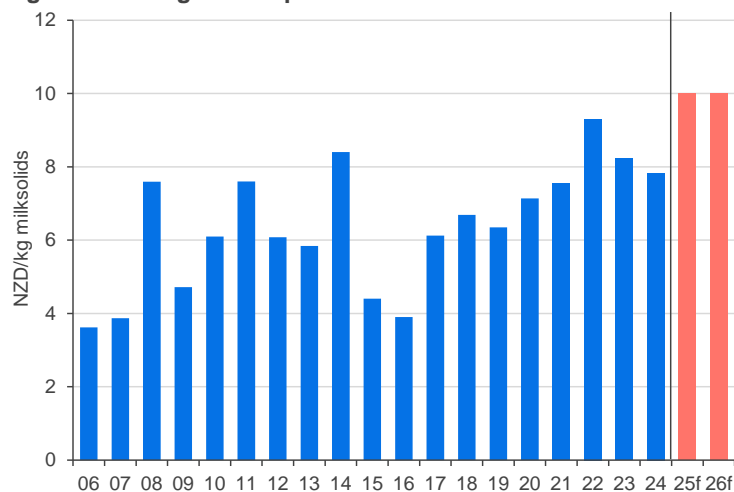
Farmgate milk price forecast lift

Our farmgate milk price forecast for the current 2024-25 season has been revised up by 15c to \$10.00/kg milksolid (MS). Dairy commodity prices have continued to lift as the season draws to a close.

Fonterra's milk price forecast for the 2024-25 season (from 20 March) is \$9.70-\$10.30, with a midpoint of \$10.00/kg MS.

Looking towards next season, the starting point for global dairy prices is much higher than looked likely. Dairy prices have outperformed expectations in recent months as tight global supply has seen buyers compete hard for product. In the two Global Dairy Trade auctions since "Liberation Day" dairy prices have shrugged off the global turmoil and lifted further. We have lifted our estimate for next season's payout from \$9.00 to \$10.00/kg MS.

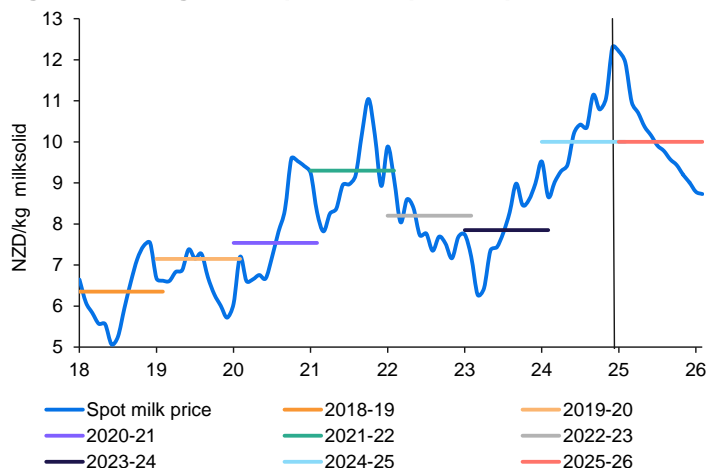
Figure 1. Farmgate milk price



Source: Fonterra, ANZ Research

Some of the factors constraining global dairy supply are likely to be persistent, such as environmental constraints in Europe and significant profitability challenges for China's dairy farmers. However, higher prices will encourage more supply from those who can, and there are dark clouds hanging over the global growth outlook. Uncertainty is high, but it therefore seems prudent to assume that more modest demand will see prices retreat from current levels as the new season goes on. But it is certainly good to be going into what could be more turbulent times from a position of strength.

Figure 2. Farmgate milk price and spot milk price

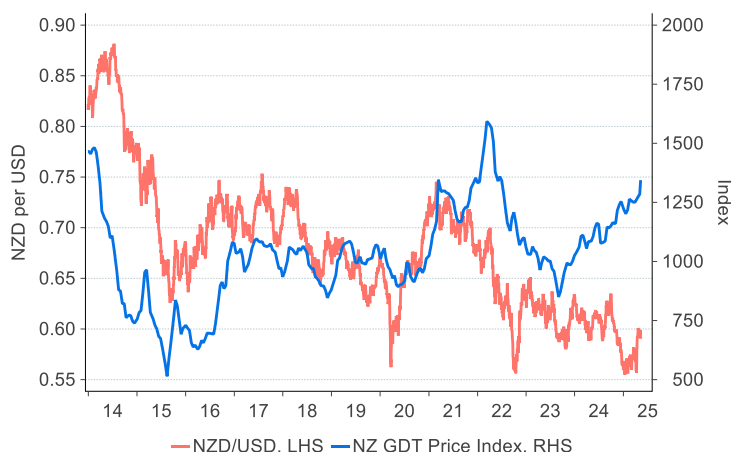


Source: Fonterra, Global Dairy Trade, ANZ Research

This season has certainly been one to remember, with a rare trifecta of strong global dairy prices, strong domestic production, and a fairly weak NZD.

While farmers have certainly enjoyed the combination of high dairy prices and a low NZD this season, the reverse would not be appealing. The correlation between dairy prices and the NZD has not been its usual self in the last couple of years, but it is in New Zealand's interests that the correlation returns, as it is a useful shock absorber, sharing both the joy and pain of export commodity price cycles around the broader economy.

Figure 3. Global Dairy Trade winning price and the NZD



Source: Global Dairy Trade, Bloomberg, Macrobond, ANZ Research

ANZ's forecast is for the NZD to lift over the next two years, while remaining relatively subdued in a historical context (figure 3).

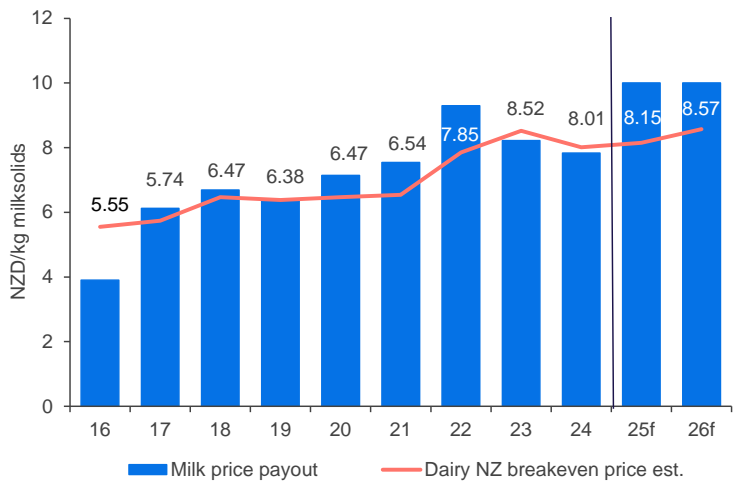
Figure 4. ANZ NZD forecast



Source: Macrobond, ANZ Research

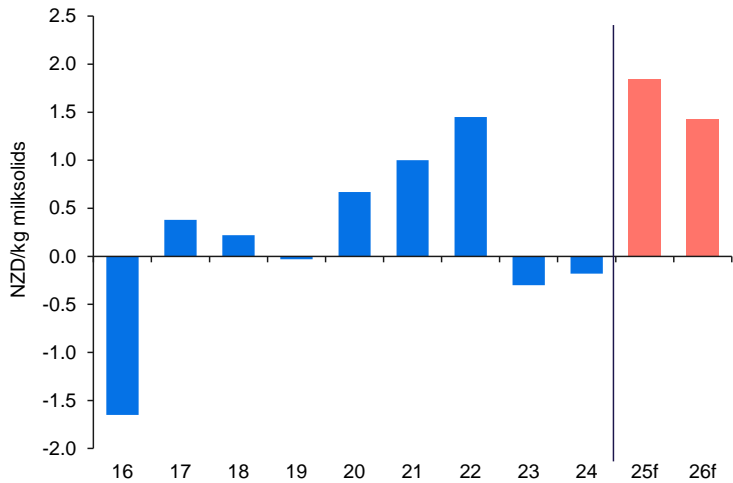
Dairy NZ estimates the breakeven milk price to be \$7.51 per kg MS this season, and \$8.57 per kg MS next season. Of course, an average hides a lot – in practice the breakeven price differs by region and indeed by farm, However, based on our updated milk price forecast of \$10.00 for both 2024/25 and 2025/26, that would make these two seasons a very solid run.

Figure 5. Payout versus average breakeven level



Source: Fonterra, DairyNZ, ANZ Research

Figure 6. Profit/loss per kg MS based on average breakeven level



Source: Fonterra, DairyNZ, ANZ Research

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Last updated: 19 November 2024

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