

NZ Forecast Update: Farmgate milk price

27 August 2024



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Contact

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Milk price forecast revised up

Key points

- We have revised up our farmgate milk price forecast for the 2024-25 season by 50c to \$9.00/kg milksolid.
- Our forecast for the 2023-24 season is unchanged at \$7.85/kg MS.
- Global milk supplies are constrained, which is supportive of farmgate prices in New Zealand.
- The NZD has firmed a little recently but is not significantly out of line with our previous expectations, so has not negatively impacted our farmgate milk price forecast.

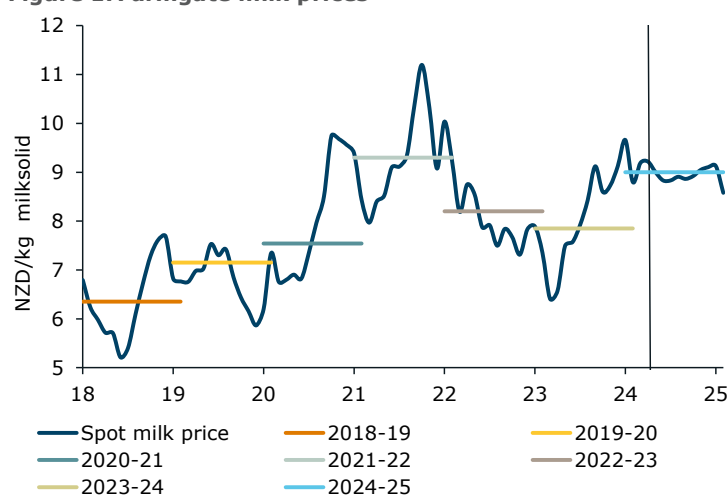
Farmgate milk price forecast lift

Our farmgate milk price forecast for the current 2024-25 season has been revised up by 50c to \$9.00/kg milksolid (MS). Dairy commodity prices have oscillated since we made our first forecast for the 2024-25 season back in late 2023. It is still very early in the season, but returns for new season product have been stronger than anticipated, and this has provided the confidence to revise our milk price forecast higher.

Milk price futures are currently trading at \$8.80/kg MS for the 2024-25 season.

Fonterra also recently revised up its milk price forecast for the 2024-25 season by 50c/kg MS. Their forecast is now \$7.75 - \$9.25/kg MS, with a mid-point of \$8.50/kg MS. Their previous forecast was \$7.25 - \$8.75/kg MS (mid-point: \$8.00/kg MS)

Figure 1. Farmgate milk prices



Source: Fonterra, Global Dairy Trade, ANZ Research

2023-24 season milk price to be finalised soon

The 2023-24 milk season is now behind us with milk intakes ending in May and the financial year concluding on 31 July. Fonterra will announce their final milk price for last season in early September. At present Fonterra has a forecast range of \$7.70 - \$7.90/kg MS. We anticipate the final number will be near our own forecast of \$7.85/kg MS. Milk price futures for the 2023-24 season are currently priced at \$7.86/kg MS.

The 2023-24 milk price is very close to the average breakeven price assessed by DairyNZ of \$7.93/kg MS. This breakeven point is nearly 60c/kg MS lower than the previous season and has been achieved by reducing expenditure, particularly on feed, fertiliser, and repairs and maintenance. Interest costs lifted to an average of \$1.54/kg MS, but there is huge variation between businesses. The DairyNZ data shows that Taranaki dairy farms are carrying higher average interest costs than other regions.

The average breakeven price for the 2024-25 season is expected to creep back up to \$8.07/kg MS with increased debt repayments and tax. The lift in expectations for the milk price this season is also likely to prompt a little more spending on items such as repairs and maintenance, particularly where previous maintenance was delayed due to low returns.

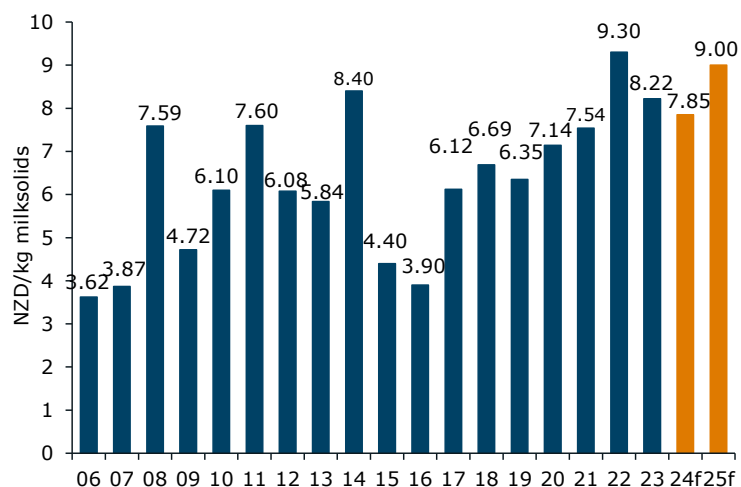
It is still very early in the season and therefore there is still a lot of uncertainty in terms of the prices that will be achieved for the dairy goods produced and sold during the 2024-25 season. There is also uncertainty regarding the price of most dairy inputs.

Dairy commodity prices have trended higher in recent months as buyers have become more aware that there will not be a massive surplus of milk produced this season. The major dairy-exporting countries are expected to produce a similar amount of milk this season to the previous season.

Meanwhile, demand for dairy products is continuing to steadily grow. The net impact is the firming of prices we have recently experienced. However, we are likely to still see some significant volatility in prices as the season progresses.

If a \$9.00 milk price is achieved this season it will be the second-highest milk price on record. The previous record was the 2021-22 season milk price of \$9.30/kg MS.

Figure 2. Milk price history and forecast

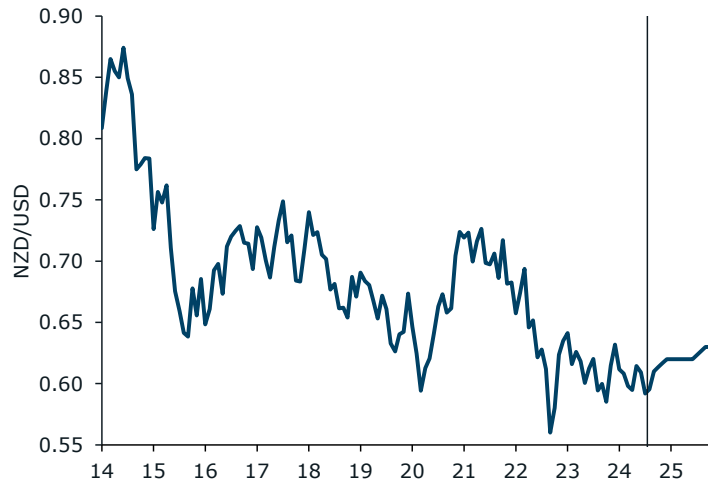


Source: Fonterra, Global Dairy Trade, ANZ Research

NZD still relatively low despite strengthening

The NZD has strengthened in late August to trade at its highest level since January. However, the increase was not massive and overall the NZD has been relatively stable throughout the 2024 calendar year.

Figure 3. NZD/USD



Source: Bloomberg, ANZ Research

The recent lift was driven by an increase in global risk appetite as it has become increasingly likely that the US Federal Reserve will soon start loosening monetary policy. The recent lift in the NZD was similar to our own forecasts so has not negatively impacted our milk price calculations.

We are forecasting the NZD will be trading at USD0.62 in December 2024, near its current level.

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	0.605	0.610	0.615	0.620
Commodity price basket	20%	4320	11.50	11.40	11.30	11.15	11.05
	10%	3960	10.35	10.25	10.15	10.05	9.95
	Base	3600	9.20	9.10	9.00	8.95	8.85
	-5%	3420	8.65	8.55	8.45	8.35	8.30
	-15%	3060	7.50	7.40	7.35	7.25	7.20
	-25%	2700	6.35	6.25	6.20	6.15	6.05

Source: ANZ Research



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