

NZ Forecast Update: Farmgate milk price revised up to \$9.85

5 December 2024



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Contact

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Milk price forecast revised up to \$9.85

Key points

- We are lifting our farmgate milk price forecast for the 2024-25 season by 85c to \$9.85/kg milksolid (MS).
- Our initial forecast for the following 2025-26 season is \$9.00/kg MS.
- Global milk supplies are constrained, which is supportive of farmgate prices for both the current season and next.
- The NZD has weakened following Trump’s victory in the US election, which helps support a stronger farmgate milk price.

Farmgate milk price forecast lift

Our farmgate milk price forecast for the current 2024-25 season has been revised up by 85c to \$9.85/kg milksolid (MS). Dairy commodity prices have continued to firm as the season has progressed. By this point in the season typically about two thirds of the milk production for the season has been sold, which increases the accuracy of final milk price estimates.

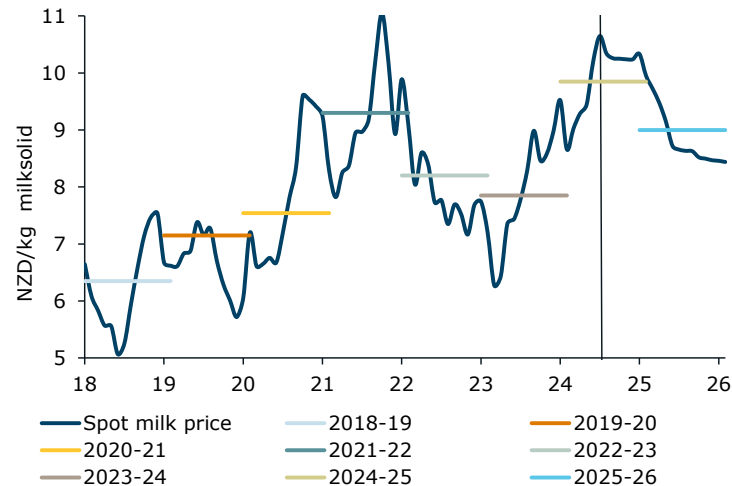
We assume that dairy commodity prices will remain near their current levels for the remainder of this season, but trend down a little as we move into next season.

For the 2025-26 season our initial milk price forecast is \$9.00/kg MS, but a lot could change between now and the end of next season.

Milk price futures are currently trading at \$9.70/kg MS for next season and have broken over the \$10 mark for the 2024-25 season. While it is certainly feasible that these prices can be achieved, we have taken a slightly more conservative approach.

Fonterra’s latest milk price forecast for the 2024-25 season sits at \$9.50 - \$10.50/kg MS, with a mid-point of \$10.00/kg MS.

Figure1. Farmgate milk prices



Source: Fonterra, Global Dairy Trade, ANZ Research

2024-25 season looks to be a cracker

It's not often that dairy farmers are rewarded with both a high milk price and strong production within the same season. While not all parts of New Zealand have enjoyed good conditions for pasture growth, the majority of the dairy regions are well ahead of last season in terms of production.

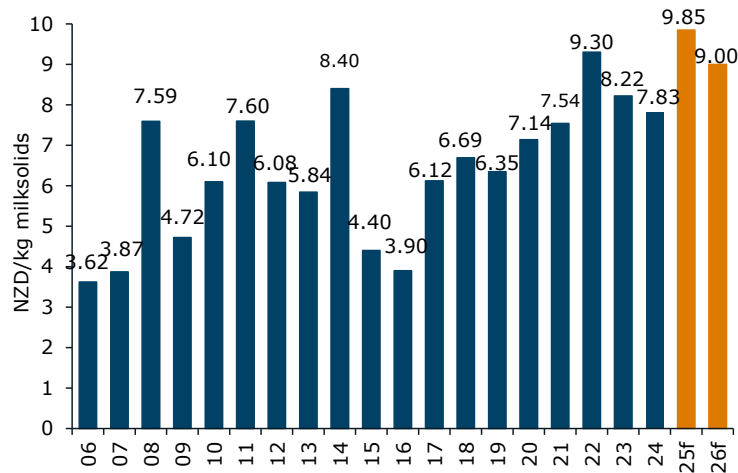
The rate of gain in milk production has eased as the season has progressed and there are concerns about how dry the summer will be in many regions. Over the full season (June to May) milk production is still expected to be ahead of last season.

The unusual combination of strong output and a strong milk price can be attributed to slower growth in milk production in other dairy-exporting nations. Output in both the US and EU is relatively subdued and production is down in most South American countries. China is also reported to be decreasing its production as dairy farmers struggle to make a profit.

The other factor that has contributed to the higher milk price is the weak NZD. The USD has strengthened since Trump's victory in the recent US elections and this has put downward pressure on the NZD/USD. Most dairy products are traded in USD terms, so the weak NZD means returns are bolstered in local currency terms.

It does mean imported inputs such as machinery, diesel and fertiliser are more expensive, but overall farmers tend to be better off when the NZD is weak.

Figure2. Milk price history and forecast



Source: Fonterra, Global Dairy Trade, ANZ Research

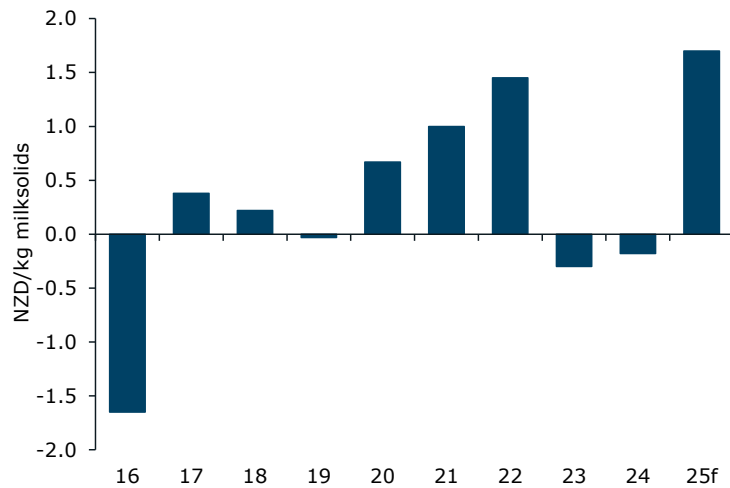
The previous record milk price was \$9.30/kg MS in the 2021-22 season, followed by \$8.40/kg MS 11 years ago.

Farm costs rose in spectacular fashion during the pandemic with many costs now ingrained at higher levels. This has eroded returns and mean farmgate milk prices need to be at a higher level to simply cover costs.

DairyNZ expects the average breakeven milk price will be \$8.15 per kgMS this season. It is likely that this will creep up as additional spending occurs on discretionary items, for which the timing tends to move from season to season depending on available funds.

Based on our updated milk price forecast of \$9.85/kg MS and DairyNZ's latest published breakeven point, the profit margin this season will be the largest we have seen in the past decade.

Figure 3. Profit / loss margin based on average breakeven level



Source: Fonterra, DairyNZ, ANZ Research

Feed prices are expected to soften a little this season due to slightly reduced demand, along with modest prices for grain. This will vary considerably depending on farm type and region. Southland farmers have needed to source considerably more feed this season to compensate for dismal pasture production.

Global milk production subdued

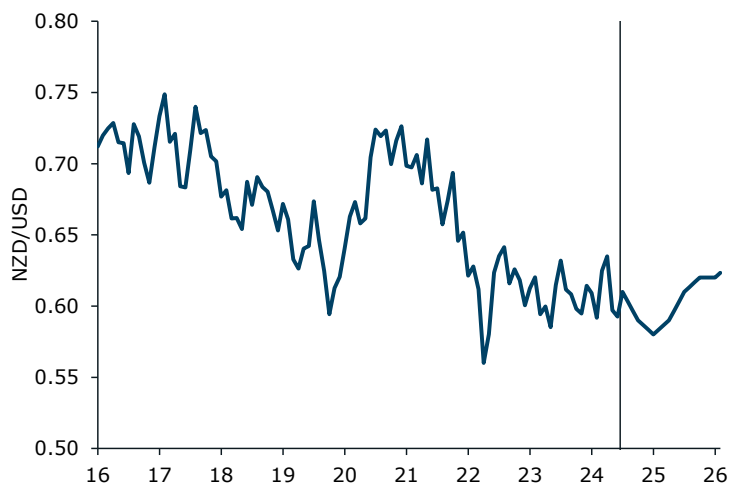
Global milk production is suppressed at present as returns have not been strong enough to encourage significant growth in production. Dairy commodity prices are trending higher again which will eventually encourage a production response, but this is unlikely to influence returns in the current milk production season.

We do expect some reduction in pricing next season (2025-26) as global milk supplies increase a little. Next season is expected to continue to benefit from the low NZD, as dairy companies will already be hedging foreign exchange requirements for next season.

NZD expected to remain relatively low

The NZD has weakened against the USD over the past couple of months. This has been driven primarily by the USD gaining in value following Trump winning the US President at the election in early November.

Figure 4. NZD/USD



Source: Bloomberg, ANZ Research

Threats to add tariffs to goods being imported from its main trading partners has bolstered the relative appeal of the USD, which in turn, has put downward pressure on the value of the NZD.

We do expect the NZD will gradually appreciate during the 2025 calendar year. However, exporters tend to hedge some of their foreign exchange requirements well in advance, so we assume they will have been able to lock in at relatively lower rates. That will support the milk price for both the current season and next.

Our forecasts are based on an effective exchange rate of USD0.61 for the current season and a USD0.60 rate for next season. See sensitivity tables below.

Table 1. Farmgate milk price sensitivity table (2024-25 season)

		NZD/USD effective					
		USD/t	0.600	0.605	0.610	0.615	0.620
Commodity price basket	10%	4260	11.30	11.20	0.61	11.00	10.85
	5%	4060	10.65	10.55	10.45	10.35	10.25
	Base	3870	10.05	9.95	9.85	9.75	9.65
	-5%	3680	9.45	9.35	9.25	9.20	9.10
	-10%	3480	8.85	8.75	8.65	8.55	8.45
	-15%	3290	8.20	8.15	8.05	7.95	7.90

Source: ANZ Research

Table 2. Farmgate milk price sensitivity table (2025-26 season)

		NZD/USD effective					
		USD/t	0.590	0.595	0.600	0.605	0.610
Commodity price basket	20%	4250	11.50	11.40	11.30	11.15	11.05
	10%	3890	10.35	10.25	10.15	10.05	9.95
	Base	3540	9.20	9.10	9.00	8.95	8.85
	-5%	3360	8.65	8.55	8.45	8.35	8.25
	-15%	3010	7.50	7.40	7.35	7.25	7.15
	-25%	2660	6.35	6.30	6.20	6.15	6.10

Source: ANZ Research



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