# NZ Forecast Update: Farmgate milk price

8 December 2022



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Susan Kilsby for more details.

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# Initial farmgate milk price forecast for next season

## Key points

- We have reviewed our farmgate milk price forecast for the 2022-23 season. It remains at \$8.75/kg milksolid (MS), as the recent deterioration of commodity prices is aligned with our forecast.
- Our initial forecast for the 2023-24 season is \$9.00/kg MS, which assumes a lower effective NZD than the current season and commodity prices remaining at modest levels.
- The NZD is assumed to initially ease to USD0.61 by the end of the current season before then appreciating to NZD0.64 by June 2024.
- Global economic conditions continue to worsen, reducing demand for dairy products. However, this is being offset by weak global milk supplies.

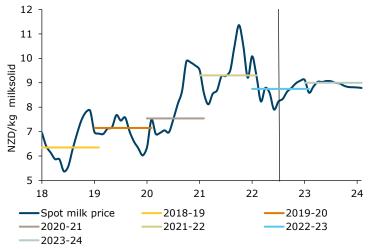
## Similar milk price for next season

Our milk price forecast for the current season remains at \$8.75/kg MS. Dairy commodity prices have deteriorated since our last forecast update but this downward trend in pricing was anticipated and allowed for in our forecast. There are now signs that global dairy commodity prices may stabilise near current levels, and if this occurs then this forecast will be achievable.

Fonterra recently revised its 2022-23 forecast down to \$8.50 - \$9.50/kg MS with a mid-point of \$9.00 so slightly more bullish than our own forecast.

Looking further ahead to the 2023-24 season our initial milk price forecast sits at \$9.00/kg MS. This forecast assumes that dairy commodity prices for next season remain near current levels – about USD3450/t for whole milk powder. The effective NZD exchange rate is also expected to be lower across the 2023-24 season than the current season as some hedges will already be in place for next season.



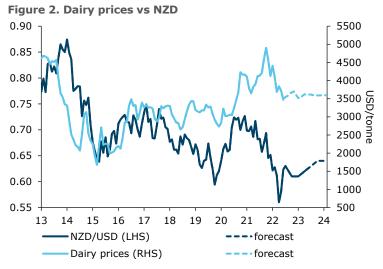


Source: Fonterra, ANZ Research

#### Currency firms a little

The NZD has recently appreciated after spending a few months below USD0.60. The softer NZD has helped offset recent weakness in the commodity prices, but due to hedging policies much of the benefit of the lower NZD will actually flow into next season's milk price.

We anticipate the NZD will ease a little to around USD0.61 during the latter part of the current dairy season before appreciating again as we move into the 2023-24 milk production season.



Source: GDT, NZX, RBNZ, ANZ Research

The recent lift in NZ interest rates is putting some upward pressure on the currency as it attracts additional inflows of capital. However, global risks are still elevated and this tends to result in investment in the safe-haven currencies such as the USD, which will limit how far the NZD appreciates. No doubt there will be volatility in the NZD and this will have a direct impact on the milk price, particularly for the 2023-24 season.

## Demand impacted by deteriorating global economic conditions

Dairy commodity prices are being impacted by both weak demand and weak supply. At present the forces are relatively equal and we assume this will remain the case through our forecast horizon. However, at some point we are likely to see these forces become less balanced.

Global milk supply is not showing any signs of increasing significantly in the short term. This may change by about May when the big Northern Hemisphere milk-producing regions reach their seasonal peak in milk supply. This year drought curbed output in both Europe and the US during their summer months. Therefore if weather conditional normalise then some increase in output could be expected at that point.

Global demand for dairy products is still weak and is expected to remain so throughout 2023. Global economic conditions are worsening, which is limiting demand for dairy products, particularly amongst consumers who view dairy as a luxury good rather than a staple food.

#### Milk supply issues

Global milk production remains relatively weak. This has helped offset the softer demand for dairy products. Lower production is particularly evident in the Southern Hemisphere exporting nations. Output in New Zealand is tracking 3.5% lower for the season to date (Jun-Oct) while production in Australia is down 6.0% across the same period. Weather issues have impacted production this spring across Australasia while a general lack of confidence in this sector is curbing any general expansion.

In South America production is being hampered by a range of issues. Excessively high inflation in Argentina is having severe economic consequences, hampering the farming sector in general. Milk output in Uruguay has consistently fallen on a y/y basis throughout 2022.

On the other hand, milk supply in the United States has expanded in recent months.

European milk supply was very weak during the excessively hot summer months. Output across the full 2022 season is expected to be about 0.5% lower than the previous calendar year. Milk intakes for 2023 are also expected to be weak due to the lack of feed available and the high costs of production.

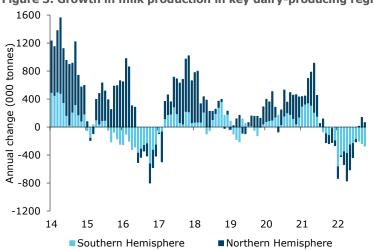


Figure 3. Growth in milk production in key dairy-producing regions

Source: DCANZ, Dairy Australia, USDA, Eurostat, CLAL

Gas supplies in Europe are also very tight due to reliance on supply from Russia. Europe has been rebuilding its gas reserves ahead of winter but this has meant some factories have had to close down, resulting a sharp cut in fertiliser production. Russia and Belarus are also large fertiliser producers. The restricted availability of fertiliser and the resulting high price of this product is keeping feed in relatively short supply, supporting prices.

High feed costs do limit the financial incentives for indoor dairy systems to expand their feed rations in order to produce more milk. Therefore we are not expected to see a sudden rebound in dairy production until we see energy prices ease relative to milk prices.

## Summary

Global dairy markets remain finely balanced. Dairy commodity prices have firmed a little and the lack of milk should provide some further momentum. However, with global demand expected to remain weak we are not counting on prices moving considerably higher and this is reflected in our milk price forecasts.

The small increase in our forecast for the 2023-24 season relative to this season is driven mainly by the assumed lower effective NZD. Although the NZD is now moving higher, some of next season's currency requirements will have been locked in at the lower levels on offer in recent months.

Overall the outlook for dairy remains relatively stable despite economic conditions deteriorating and high levels of global uncertainty.

		NZD/USD effective							
		USD/t	0.64	0.645	0.65	0.655	0.66		
Commodity price basket	10%	4065	10.00	9.90	9.80	9.70	9.60		
	5%	3885	9.45	9.35	9.30	9.20	9.10		
	Base	3700	8.90	8.80	8.75	8.65	8.55		
	-5%	3510	8.35	8.25	8.15	8.10	8.00		
	-10%	3330	7.80	7.70	7.65	7.55	7.50		
	-15%	3150	7.25	7.20	7.10	7.05	7.00		

Table 1. Farmgate milk price sensitivity table (2022-23 season)

Source: ANZ Research

#### Table 2. Farmgate milk price sensitivity table (2023-24 season)

		NZD/USD effective							
		USD/t	0.60	0.61	0.62	0.63	0.64		
Commodity price basket	15%	4140	11.10	10.90	10.70	10.45	10.25		
	5%	3780	9.95	9.75	9.55	9.35	9.20		
	Base	3600	9.40	9.20	9.00	8.85	8.65		
	-5%	3420	8.80	8.60	8.45	8.30	8.10		
	-10%	3240	8.25	8.05	7.90	7.75	7.55		
	-20%	2880	7.05	6.90	6.80	6.65	6.50		

Source: ANZ Research



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Sharon Zollner Chief Economist

Follow Sharon on Twitter @sharon\_zollner

Telephone: +64 9 357 4094 Email: sharon.zollner@anz.com



## David Croy Senior Strategist

Market developments, interest rates, FX, unconventional monetary policy, liaison with market participants.

Telephone: +64 4 576 1022 Email: david.croy@anz.com



## Miles Workman Senior Economist

Macroeconomic forecast coordinator, fiscal policy, economic risk assessment and credit developments.

Telephone: +64 21 661 792 Email: miles.workman@anz.com



## **Kyle Uerata** Economic Statistician

Economic statistics, ANZ proprietary data (including ANZ Business Outlook), data capability and infrastructure.

Telephone: +64 21 633 894 Email: kyle.uerata@anz.com General enquiries: research@anz.com

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## Susan Kilsby Agricultural Economist

Primary industry developments and outlook, structural change and regulation, liaison with industry.

Telephone: +64 21 633 469 Email: susan.kilsby@anz.com



## Finn Robinson Economist

Macroeconomic forecasting, economic developments, labour market dynamics, inflation and monetary policy.

Telephone: +64 21 629 553 Email: finn.robinson@anz.com

## **Natalie Denne** PA / Desktop Publisher

Business management, general enquiries, mailing lists, publications, chief economist's diary.

Telephone: +64 21 253 6808 Email: natalie.denne@anz.com Last updated: 1 September 2022

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