

NZ Forecast Update: Farmgate milk price

9 June 2023



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Milk price forecasts trimmed further

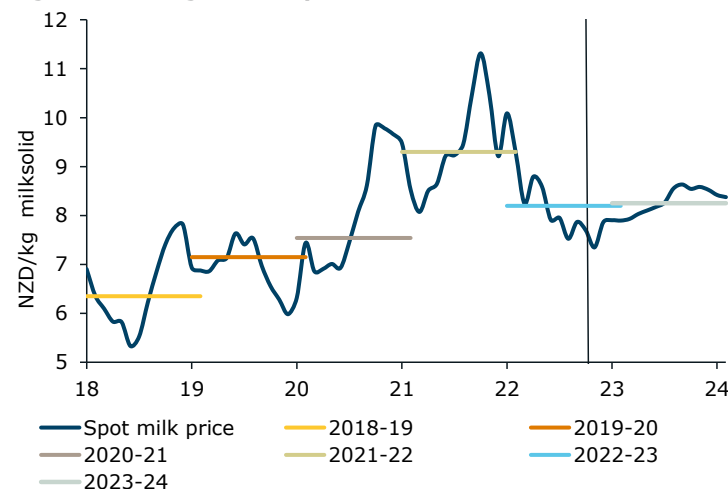
Key points

- We have revised down our farmgate milk price forecast for the 2022-23 season by 5c to \$8.20/kg milksolid.
- Our forecast for the 2023-24 season has also been revised down 25c to \$8.25/kg milksolid.
- Deteriorating global economic conditions, including a weaker outlook for China, is negatively impacting demand for dairy products.
- The relatively weak NZD is supportive of the farmgate milk price, but is not sufficient to offset the impact of lower returns for dairy commodities.

Milk price falls further

Dairy commodity prices have continued to decline in recent months, and it is now looking unlikely that prices will lift substantially before we start to sell increased volumes of new-season product.

Figure 1. Farmgate milk prices



Source: Fonterra, ANZ Research

We now forecast a farmgate milk price of \$8.20/kg milksolid (MS) for the 2022-23 season, 5 cents lower than our previous guidance. This is aligned with the mid-point of Fonterra's latest price guidance of \$8.10-\$8.30/kg MS. Milk price futures are currently priced at \$8.23/kg MS for the 2022-23 season.

For the new 2023-24 dairy season, we now expect a milk price of \$8.25/kg MS, 25c lower than previously forecast. This is relatively closely aligned with the price of next season's milk price futures contract, which last traded at \$8.22/kg MS. It is above the \$8 mid-point of Fonterra's current price forecast of \$7.25 - \$8.75/kg MS.

Dairy commodity prices yet to lift

Dairy commodity prices have bounced around recently but are yet to consistently display any improvement in price. In fact, prices have trended down further in recent months, rather than heading higher as required to achieve our milk price forecast.

The latest Global Dairy Trade event (6 June) delivered a disappointing result in terms of demand for whole milk powder (WMP). The price index for this commodity dropped 3.1% and the forward pricing curve was extremely flat. The lack of buying from China was particularly noticeable.

The price of WMP tends to drive the farmgate milk price, and the price of WMP tends to be driven largely by milk supply from New Zealand and demand from China.

China has not recovered from the economic harm caused by the lockdowns as quickly as anticipated. Consumers are wary about spending and many sectors of the economy are struggling. China's economic forecasts have been revised down. We now expect China's economy to expand by just 4.9% in 2023.

Demand for dairy products from other parts of the world also remains a little lacklustre. As interest rates rise everyone is looking for ways to streamline supply chains in order to avoid the high cost of carrying additional inventories.

Buyers also have little appetite to build inventories when prices are falling, despite current prices representing good long-term value. When prices do eventually rise we are likely to see a flurry of buying activity as everyone tries to stock up before prices rise even further.

Global milk supply not the problem

Milk production across the globe is growing, but only at a modest pace. Growth in milk supplies in Europe and the US is currently running at about 0.5%, a level that would normally easily be absorbed by demand growth.

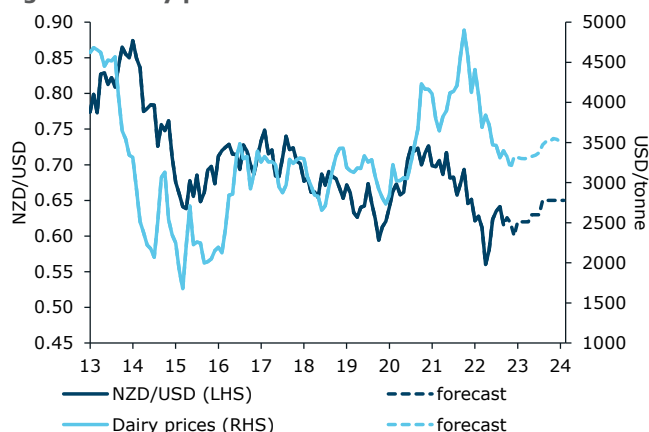
But demand is not currently growing; in fact it is shrinking as consumers and food-service outlets look to minimise costs. Inflation has eroded buyers' spending power to a point where continuing to lift prices is not a viable option.

Margins at the farm level are tight across the globe, meaning we are very unlikely to see a surge in milk supply. This dynamic will help prices for dairy commodities to recover at some point. The big question is when this will be.

Weak NZ currency some assistance

The relatively weak NZ dollar is providing some assistance to the farmgate milk price. We now anticipate the NZD will appreciate more slowly, heading toward USD0.63c by the end of 2023 and pushing up to USD0.65 over 2024.

Figure 2. Dairy prices vs NZD



Source: GDT, NZX, RBNZ, ANZ Research

Summary

Global dairy markets continue to deteriorate. We do continue to expect to see prices pick up later in the season, just not in time to support our previous milk price forecast. The ongoing weakness in the NZD is providing some assistance to farmgate pricing, but the currency remains a risk in both directions, as always.

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

Commodity price basket		USD/t	NZD/USD effective				
			0.650	0.655	0.660	0.665	0.670
	10%	3930	9.40	9.30	9.25	9.15	9.05
	5%	3750	8.90	8.80	8.70	8.65	8.55
	Base	3570	8.35	8.25	8.20	8.10	8.05
	-5%	3390	7.80	7.75	7.65	7.60	7.50
	-10%	3210	7.30	7.20	7.15	7.10	7.00
	-15%	3030	6.75	6.70	6.65	6.55	6.50

Source: ANZ Research

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

Commodity price basket		USD/t	NZD/USD effective				
			0.60	0.61	0.62	0.63	0.64
	15%	3900	10.25	10.05	9.85	9.65	9.45
	5%	3560	9.15	8.95	8.80	8.60	8.45
	Base	3390	8.60	8.45	8.25	8.10	7.95
	-5%	3220	8.10	7.90	7.75	7.60	7.45
	-10%	3050	7.55	7.40	7.25	7.10	6.95
	-20%	2710	6.45	6.30	6.20	6.05	5.90

Source: ANZ Research



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Last updated: 18 April 2023

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