Media Release
March 13, 2023

Participants across global dairy chain 'squeezed' – Rabobank lowers NZ milk price forecast

With dairy commodity prices drifting lower and inflation strong around the world, participants throughout the global dairy chain are being 'squeezed', according to new report by agricultural banking specialist Rabobank.

In its ***Q1 2023 Dairy Quarterly report – The squeeze is on***, Rabobank says global dairy chain participants – from producers to processors to end users – have all faced significant pressures during the early part of 2023.

"Dairy producers' milk prices have tumbled from their lofty 2022 levels while their cows digest new-crop feeds and forages priced at record highs," Rabobank senior agricultural analyst Emma Higgins said.

"Dairy processors and cooperatives are also feeling the pinch having entered the year with expensive inventory, made with high-priced milk which is now being discounted to clear the markets.

"Meanwhile, consumers have been hampered by higher inflation and rising interest rates, resulting in more frugal purchasing behaviour. And while they haven't left the dairy aisle, they are looking for value."

The report says global milk production is expected to return to year-on-year (YOY) growth in 2023, following a decline of 0.9 percent in 2022.

"Milk production from the Big 7 export regions (New Zealand, Australia, the US, the EU, Argentina, Brazil, Uruguay) is anticipated to grow by 0.7% YOY in 2023," Ms Higgins said.

"This is slightly back on our earlier forecast of one per cent growth, with this marginally lower growth attributable to increased culling in the US and weather-related production challenges in New Zealand, Brazil, and Argentina."

With a little more milk and a little less demand contributing to weaker global dairy commodity prices in the early months of 2023, Ms Higgins says, the bank has now lowered its New Zealand milk price forecast for the 22/23 season.

"Since our last quarterly report in mid-December, the midpoint of Fonterra's forecast range has moved from NZD 9.25/kgMS to NZD 8.50/kgMS," she said.

"And we've now **decreased our own farmgate forecast, dropping this to NZD 8.50/kgMS, from NZD 9.00/kgMS previously.**

"But, with the reopening of China, we do see the possibility of strengthening dairy demand flowing through to improved farmgate prices by the season's end. And this does provide some upside risk to our new forecast."

What to watch

The report identifies several watch factors for dairy sector participants over coming months including developments in the South American dairy sector, the impact of China's re-opening on dairy consumption, and ongoing geopolitical unrest.

"South America is facing headwinds in both production and consumption," Ms Higgins said.

"Drought conditions intensified in the south of Brazil as well as in Uruguay and Argentina during late 2022 and early 2023, reducing milk output in the region. Farmers' margins also worsened in Argentina and Uruguay due to higher costs, while Brazilian milk producers benefited from higher farmgate milk prices in January.

"However, milk prices are already showing signs of declines in Brazil as consumption weakens further. Slowing economic activity due to persistently high inflation and the government's worsening fiscal balance are already translating into higher unemployment and less purchasing power for Brazilian consumers."

The report says China's 'same-store' sales growth (sales from existing stores) in 2023 is expected to improve from last year, but remain below pre-pandemic levels.

"But we do expect foodservice revenues in China will exceed pre-pandemic levels this year, with revenues tipped to improve by one to two per cent from pre-Covid levels due to additional volume and value growth from outlet expansions," Ms Higgins said.

The report says geopolitical unrest is a further factor to keep an eye on as it continues to cloud supply and demand estimates.

"The intensifying Russia-Ukraine war increases the risk of higher feed costs around the globe for a second year, through rising farm input costs." Ms Higgins said.

"And – as previously stated – an escalation in trade tensions between China and its trading partners, would have negative repercussions on global dairy markets due to its dominance in dairy imports."

New Zealand

The report says the chaotic summer weather is the latest curve ball in a challenging season for New Zealand's dairy farmers.

"Farming conditions and milk supply generally improved over the Christmas period, with a supply comeback meaning season-to-January production was just two per cent behind last year," Ms Higgins said.

"Yet by February, the Southland/Otago region had moved into incredibly dry conditions. Conversely, Cyclone Gabrielle hammered parts of the North Island, causing widespread impact on pastures, crops, and supplementary feed, along with milk supply in selected areas.

“In light of these factors, we expect New Zealand milk production is likely to slide lower by around 1.5 per cent YOY for the full 2022/23 season (through May 31, 2023).”

The report says Kiwi farmers are still battling on-farm inflation, with the Farm Expenses Price Index (FEPI) highlighting that dairy farm expenses were 17 per cent higher in Q4 2022 compared to the prior year.

“Interest rates are the key contributor, with the Reserve Bank of New Zealand recently hiking the Official Cash Rate (OCR) to 4.75 per cent – a far cry from the 1.0 per cent OCR of early 2022,” Ms Higgins said.

“Fuel and fertiliser costs, followed by feed costs, are proving the next-biggest headaches. However, the worm has turned downward for benchmark fertiliser costs, providing some optimism for input price relief over the coming months.”

The report says New Zealand’s trade has mirrored the challenging milk production season.

“For the full December 2022 year, total shipments were behind by 5.5 per cent YOY. Export volumes for the three months to January 2023 slumped three per cent from the same period of the prior year, in line with weaker milk production growth,” Ms Higgins said.

“Exports to China took a hammering compared to last year, slumping by around 30 per cent in 2022 compared to 2021. January shipments showed some positive signals with exports higher by three per cent for the month YOY. And we expect this positive China shipment trend to be a more regular theme from quarter two 2023 onward.”

<ends>

Rabobank New Zealand is a part of the global Rabobank Group, the world’s leading specialist in food and agribusiness banking. Rabobank has more than 120 years’ experience providing customized banking and finance solutions to businesses involved in all aspects of food and agribusiness. Rabobank is structured as a cooperative and operates in 38 countries, servicing the needs of more than nine million clients worldwide through a network of close to 1000 offices and branches. Rabobank New Zealand is one of the country's leading agricultural lenders and a significant provider of business and corporate banking and financial services to the New Zealand food and agribusiness sector. The bank has 28 offices throughout New Zealand.

Media contacts:

David Johnston
Media Relations Manager
Rabobank New Zealand
Phone: 04 819 2711 or
027 477 8153
Email: david.johnston@rabobank.com

Denise Shaw
Head of Media Relations
Rabobank Australia & New Zealand
Phone: +61 2 8115 2744 or
+61 439 03 525
Email: denise.shaw@rabobank.com