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Subdued dairy markets set the tone for new dairy season – Rabobank report

With global milk supply returning to growth in key production regions and Chinese dairy demand expected to remain subdued until the latter part of the year, **Rabobank has announced an opening farmgate milk price forecast of $8.20kg/MS for the 2023/24 season.**

In its ***New Zealand Dairy Seasonal Outlook 2023/24*** report, titled ***The Pressure Is On,*** Rabobank says global dairy markets look completely different than they did 12 months ago.

“At this stage last year, market fundamentals were very tight with limited supplies in export regions, aggressive import demand by Chinese buyers and supply chain issues exacerbating buyers’ urgency to procure raw materials,” report author, senior agricultural analyst Emma Higgins said.

“Since then, we’ve seen a return to growth in milk supply across most of the export regions, sluggish Chinese import volumes as the country rebalances its internal market, and widespread demand rationing in many other dairy markets across retail, foodservice and ingredient channels in response to food price inflation and higher sticker prices.

“As a result, dairy commodity prices for whole milk powder (WMP) and skim milk powder (SMP) have fallen between 30 and 40 per cent since peak commodity prices in 2022 and are now at, or below, the average price over the previous five years.”

The report says farmgate milk prices are feeling the pressure in most export regions.

“Milk prices in export regions have followed the commodity cycle, none more so than the New Zealand dairy sector, which is often the first mover in price cycles,” Ms Higgins said.

“Farmgate milk prices are now catching up to global commodity market trends and are moving lower in 2023. And with global dairy market fundamentals likely to remain under stress in the short-term, we’re forecasting a farmgate milk price of $8.20/kgMS for 2023/24, with this based on an exchange rate of USD 0.63 cents.”

China key to dairy price rebound

Ms Higgins said, as always, the cycle will turn and dairy prices will rebound – but the timing of this will hinge on meaningful imports from Chinese buyers.

“China’s dairy market rebalance is underway as production growth rates slow, demand is showing some encouraging signals of recovery and local inventories are being worked through. And these factors will help buoy global dairy markets as we move through this year,” she said.

"The short-term outlook suggests more pressure is possible, but later in 2023 we should see more meaningful purchasing activity from Chinese importers, coupled with improved demand tension from other buying regions in the face of low buy-side inventories."

Ms Higgins said China's ability to increase domestic production would be impacted by New Zealand's decision to end live cattle exports.

"China's appetite for dairy cattle imports from Oceania has been insatiable over the past three years and in 2023 combined volumes from New Zealand and Australia set a new record. For context, this strong farm expansion programme has added the equivalent of roughly Taranaki's annual milk production each year since 2018 and has fuelled demand for live cattle to build the herd quickly," she said.

"As it currently stands, the dairy cattle export market into China will undergo a major change. New Zealand export of live dairy cattle by sea freight has now ceased, meaning Chinese buyers will lose access to a major supplier."

Broader upside and downside pricing risks

Beyond dairy market supply and demand fundamentals, the report says, a host of broader macroeconomic and geopolitical uncertainties – including deglobalisation, internal Chinese policy, central bank policies and the threat of war – present both upside and downside risk to the bank's milk price forecast.

Given the rapidly-shifting dynamics, the report says, New Zealand dairy farmers may nevertheless want to consider the three following possible scenarios and their impact on business strategy and risk:

- Central banks continue to press forward with monetary policy tightening until a painful, biting recession is felt, negatively impacting dairy demand and dairy commodity prices.

- Central banks take a pause on tightening monetary policy and instead cut interest rates without addressing core inflation issues, embedding inflation and positively impacting dairy commodity prices as global inflation surfs another wave.

- Conflict with our key market, China. This scenario would see all the downsides of a global recession mixed in with inflation experience of 2022. Commodity prices would be negatively impacted through a breakdown of ordinary business as usual to New Zealand's main market.

"The world has changed, and one thing is clear, the global trade architecture that we have grown accustomed to and comfortable with is changing, forcing New Zealand to re-evaluate trade relationships and diversify product mix and customers," Ms Higgins said.

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