Rabobank

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Rabobank picks $8.40 kg/MS forecast milk price for 24/25 dairy season, but warns global dairy price recovery now likely to be slower

With meaningful global milk supply growth remaining elusive, Rabobank has forecast an **opening milk price of $8.40 kg/MS for the 2024/25 New Zealand dairy season.**

In its ***Q2 Global Dairy Quarterly report*** titled ***Lower equilibrium***, the agribusiness banking specialist says milk production from the main global export regions will expand only modestly in Q3 before gaining some momentum towards the end of the year.

“Low profitability over the past 12 months has led to a decrease in dairy herds in key regions like the US and South America while weather-related issues have also affected milk output in recent weeks, with diminished rains in New Zealand and excess rains in Europe,” report co-author Rabobank senior agricultural analyst Emma Higgins said.

“And this subdued global milk supply growth should help underpin a continuation of the dairy market recovery and an improvement in milk prices for dairy producers in most regions around the world.”

While this was the case, Ms Higgins warned, the recovery would not be smooth.

“Global demand recovery signals are mixed, and consumers’ purchasing power remains under pressure,” she said.

“Although unemployment remains close to record-low levels in most large markets, consumer sentiment is gloomier than anticipated. Inflation remains above target in most countries and high interest rates continue to put pressure on debts and consumer spending at a time when credit plays an important role after cumulative inflation in recent years.”

Another potential headwind for dairy prices, Ms Higgins said, was higher milk production in China.

“We have now revised our milk output in China for 2024 from two per cent to 3.2 per cent, reflecting higher-than-anticipated output due to the lagging effect from the last round of dairy expansions during 2019-2022,” she said.

In light of these factors, Ms Higgins said, the bank’s view was that the current recovery in dairy market prices would now be slower than anticipated in its quarter one report.

“The jump in prices in late 2023 and early 2024 appears to have been more of a response to low prices and re-stocking than a sustained improvement in consumer demand in most regions,” she said.

“China’s reduced dependence on imports will also be a headwind for the global dairy market in the months ahead.”

Ms Higgins said the expectation Chinese milk production would grow at a quicker rate, was a particular challenge to Rabobank's milk price forecast for the upcoming New Zealand dairy season.

"Chinese production figures are especially significant for New Zealand's dairy sector given their influence on Chinese import requirements and the fact more than 30 per cent of this country's dairy exports head to the Chinese market," she said.

"And we do see this increase in Chinese milk output as a downside risk factor to the New Zealand farmgate milk price."

The report says a New Zealand milk price of $8.40kg/MS would be broadly profitable at a national level, but budgetary pressures are likely to remain for local producers.

"Should milk prices for the 24/25 season stay near this level, costs will still remain front and centre for the majority of Kiwi dairy farmers," Ms Higgins said.

"Fertiliser applications and quantity alongside labour adjustments are now under review as farmers prepare for another season of tight fiscal control. One of the persistent headaches for farmers is the cost of funds. Rabobank's expectation is that the Reserve Bank of New Zealand will cut rates twice this year and, should these cuts eventuate, this would provide welcome relief for many across the industry."

Lower production for current NZ season

The report says New Zealand milk production for the current 2023/24 season to 31 May could end up to one per cent lower year-on-year.

"The sting in El Nino's tail is unmistakable, with a lack of rainfall in northern and eastern areas of both islands putting pressure on feed," Ms Higgins said.

"Cooler autumn temperatures have arrived, clashing with the need for more rain, resulting in slow grass growth in parts of the South Island and requiring supplementary feed to plug the gaps.

"Despite limited rain on the east coast of both islands, the South Island has had a strong season, while the North Island has struggled to catch up due to poor spring conditions."

Key watch factors

In addition to Chinese dairy production growth and import activity, the report identifies several other factors that could influence global dairy markets over coming months including nitrogen derogation limits in Europe and pathogenic avian flu.

"After earlier announcements about lowering nitrogen derogation limits in the Netherlands and Ireland, Denmark has decided not to apply for a renewal of the nitrogen derogation," Ms Higgins said.

“This means that Denmark will limit the application of organic N from animal manure to 170kg per HA (from 230kg) of grassland, effective July 31st this year. Ultimately, lower application rates reduce the carrying capacity per hectare and potentially increase costs for manure disposal, which could result in farmers re-balancing their herd size.”

Another watch factor, Ms Higgins said, was highly pathogenic avian flu which is infecting cows in eight different US states.

“The disease is primarily symptomatic in older cows, but it is likely younger cows are also infected but asymptomatic. There has not been a measurable reduction in milk supply, but the spreading infection remains a key watch factor from both the supply side and consumer demand lenses,” she said.

Other watch factors identified in the report include elections in key regions across the globe, the strength of the US dollar and global weather systems.

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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 36 countries, servicing the needs of about 8.6 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 27 offices throughout New Zealand.

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