

New dairy season expected to feature high milk price and higher costs – Rabobank

After a strong close to the 2025/26 dairy season – marked by rises in the Global Dairy Trade (GDT) price index in eight of the last ten auctions – Rabobank is forecasting a robust opening milk price of \$9.50 to \$10.00 per kg/MS for the 2026/27 season.

However, the bank warns the inflationary impacts of geopolitical disruption are likely to squeeze farmer margins in the new season, making disciplined cost control and scenario planning essential.

In its new dairy industry note ***High milk prices, higher costs: The 2026/27 margin equation***, the specialist agribusiness bank says the soon-to-be completed 2025/26 season has delivered exceptional profitability, underpinned by strong GDT performance and broad-based strength across dairy commodities.

“Throughout the second half of the season, the GDT index regained momentum, and this coordinated strength supported successive upward revisions to Fonterra’s milk price forecast, lifting the midpoint to \$9.50/kgMS in February 2026 and further to \$9.70/kgMS in March,” RaboResearch senior analyst and note author Emma Higgins said.

“The current midpoint farmgate milk price forecast of \$9.70/kgMS for the 2025/26 season remains highly profitable for farmers. And for Fonterra suppliers, strong capital returns and healthy dividends provide an extraordinarily solid foundation heading into next season.”

“For 2026/27, our expectation is for a strong opening farmgate milk price of between \$9.50 and \$10.00. Given ongoing competition for milk supply, Fonterra may again take a strong approach to its opening forecast. This could see the midpoint of the range skewed higher to support a stronger opening figure, similar to last season and more closely aligned with spot market signals.”

Marked squeeze on margins

While the 2026/27 dairy season is expected to be another profitable one, Ms Higgins said, New Zealand dairy farmers will start the new season on 1 June facing a marked squeeze on margins, driven by persistent and broad-based cost inflation.

“The ongoing closure of the Strait of Hormuz - now approaching its fourth month - is creating conditions reminiscent of past stagflationary shocks. Initial impacts, particularly higher energy prices, are now flowing through into key upstream dairy inputs, including diesel, fertiliser, and industrial goods. Second-round effects are also emerging, with elevated energy costs feeding into broader inflation expectations,” she said.

“From here, the outlook becomes significantly more uncertain, warranting scenario-based planning. The key variable is the duration of disruption: the longer the closure persists, the slower and more uneven the normalisation of energy and input markets is likely to be.”

The industry note says while RaboResearch’s base case scenario does not currently assume a prolonged closure of the Strait of Hormuz, the risk of a more extended disruption – beyond what markets are currently pricing – cannot be ignored.

“Inflationary pressures and weakening consumer sentiment are already testing demand resilience in dairy markets, and we expect this to continue over the months ahead.” Ms Higgins said.

“However, it’s also possible that, in a prolonged disruption scenario, global food import demand could rise sharply in a bid for food security, as energy-importing nations move to secure supply amid deteriorating terms of trade. This would likely support dairy commodity prices, with milk powder potentially returning to prior cycle highs and lifting New Zealand farmgate milk prices in the near term.

“The volatile operating environment farmers are now in underscores the need for wider-than-usual scenario planning across both costs and revenues, and for caution in treating commodity price spikes driven by geopolitical shocks as structural rather than temporary.”

Slowing global supply growth

The industry note says milk supply remains abundant globally, although growth momentum is slowing.

“Here in New Zealand the 2025/26 milk production season is on track to be the largest on record, with output more than 4% ahead over the 11-month period through April 2026. Production is now well positioned to surpass the previous all-time annual record set in the 2020/21 season,” Ms Higgins said.

“New Zealand’s elevated milk supply is likely to carry into the opening months of the 2026/27 season, however the anticipated record-setting 2025/26 production level will be difficult to surpass.

“Based on current fundamentals, New Zealand milk production in the 2026/27 season has potential to modestly increase by up to 1%. But, as always, weather conditions – particularly the risk of a developing El Niño – will play a role in shaping the final outcome.”

“This season may signal the beginning of a new structural phase for New Zealand milk production, characterised by a higher baseline level of output. Since 2014, production has largely oscillated within a relatively narrow band, however, the performance of the 2025/26 season suggests the industry may be breaking out of this range.”

Elsewhere, Ms Higgins said, signs are emerging of a gradual unwinding of the milk supply surge that characterised 2025.

“While early data indicates strong year-on-year milk production growth in the EU during quarter one of 2026, this expansion is already showing signs of moderating. In the United States, growth is also slowing but is likely to remain comparatively elevated through 2026

relative to other major exporters. Meanwhile, Australia is showing signs of recovery, with modest improvements expected over the calendar year.”

“Our base case remains that margin pressures are expected to emerge across many of the “Big-7” dairy exporters (New Zealand, Australia, the US, the EU, Uruguay, Brazil and Argentina) which could constrain production growth toward the latter part of 2026 and help underpin dairy prices at elevated levels.”

<ends>

RaboResearch Disclaimer: Please also refer to our disclaimer [here](#) for information about the scope and limitations of the RaboResearch material provided in this media release.

Rabobank New Zealand Limited is a part of the global Rabobank Group, the world’s leading specialist in food and agribusiness banking. Rabobank has more than 125 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 about 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 27 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