

## ***Rabobank lifts milk price forecast, but remains cautious about dairy market recovery***

With global dairy demand holding up surprising well throughout the course of the Covid-19 pandemic and the food service sector now beginning to recover as more regions move out of lockdowns, **Rabobank has increased its farmgate milk price forecast by 40 cents to \$6.35 kg/MS for the 2020/21 season.**

In its latest **Dairy Quarterly Report – A Delicate Rebalancing**, Rabobank says that while Covid-19 has brought significant disruption to global dairy markets, dairy commodity prices have been resilient and rallied in quarter two on the back of government support in the form of government purchases, inventory management and fiscal stimulus for consumers.

Despite this, RaboResearch senior dairy analyst Emma Higgins said global market fundamentals are expected to remain weak into the first half of next year, with consumption taking time to recover and milk production forecast to grow over the next 12 months.

“Food service revenues are improving, but they remain well back on pre-Covid levels and it will take time for this sector to make a full recovery, even for those countries that have been well ahead of the curve. We are also seeing early signs of retail dairy sales decelerating. Ultimately, year-on-year dairy demand growth is unlikely to be in sight for the key dairy-export regions until quarter one 2021,” she said.

“The potential removal of government support programmes is another reason we are taking a cautious view towards the global dairy market recovery. These programmes have contributed significantly to improved dairy commodity prices over recent months, however, the outlook for these is much less certain as we move into the final quarter of the year.”

Ms Higgins said uncertainty over Chinese demand and an anticipated lift in global dairy production were additional reasons for caution.

“Chinese dairy import behaviour over the next six to nine months presents uncertainties. So far Chinese dairy consumption has recovered better than expected, but China’s strengthening domestic production and possible shift in stocking strategy raises questions over its import requirement into 2021,” she said.

“We also expect to see global dairy supply across the big 7 dairy exporters – US, Uruguay, Brazil, Argentina, EU, Australia and New Zealand – to continue to increase over the course of this year and into the first half of next.”

As a result of these factors, Ms Higgins said the bank’s forecast remains towards the lower end of Fonterra’s forecast range.

## **New Zealand**

The report says New Zealand milk production shapes as a key factor in global dairy commodity pricing over coming months.

“With all eyes on New Zealand dairy output, conditions on-farm across most of the key dairying regions are looking good for the new season’s spring flush,” Ms Higgins said.

“‘Jack Frost’ has been kind this winter and the mild weather has continued across most of the country in recent months, setting the new season’s milk flows off to a buoyant start.”

Ms Higgins said the bank’s base-case scenario is that New Zealand milk production will range between flat growth to a modest lift of two per cent compared to last season.

“We are anticipating a new production record to be set for October, the peak month of milk collections – a culmination of the warmest winter on record and largely benign spring conditions,” she said.

## **What to watch in Q4 and Q1**

The report says shifts in global trade, economic recession around the globe and how the industry embraces e-commerce, shape as key watch factors for the global dairy sector over the next six months.

“Currency movements have the potential to significantly influence global dairy trade over the remainder over the year and into next,” Ms Higgins said.

“The US dollar has retreated by nine per cent versus the Euro since June, placing the US in a more favourable trade situation compared to European exporters, while in Argentina, the efforts of the government to inflate the value of the peso are likely to have a negative impact on the country’s competitiveness in global dairy markets.”

Ms Higgins said another factor influencing the sector outlook was the extent to which global economic recession influenced global dairy demand.

“High unemployment rates and slower economic growth are expected to put a damper on dairy demand lasting into the first half of 2021. While some consumers may find comfort, trust, and indulgence in their favourite brands, other consumers will trade down, boosting private label sales.” she said.

The report says the industry’s ability to adapt to changing consumer purchasing behaviours was a further factor that would dictate its fortunes in the months ahead.

“Covid-19 has rejuvenated the dairy category as consumers returned to a trusted, nutritious product with health and wellness in mind. It has also accelerated some trends,



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such as e-commerce, which provides opportunities as well as challenges for the dairy sector," Ms Higgins said.

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**Media contacts:**

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

Denise Shaw  
Head of Media Relations  
Rabobank Australia & New Zealand  
Phone: +61 2 8115 2744 or  
+61 439 603 525  
Email: [denise.shaw@rabobank.com](mailto:denise.shaw@rabobank.com)