



# AGRI UPDATE

GlobalDairyTrade auction results and milk price forecast update.



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## Chinese restocking drives milk prices higher

- We have increased our farmgate milk price forecast for this season to \$10.00/kg (previously \$9.00/kg).
- This would be a new record milk price in dollar terms, though not after adjusting for inflation or the trend increase in farmers' costs.
- Chinese buyers are facing a substantial challenge to rebuild their stocks of milk powders in particular.
- This is providing a boost to dairy prices in the near term, although we expect prices to fall back again once this process is complete.
- As a result, we see upside risks to the \$10/kg for this season, but with that would come a greater risk of a sharply lower payout next season.

Farmgate milk price forecasts

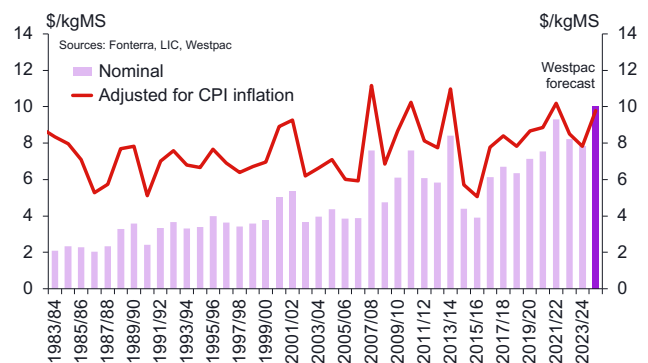
	2024/25	
	Westpac	Fonterra
Milk price	\$10.00	\$9.00-\$10.00

Conditions in the global market for dairy products are shifting rapidly, with prices being bid up strongly as Chinese buyers return in force. We have revised up our forecast for this season's farmgate milk price to \$10.00 per kilo of milksolids, compared to the \$9.00/kg in our previous update last month.

That puts us at the top end of Fonterra's recently updated forecast range of \$9 to \$10 per kilo (midpoint of \$9.50). The futures market is close to our view, currently pricing in a \$9.90 milk price for this season.

If our forecast proves right, this will be the highest farmgate milk price on record (and the first double-digit one). However, that's not quite the case once we account for the general rate of inflation – it's certainly above average, but there have been four previous years where the milk price was higher in inflation-adjusted terms. It should also be noted that none of those previous highs were sustained, and in some cases were followed by sharply lower prices in the following season.

Farmgate milk price



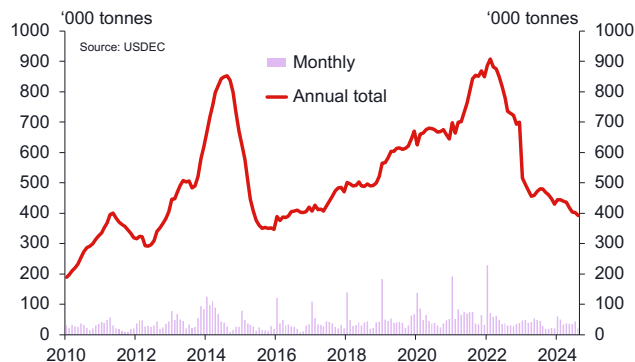
Adjusting for general inflation also understates the degree to which on-farm costs have risen in recent years. DairyNZ currently estimates a breakeven price of \$8.15/kg for a typical dairy farm, up from \$8.01/kg last season. That said, a \$10 milk price would leave substantial room for farmers to spend and invest more, even after catching up on maintenance and other costs that might have been deferred during the previous tougher season.

A \$10/kg milk price, along with an increase in milk volumes that is shaping up to be in the order of 2%, would mean around \$3.5bn of additional revenue for Fonterra's suppliers compared to last season (and \$4.5bn in total if this experience is repeated across the other dairy companies). After allowing for an increase in costs, this suggests about \$4bn of extra discretionary income for dairy farmers this year, equal to around 1% of GDP.

### China back in action.

The key reason for the improving milk price outlook is that Chinese buyers are now clearly returning to the market in force, having been notably absent earlier in the year. China significantly reduced its imports of dairy products in 2023 and 2024 compared to previous years, which appeared to be due to a combination of softening demand and a surge in their own production as they looked to increase their self-sufficiency in areas like food.

#### Chinese imports of whole milk powder

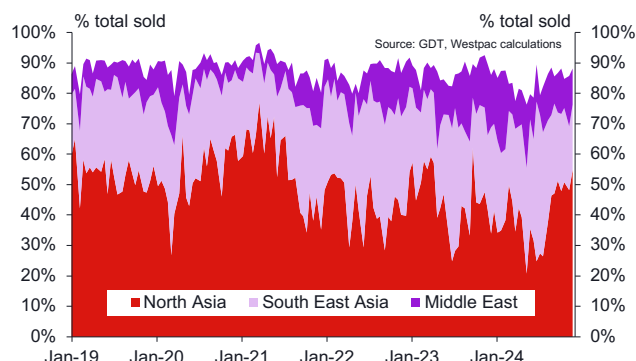


However, it's becoming more apparent now that the pullback in their imports has left them significantly understocked, especially for milk powders. China's own dairy industry is still struggling with an oversupply of liquid milk, some of which is being dried into powders in order to be able to store it – but it appears they don't have the capacity to make up for the extent of the shortfall in imports.

For whole milk powder (WMP) in particular, China has few options for increasing its supply – New Zealand is by far the dominant supplier on the global market, and Fonterra has tilted its product mix away from WMP in the last couple of seasons, in response to the fall in Chinese demand. So the only real way to secure more WMP is to divert it away from other markets. Consequently,

we're seeing buyers from North Asia (largely China) take up an increasing share of the product sold at the GlobalDairyTrade auction.

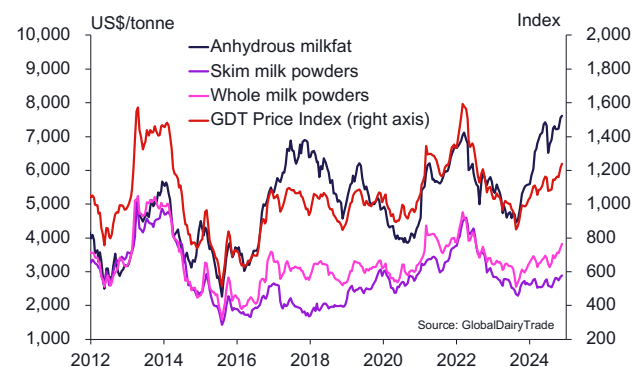
#### Proportion of total volumes sold – top 3 regions



### Auction results, 20 Nov 2024.

Last night's GDT auction saw a 1.9% rise in prices overall. WMP prices rose a healthy 3.2%, and are up 10% over the last three months. Milkfat prices eked out smaller gains, but they remain at or near record highs.

#### GlobalDairyTrade auction prices



We think that Chinese buying will continue to support dairy prices in the near term. Bear in mind, though that if the motivation is restocking then at some point they will be restocked, and demand will recede back to more normal levels. And we probably won't have much visibility over when they reach that point.

China's inventory management has often presented a challenge to New Zealand's dairy exports. For instance, the then-record payout of \$8.40 in the 2013-14 season was also driven by a surge in Chinese demand, apparently due to concerns that drought could lead to a shortfall in New Zealand's milk supply. When that didn't prove to be the case, Chinese buyers found themselves overstocked and stepped back from the market over the following year – one of the factors that saw the farmgate milk price plunge to \$4.40 for the 2014-15 season.

We're not looking at anything as near as extreme this time around. But we do think that the direction of risks is the

same – the more aggressively that dairy prices are bid up in the near term, the more risk of a sharp decline once Chinese buyers step back again.

In that respect, we actually see some upside risk to our already-strong milk price forecast of \$10/kg for this season. But in our view, the further that it rises above this level, the more downside risk there would be for next season’s milk price.

**GlobalDairyTrade auction results**

	Change since last auction	Prices USD/tonne
Whole Milk Powder (WMP)	3.2%	\$3,826
Skim Milk Powder (SMP)	0.9%	\$2,882
Anhydrous Milk Fat (AMF)	1.0%	\$7,622
Butter	0.5%	\$7,008
Cheddar	-3.1%	\$4,834
GDT Price Index	1.9%	1,239

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