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Australian dairy set for another favourable season ahead, with 'firm landing zone' for milk prices

Australian dairy producers can look forward to another favourable season in 2023/24, with the sector set for its fourth consecutive profitable year, Rabobank says in its recently-released annual **Australian Dairy Seasonal Outlook**.

The agribusiness banking specialist says while the upcoming season's milk price will likely be lower than the "lofty highs" currently being offered across parts of the southern export region – reflecting the current downturn in the global commodity price cycle – there is a "firm landing zone" expected for new season Australian milk prices.

This is due to stronger domestic dairy market returns, a weak Australian dollar and "aggressive recruitment and retention strategies" by dairy processors in a competitive market for milk supply. And these are providing a buffering effect to the full extent of global pressures, according to report author, Rabobank senior dairy analyst Michael Harvey.

With the June 1 deadline approaching for minimum milk price offers from Australian dairy companies, the bank is forecasting minimum offers for new season milk in southern Australia to be between AUD 8.50/kgMS and AUD 9.00/kgMS.

"At worst, this represents a 10 per cent decrease from 2022/23 prices and a farmgate milk price that is well above the medium-term average for southern Australia since the introduction of the industry's Dairy Code of Conduct in January 2020," Mr Harvey said.

"Another season of historically-elevated milk prices will support farmgate margins."

Cost relief

The report – titled 'Looking for a Firm Landing Zone' – says there is "welcome relief" for dairy farmers from a recent record-high cost base, with lower prices for purchased feed and fertiliser flowing through balance sheets.

"Even if some dairy farmers see an easing in minimum price offers, this should come with cost relief," Mr Harvey said.

Global feed benchmark prices are down compared with last year, although still above medium-term averages, while local wheat prices are tracking close to global trends, he said. "Locally, grain supplies are high, after several bumper winter crops, with the prospect of another decent winter crop this year meaning feed supply will be adequate for buyers and will help to dampen feed supply risks."

Australian dairy farmers will already be seeing the benefits of a significant correction in global fertiliser prices and, therefore, a boost in affordability, Mr Harvey said.

"Looking forward, Rabobank expects the underlying fundamentals in the fertiliser market to lead a period of price stability, which will assist Australian dairy farmers as they prepare their nutrient management programs for the year ahead."

However, the Rabobank Outlook warns, there will still be other cost headwinds on farm in 2023/24 – including higher interest rates – and "labour is a major headache".

"Despite the relief on purchased and home-grown feed costs, as Australian dairy farmers begin budgeting for the year ahead, they will still have to deal with a high-cost-of-production environment in the 2023/24 season, as inflationary pressures flow through in overhead costs, particularly the cost – and availability – of labour," Mr Harvey said. "At the same time, interest rates are moving higher."

Global dairy outlook

The report says milk prices in a number of dairy-exporting regions around the world have already fallen, following the large decline in global dairy commodity prices seen since their peak in the first half of 2022.

"Since that time, prices in the 'dairy commodity basket' have fallen significantly on the back of a shift in underlying fundamentals in the market," Mr Harvey said.

These included a return to growth in milk supply across most dairy-exporting regions (coupled with softer domestic demand), sluggish import appetite from the world's largest dairy importer China and widespread demand 'rationing' in many dairy markets across retail, foodservice and ingredient channels.

As a result, Mr Harvey said, "indicative stream returns" for Australia's dairy product mix have fallen between 30 per cent and 40 per cent compared with the same time last year and are now at, or below, average returns of the previous five years.

Rabobank says "near-term global fundamentals" – including increasing growth in milk production in export regions through 2023 and "largely absent" Chinese buyers until the second half of the year – will keep downward pressure on global dairy commodity prices.

"However, at some stage the cycle will turn and global commodity prices will begin to increase, but this will depend on when China returns as a meaningful buyer in export markets," Mr Harvey said.

Domestic market

Locally though, Australia's domestic market returns have reset for the better, the report says.

"The domestic market is experiencing a structural increase in consumer prices across the dairy aisle," Mr Harvey said, "led by drinking milk and cheese in particular.

"This is driven by dairy processors passing through record-high farmgate prices and other input costs. This is important as it will support the value chain and lead to stable farmgate milk prices over multiple seasons for those milk producers supplying the domestic market."

Local supply

Australia's dairy supply chain continues to be challenged by a declining milk pool, Rabobank says.

In 2022/23, the annual availability of milk for manufacturing will fall below six billion litres, for the first time since 1990, the report says.

Investment

The Rabobank Outlook says consecutive seasons of farm sector profitability and industry stability are providing dairy producers with an opportunity to rethink their longer-term investment strategies.

"There has been a notable pick up in investment to increase labour efficiency and improve capacity, Mr Harvey said.

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