

Dairy Market Insights

Fourth Quarter 2023

1. Summary

Limited change in the outlook, but more uncertainty

- Little has changed in terms of the supply and demand fundamentals in the outlook. Milk supplies continue to slow in the EU-27 and US, stocks generally tightened as 2023 closed, but demand-side weakness remains the major challenge.
- The EU-27 market was mixed at year-end. Ingredient and butter stocks tightened as good demand for fresh cream and cheese took priority, but improvements in milk supply and the uncertainty of early 2024 demand drove weaker cheese and ingredient prices.
- The EU milk supply outlook has varying influences – a punishing outbreak of blue-tongue disease poses an ongoing threat while producer margins are favorable and warm late winter and spring conditions are forecast.
- The US market will suffer short-term volatility as milk supply slightly contracts over the first half of 2024. Softening domestic demand and insufficient export activity could keep short-term pricing under pressure but cheese supplies will gradually tighten. New cheese capacity won't drive any growth in milk collections until late in 2024.
- While SMP availability has reduced in the EU and US, the Oceania market will continue to drive price action in the short-term, with no pressure on availability and still weak export demand from Asia. Slowing NZ output is expected as El Nino's influence builds, which may alter ingredient and butterfat supplies ... if export demand recovers.
- In New Zealand, spring milk solids growth was less than expected through November as production conditions varied widely across the regions. Indicators of pasture growth plunged in several regions in December. Less rain than normal although soil moisture is at stressed levels.
- There is little change to the main themes in trade. China's sluggish market is well-supplied (with cheese the only bright spot), while there have been some improvements in south east Asian trade. Competition for contestable cheese markets remains critical to marginal cheese availability and prices from each of the big three producers.
- The risk of the Israel-Hamas conflict spreading throughout the Middle East, and the impact on supply chains of Red Sea shipping disruptions is adding to the uncertainty heading into 2024.

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What it means for Australian dairy

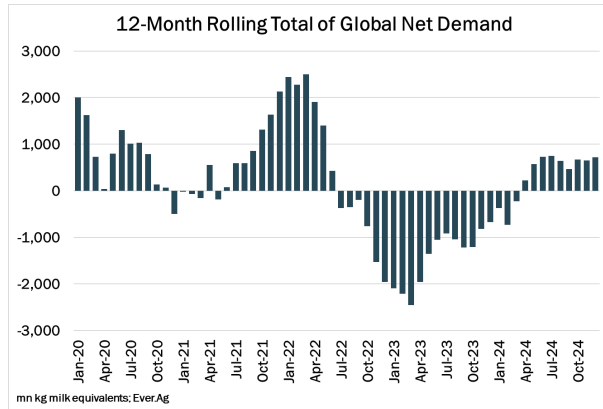
- The spot commodity milk value (CMV) stood at \$5.93kgMS at the end of December, down marginally from the end of September. This compares with the Australian Commodity Milk Value (ACMV) of \$6.40kgMS based on domestic wholesale prices.
- The gap between the two commodity milk values has continued to narrow, under pressure from increasing local supply this season. Spot Oceania cheddar prices have stabilised over the last quarter at about US\$4,100/t. SMP and WMP prices improved through October and November but have weakened to average US\$2,680/t and US\$3,230/t at the end of December. Butter values have strengthened during the quarter, with spot Oceania quotes at US\$5,410/t at the end of December.
- The Australian dollar has strengthened to slightly to about 68 US cents by the end of December. Inflation has plateaued, and is not falling quickly enough for the Reserve Bank which is likely to result in some further interest rate increases in 2024.
- With southern region milk price about \$9.40kgMS on a weighted average basis in the current season, and retailers under increasing scrutiny from the government looking to alleviate cost-of-living pressures – or at least be seen to be doing so – margin pressure remains acute for local dairy processors.
- While international commodity prices are still expected to recover in 2024, there is considerable downside risk to current farmgate prices which are unsustainable without a significant improvement in domestic and export returns.
- **To learn more about current season regional farmgate pricing, and track CMV movements visit the Milk Value Portal at milkvalue.com.au**

2. Key global dairy market indicators

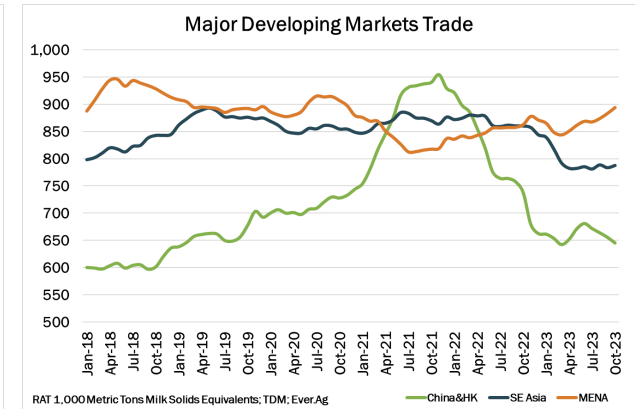
Milk volumes are rising marginally, but growth in milk solids has, until recently been much higher.



Global market balance is slowly improving as milk output slows.



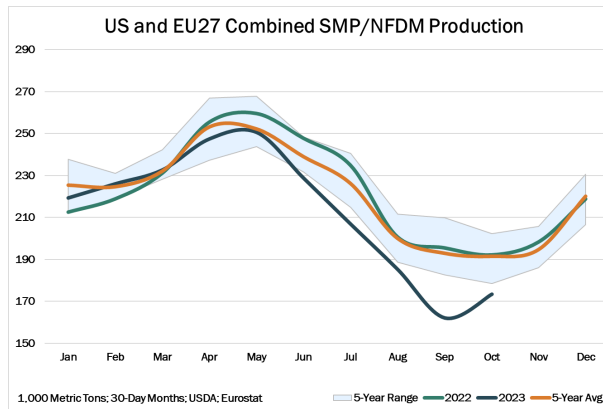
Trade with developing regions has slowed with the recent exception of small growth in MENA trade at low prices



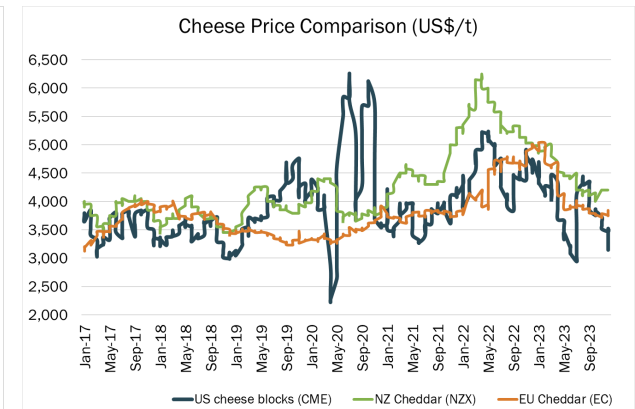
Global trade continued to drift sideways through 2023



Reduced supplies of SMP is improving the projected fundamental values in our outlook



US cheese prices have been volatile on CME and are tracking lower than NZ and EU spot prices

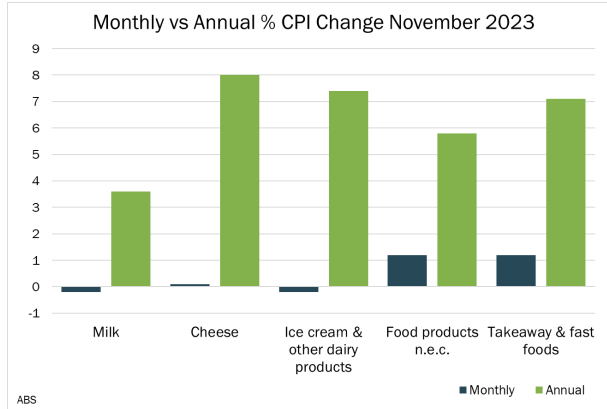
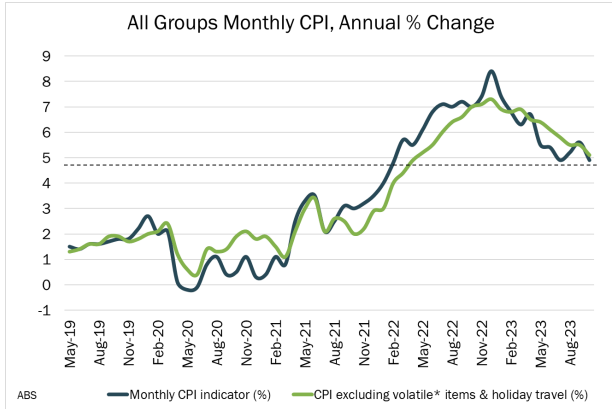


3. Major issues in the global market outlook

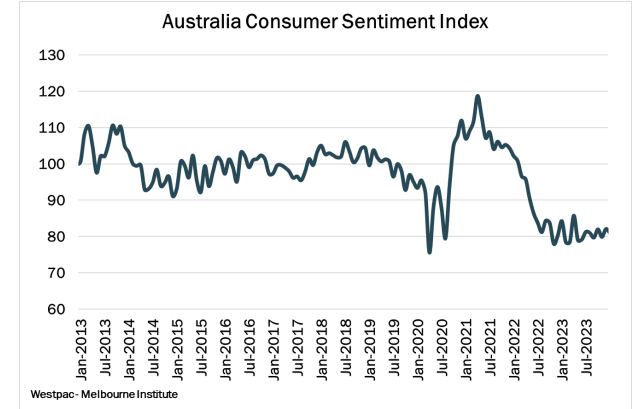
	Bullish (for prices)	Bearish	Uncertain
Demand	<ul style="list-style-type: none"> Ongoing SMP demand from Mexico Improving short-term cream demand in the EU Improved MENA demand for WMP Cost advantage for whhey over alternative milk proteins Stronger WPC80 demand reducing sweet whey output 	<ul style="list-style-type: none"> Reduced domestic ingredient demand in EU impacting SMP Weak SMP demand in the short-term from China and Southeast Asia Closing window for butter imports into US market as internal prices slide Weak demand from Chinese pork sector for dry whey Ample Chinese stocks and weak internal recovery continue to delay import demand for WMP Weak EU animal feed markets impacting whey demand 	<ul style="list-style-type: none"> Food service recovery in developing regions Impact of increasing Middle East conflict and disruptions caused by Red Sea attacks
Supply	<ul style="list-style-type: none"> Slowing EU SMP/butter output Weaker LatAm WMP exports with lower milk output and Brazil shortages 	<ul style="list-style-type: none"> Sustained higher SMP output in New Zealand US and EU exportable cheese surplus sustaining competition Increasing Australian cheese production weighing on prices 	<ul style="list-style-type: none"> EU spring production with mild winter condition forecast Trajectory and impact of El Nino conditions in affected supply regions

4. Key domestic market indicators

The monthly CPI indicator rose 4.3% in the 12 months to November with food and non-alcoholic beverages prices rises moderating to 4.6% from 4.9% in October. Within the food and non-alcoholic beverage category dairy continued to be one of the main contributors at 6.1% but falling further behind bread and cereal products at 8.3%. Cheese prices rose slightly between October and November while milk prices fell .



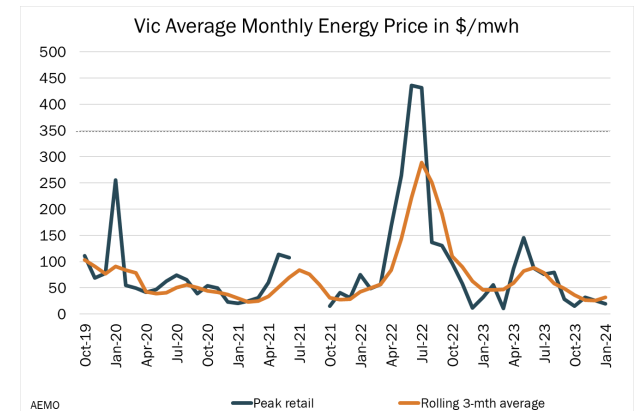
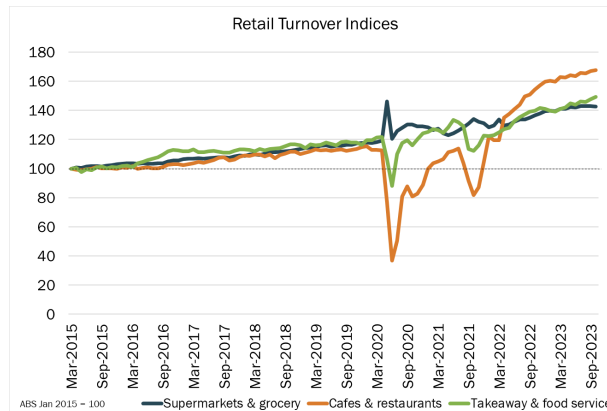
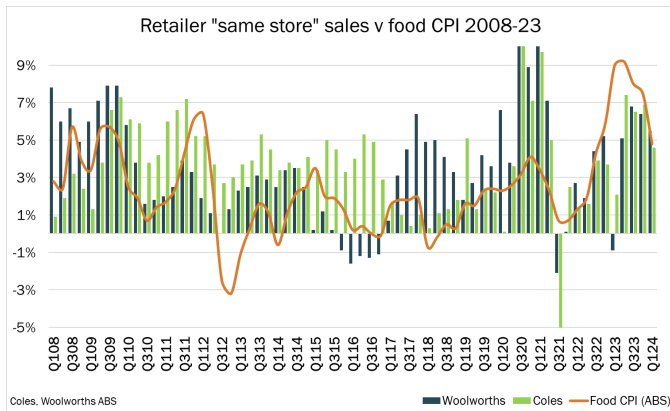
The Westpac-Melbourne Institute Index of Consumer Sentiment fell in January after improving in December. It is the most negative start to the year since the mid-90s as measured by the Index



Coles same store sales rose more than Woolworths' in the June quarter as food inflation continued to ease.

Supermarket turnover rose 0.8% month on month in October in seasonally adjusted terms, while cafes restaurants and takeaways turnover fell by 0.4% and 0.3% respectively.

Wholesale spot electricity prices bottomed in October before rising in November, the 3-month rolling average was slightly higher in January.



5. Australian outlook

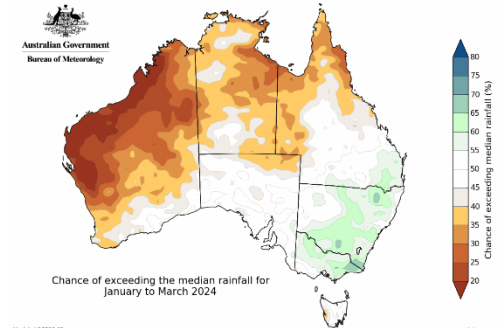
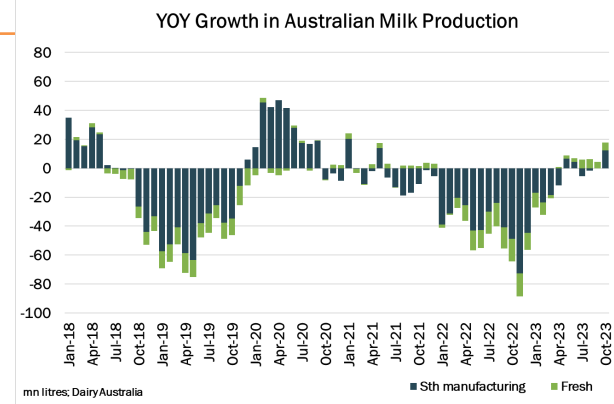
Critical issues

- Australia's milk output peaked 6% higher in November over last year's flood-affected production.
- Conditions have continued to be favorable in southern regions, although there have been flooding events in some regions. Overall conditions will support a year-on-year increase in milk output by about 5% in December and 2 to 4% in Q1-2024 without a sharp change to hot and dry weather.
- In these conditions, producers are under little pressure to reduce cow numbers with easing grain prices in recent weeks. At the same time, pre-emptive de-stocking following the El Niño declaration has increased supply, resulting in significantly lower cattle prices. Cow prices continue to be significantly weaker according to the MLA dairy cow indicator.
- Feed grain prices continue to gradually move lower towards \$350/t in the north of Victoria in late December according to Dairy Australia. This is due to the combined effects of weaker global prices and crop downgrades caused by widespread Eastern Australian rainfall.

Milk production

Outlook assumptions

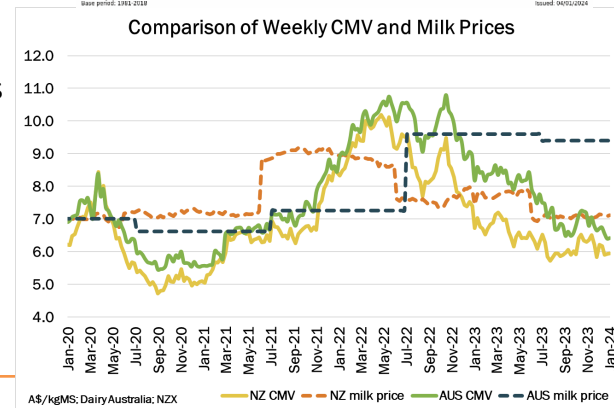
AUS milk and product output ('000t)			
	Milk	Cheese	SMP
2022	8,089	365	206
2023	8,122	400	164
YOY % changes			
2023	0.4%	9.4%	-20.7%
1H-23	-2.1%	15.4%	-35.4%
2H-23	2.4%	4.3%	-9.4%
2024	-0.1%	0.3%	5.9%
1H-24	1.3%	2.3%	12.7%
2H-24	-1.1%	-1.5%	2.2%



- The spot commodity milk value (CMV) based on NZ export Free on Board (FOB) prices ended the 2023 year at A\$5.94kgMS, after tracking sideways for much of the past quarter with small improvements in commodity prices offset by the stronger A\$. The A\$ has continued to steadily lift with higher relative domestic interest rates rises.
- Australian wholesale commodity prices steadied and, in some cases, firmed in the past month in line with NZ export prices, suggesting a spot milk value for the Australian Commodity Milk Value close to A\$6.40kgMS in late December and early January 2024.
- Current indicative regional farmgate milk prices can be monitored at the [Milk Value Portal](#).

Milk prices

- The projected CMV for the manufacturing pool in FY2024 has worsened to close to A\$7.15kgMS compared to A\$7.30kgMS projected in the December outlook.
- This assumes a season average exchange rate of A\$ = US66.2c.



5. Australian outlook

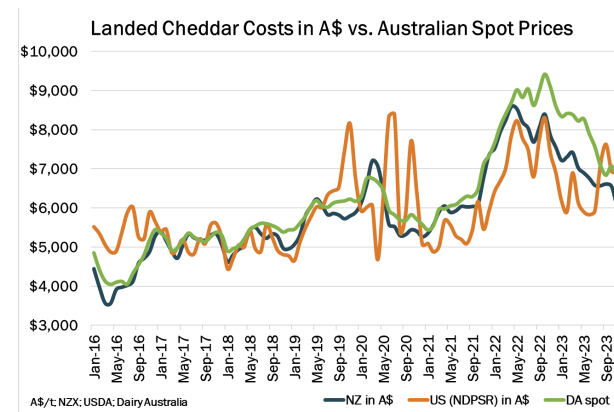
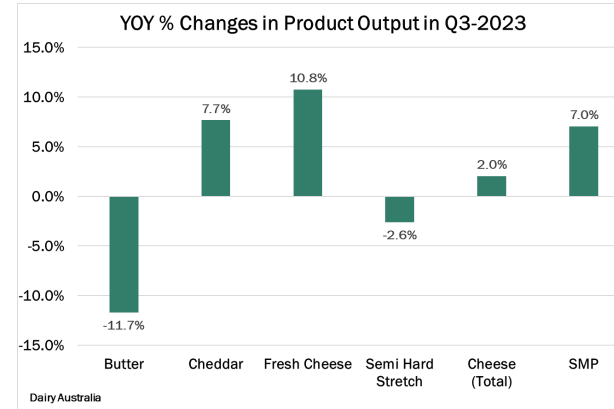
Critical issues

- Cheese production is being optimised where possible, while larger processors with the capacity and balance sheet will ride the acute margin pressure out.
- Rising local output is adding to pressure. Cheese output grew just 2% YOY in Q3-2023 but cheddar production lifted 8% and will be stronger in Q4-2023. SMP output lifted 7% which is likely due to support for cream production. By our estimates, cheese stocks are relatively high at the end 2023.
- Australian food retail sales growth over the Christmas period was reported stronger than prior years due to the timing of major holidays, which suggests weaker sales post-holiday.
- Spot commodity prices continued to move in close alignment with NZ export prices given the relatively abundant supplies of high-priced raw milk in Australia compared to high-returning market opportunities and weak Asian ingredient demand. Domestic cheddar prices remained steady despite pressure from falling import costs based on latest NZX and US NDPSR cheddar quotes, and a stronger A\$, which was near US68c.
- Domestic cheddar spot quotes in late December were about US\$300/t higher than the NZ export quote for cheddar (which is near the long-term average differential), keeping local cheddar prices above import parity.
- Improved GDT prices for AMF and butter will however take a little pressure off local fresh bulk cream prices, with substitution less attractive.

Outlook factors

- While inflation appears to have plateaued, it is not retreating quickly enough for the Reserve Bank. Interest rate rises have slowed, but are not off the table in 2024.
- Consumer sentiment remains fragile. Real household disposable incomes have declined for eight consecutive quarters, taking incomes back to December 2015 levels.
- The government is responding by turning the blow torch on food retailers. Food manufacturing output prices – a proxy for wholesale cost of food increased 0.7% in the 12 months to September while consumer prices rose 3.2% for the same period.
- This will in turn keep pressure on supplier, and with still high raw milk input costs, local dairy processors will remain under significant margin pressure.

Markets



Glossary and explanation of key terms

Acronym		Explanation
ACMV	Australian Wholesale Commodity Milk Value	The ACMV is calculated from Australian wholesale dairy product prices as distinct from spot export quotes used in the CMV
AMF	Anhydrous Milk Fat	Removal of water from cream or butter yielding 99.8% milk fat product used in preparing reconstituted product and in food processing
CME	Chicago Mercantile Exchange	US-based derivatives marketplace offering a range of futures and options products for risk management for agricultural commodities.
CMV	Commodity Milk Value	The CMV calculation utilises actual or forecast spot prices for major commodities (SMP, WMP, cheese and butter) converted to local currency and the average industry product mix to generate revenue estimate. Direct conversion, overhead costs and allowance for profit retention to generate an estimate of returns available to the relevant milk pool. The CMV is used as a useful forward indicator of how the global market might affect the farmgate and is tracked weekly here .
EU-27	European Union	European trading bloc including 27 member states
FMP	Farmgate Milk Price	The average FMP that is paid by processors in the southern exporting region of Australia (including southern NSW, Victoria, Tasmania and South Australia) is made up of the underlying commodity value of milk (CMV) and a value-add or premium that depends on the product and market mix of each processor. This includes fresh and other retail dairy products as well as higher value specialised dairy ingredients.
FOB	Free on Board	A shipment term used to indicate whether the buyer or seller is liable for goods that are damaged or destroyed during shipping
LatAm	Latin America	Mainly focused on major dairy producing and importing countries Argentina, Uruguay and Brazil.
MENA	Middle East and North Africa	
MS	Milk Solids	The protein and fat content of milk which is the basis of payments from processors to farm suppliers. According to Australia in 2019/20 the average Australian litre of milk comprised 4.15gms of fat (4.15%) and 3.45gms of protein (3.45%) and therefore was 7.60gms of milk solids (7.6%).
NDSPR		National Dairy Products Sales Report produced by the United States Department of Agriculture (USDA)
NFDM	Non-Fat Dry Milk	Shelf-stable milk powder derived from the evaporation and spray drying of skimmed milk. NFDM is defined by the US Code of Federal Regulations and is similar in composition to the more widely produced and traded skimmed milk powder at 34% protein.
NZ	New Zealand	

Glossary and explanation of key terms

Acronym		Explanation
OPEC	Organisation of the Petroleum Exporting Countries	OPEC is a permanent intergovernmental organization of 13 oil-exporting developing nations that coordinates and unifies the petroleum policies of its Member Countries.
PFV	Projected Fundamental Value	Ever.Ag Insight's forecast for the future value of commodities based on the expected market fundamentals of supply and demand
SGX	Singapore Exchange Ltd	Singaporean investment holding company that provides different services related to securities and derivatives trading and others. SGX and NZX formed a strategic partnership in 2022, agreeing to the listing of NZX's Global Dairy Derivatives contracts on SGX's trading and clearing platform
SMP	Skimmed Milk Powder	Shelf-stable milk powder derived from the evaporation and spray drying of skimmed milk. SMP is defined by the globally recognized Codex Alimentarius as comprising 34% protein and 1.5% milkfat.
US	United States of America	
WMP	Whole Milk Powder	Shelf-stable milk powder derived from the evaporation and spray drying of whole milk. SMP is defined by the globally recognized Codex Alimentarius as comprising 34% protein and a minimum 26% and less than 42% milkfat.