

Dairy Market Insights

First Quarter 2024

1. Summary

Expectations of more EU milk has dampened outlook

- The key change in global dairy market fundamentals over the past quarter has been the increased prospects for milk growth in the EU27. Wet conditions have hampered milk production in Ireland, but an outlook for above-average rainfall and warmer temperatures is likely to support pasture and milk growth in most major dairying regions within the bloc.
- As the prospect of European milk growth looms, the demand side of the dairy complex remains subdued. There were large powder volumes shipped as buyers took advantage of attractive prices in late 2023 and early 2024, with New Zealand exporters the major beneficiaries of the increased activity.
- However, the lift in buying activity is unlikely to continue with economic headwinds in SE Asia and China and the dramatic stock-build in the Middle East. Chinese economic settings are not rapidly improving. January and February food retail trade grew 5.7% YOY, the strongest expansion for several months, while indicators of commuting activity are positive. On the other hand, manufacturing activity picked up in March, but employment in the services sectors fell after Chinese New Year. In the absence of strong consumption-related stimulus to allay household financial insecurity, spending will remain muted.
- While importing activity is expected to slow, of more concern in terms of overall global market balance is domestic ingredient use within the EU and US. Milk powder demand will remain under pressure, with subdued end-use demand, including the challenges ahead in the chocolate market for manufacturers facing soaring cocoa costs. Butter and high-protein whey products remain the few bright spots in the EU and US consumer markets.
- The US market will continue to be volatile as milk supply shrinks marginally over the first half of 2024, reflecting low cow numbers. Softening domestic demand and insufficient export activity could keep short-term pricing under pressure ahead of new cheese capacity coming online in the second half of 2024. With cheese-rich foodservice sales still soft, there is a threat more US product will find its way onto the global market at low prices.
- The outlook for NZ milk production has also improved slightly, although a slight fall in 2024/25 milk production is still expected. Production of WMP and cheese is expected to increase, at the expense of butter and SMP.

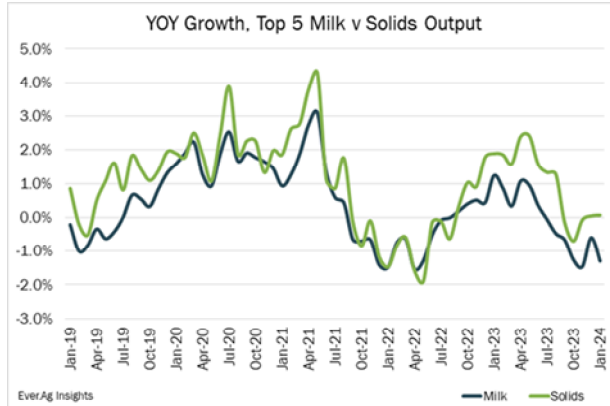
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What it means for Australian dairy

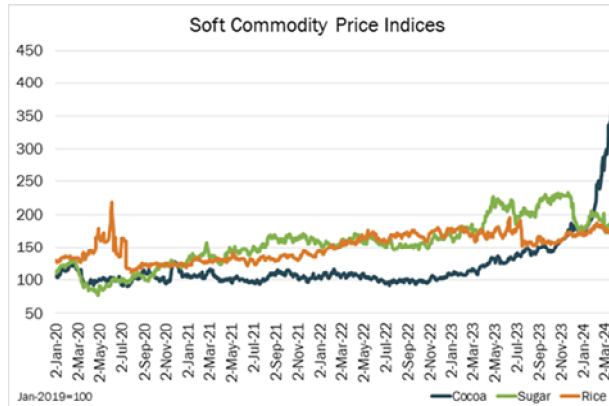
- The spot commodity milk value (CMV) has recovered over the March quarter, and stood at \$7.05kgMS at the end of the period. This compares with the end of March Australian Commodity Milk Value (ACMV) of \$7.37kgMS, based on domestic wholesale prices – about 30% less than the average southern region milk price.
- The gap between the two commodity milk values continues to narrow, with pressure from increasing domestic cheese and butterfat supply this season. Spot Oceania cheddar prices improved by 4% over the March quarter ending the month at US\$4,290/t. SMP and WMP prices improved through January and February but fell in March to US\$2,550/t and US\$3,160/t by the end of the month. Butter values have continued to strengthen in the first quarter of 2024, influenced by lower supplies on the GDT platform. Spot Oceania quotes finished March at US\$6,440/t.
- The Australian dollar has fallen almost 3 cents during the March quarter, with the “safe haven” status of the greenback and higher official US interest rates key drivers.
- International commodity prices are unlikely to recover significantly in 2024, indicating downside risk to current farmgate prices which are historically high compared to current and projected commodity milk values.
- Market fundamentals suggest there will be a retreat from this season’s southern region milk price of around \$9.40kgMS on a weighted average basis. While competition for milk supply might be slightly-less intense given current surplus product and lacklustre export returns, there will still be a race for strategic supply pools which can influence opening milk price outcomes.
- **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

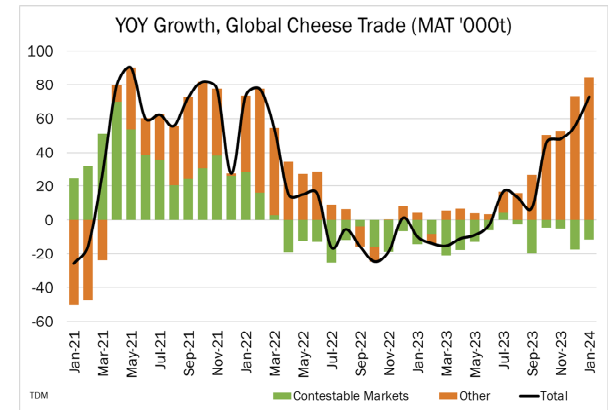
Milk solids continue to outpace volume growth, reflecting favourable pasture and feeding conditions.



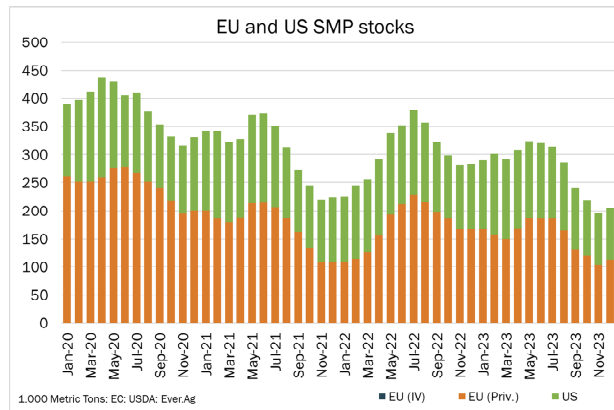
Cocoa spot prices have risen to extremes, and will flow through into confectionary prices in H2-24, impacting dairy ingredient demand.



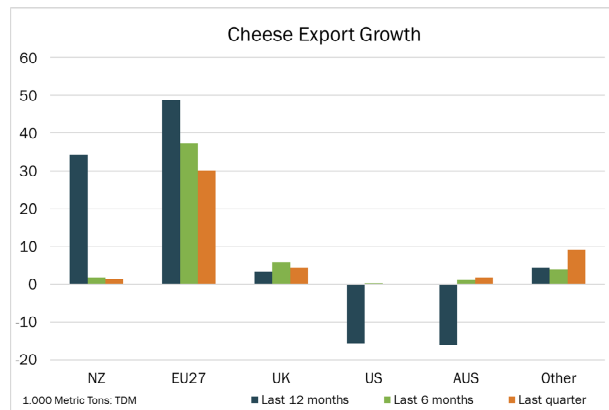
While global cheese trade has grown, trade with “contestable” cheese markets is down. Trade growth is into the US, Mexico, LatAm and within Europe.



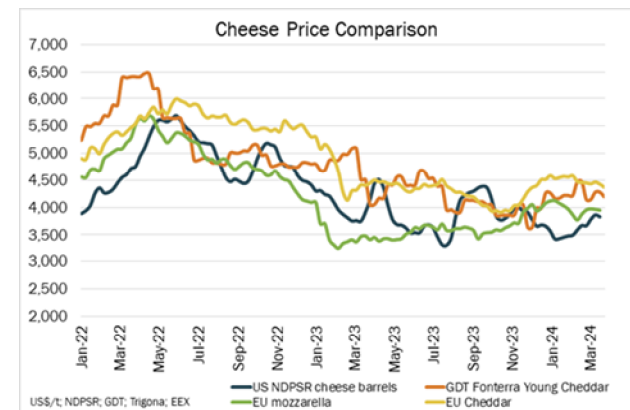
SMP stocks in Europe and the US are near multi-year lows with slowing milk output and steady cheese demand



EU-27 cheese exporters have won the greatest share of the growth in trade.



Cheese prices are converging again as each major exporter relies on trade to balance domestic markets

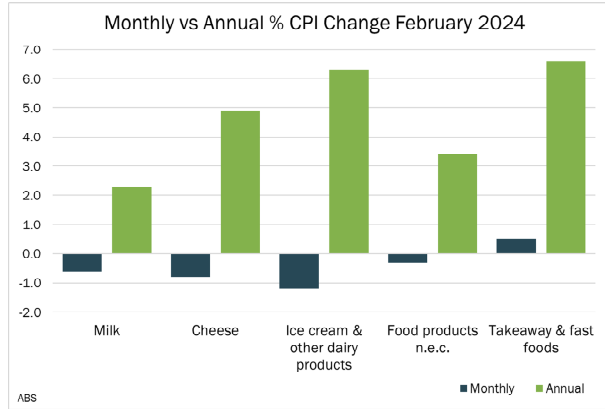
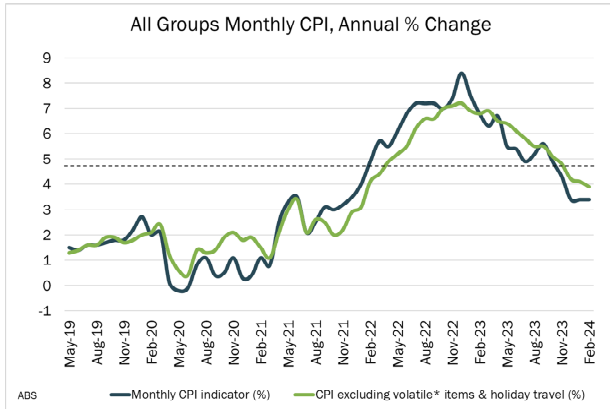


3. Major issues in the global market outlook

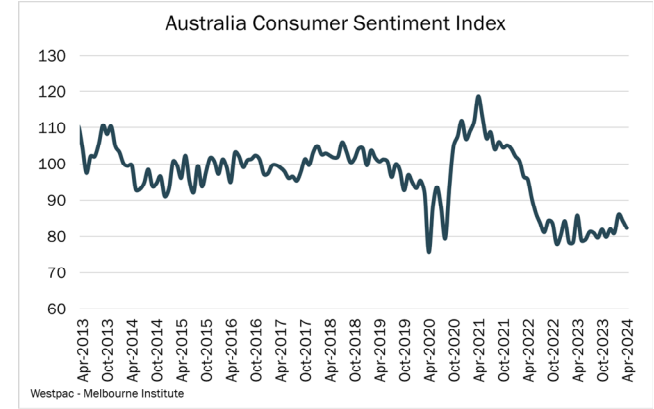
	Bullish (for prices)	Bearish	Uncertain
Demand	<ul style="list-style-type: none"> Improving short-term cream demand in the EU Improved MENA demand for WMP Improving food service demand for cheese in some developing regions Ongoing lacklustre Chinese demand for imported WMP with weak economic recovery Increasing demand for high protein whey products with roll out of weight loss drugs 	<ul style="list-style-type: none"> Reduced domestic ingredient demand within EU27 and the US Weak Chinese and SE Asia SMP demand Developing world butter demand is fragile Reduced scope for butter exports to EU, US and Australia Improved MENA and SE Asian trade in WMP Reduced demand for cheese-rich takeaway foods resulting from household 	<ul style="list-style-type: none"> Economic fallout from ongoing geopolitical conflicts Impact of increased cocoa prices on confectionery demand and response from confectionery manufacturers
Supply	<ul style="list-style-type: none"> Low SMP stocks in the US and EU-27 In the short term, butter is tight in Europe Growth in EU milk supply will likely increase SMP availability Weaker LatAm WMP exports with lower milk output and Brazil shortages 	<ul style="list-style-type: none"> Increased New Zealand SMP production as a result of shift away from WMP Increasing trade competition with exportable surpluses of cheese in Australia, EU and the US 	<ul style="list-style-type: none"> Impact of Avian flu outbreak in USA on milk production Trajectory and impact of possible El Niño to La Niña transition in affected supply regions

4. Domestic market indicators

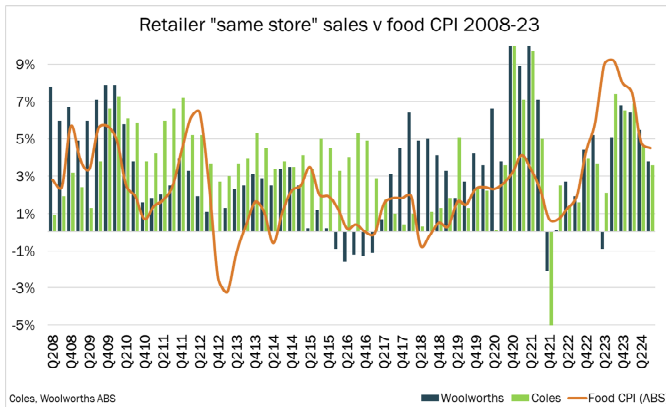
The annual CPI indicator **steadied at 3.4% in February**, the same as the prior two months. Food and non-alcoholic beverages price rises moderated to 3.6% for the year to February from the 4.4% reading the prior month 4.9%. Within the food and non-alcoholic beverage category, **dairy prices rose 4.2% in the 12 months to February**, now well behind bread and cereal products, which rose 7% for the period. **Cheese prices fell 0.8% between January and February**, but remain 4.9% up year-on-year.



The Westpac-Melbourne Institute Index of Consumer Sentiment **fell in March and April** after improving in February. Consumers remain pessimistic, although there are indications the **“cost-of-living” crisis has become less acute**.



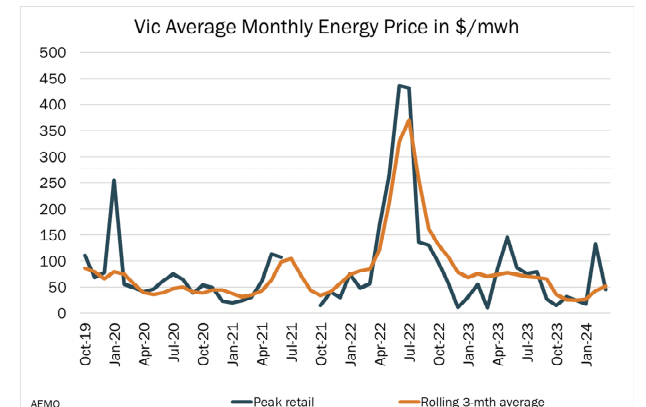
Same store or comparable sales for both Coles and Woolworths followed food prices lower in the December quarter, as **shoppers continued to focus on value buys**.



Food retailing turnover fell 0.1% between January and February (seasonally adjusted) while Café, Restaurant and Takeaway turnover edged 0.5% higher.



Wholesale spot electricity **spiked in February** lifting 3-month rolling average to March slightly to the highest reading for 6 months.



5. Australian outlook

Critical issues

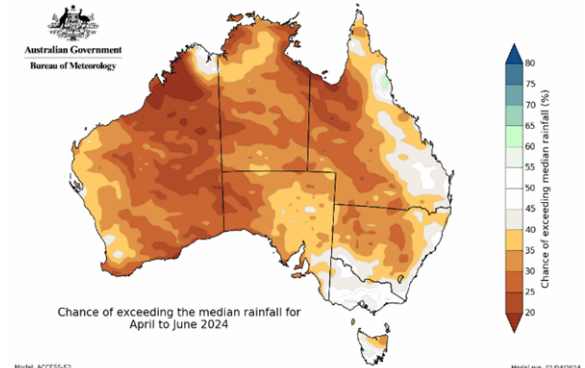
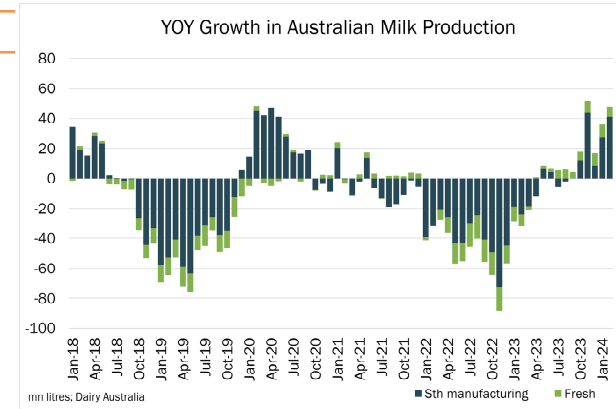
- The “El Niño that wasn’t” has delivered the third highest summer rainfall on record for such an event, but hotter March weather and a lack of rainfall rapidly dried soils.
- April rain has provided a “season break” for many. While there are no further water allocations for current season the Murray system low reliability water shares increased to 100% in March.
- Milk output grew 5% in February in leap-year adjusted terms and was actually 8.7% higher last year’s flood-affected production.
- Growth in March potentially slowed from this rate due to heat in some regions. Conditions continue to be favorable in southern regions and will support growth in the short-term.
- Grain prices continued to weaken, with Victorian feed wheat prices well under the 5-year average. Fodder prices are above average in some regions, but anecdotally fodder supplies on-farm are adequate.
- Cull cow prices rallied in January but have since retreated, reducing the incentive to trim herds.
- Our FY2024 production forecast for an increase of 2-3%, to near 8.3bn litres, is unchanged.

Milk production

Outlook assumptions

AUS milk and product output ('000t)			
	Milk	Cheese	SMP
2022	8,089	365	206
2023	8,105	370	153

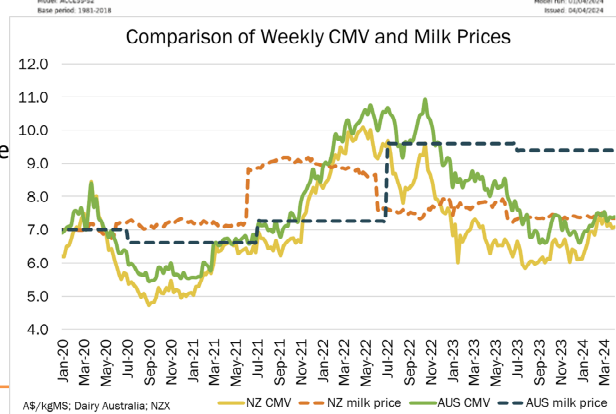
YOY % changes			
2023	0.2%	1.2%	-25.7%
1H-23	-2.1%	5.8%	-35.4%
2H-23	2.1%	-2.8%	-18.3%
2024	0.5%	6.4%	15.9%
1H-24	2.6%	13.6%	16.4%
2H-24	-1.1%	-0.3%	15.6%



- Australian spot commodity milk value (ACMV) was A\$7.37kgMS in the last week of March, 4.5% higher than the Oceania export CMV based on NZ export FOB prices, at A\$7.05kgMS.
- Spot commodity prices in the domestic market are now moving in lockstep with New Zealand export prices given the abundant supplies of raw milk in the Australian market.
- Current indicative regional farmgate milk prices can be monitored at the [Milk Value Portal](#).

Milk prices

- The commodity price outlook kept our full season FY2024 estimate of the CMV using Australian commodity prices relatively steady, at \$7.90kgMS, assuming average exchange rate of A\$1=US66c.
- The current FY2025 range estimate for CMV is in the range \$7.90-8.30kgMS and has weakened in recent months.



5. Australian outlook

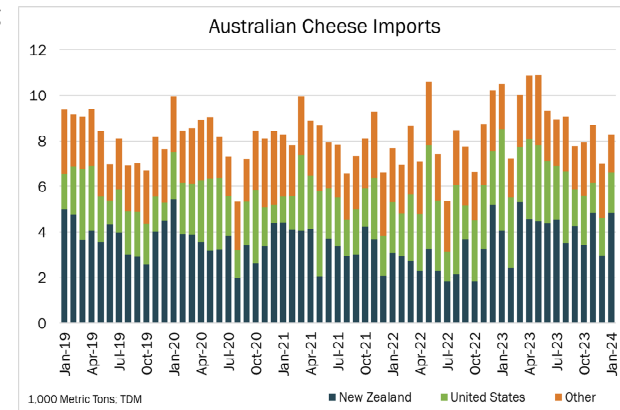
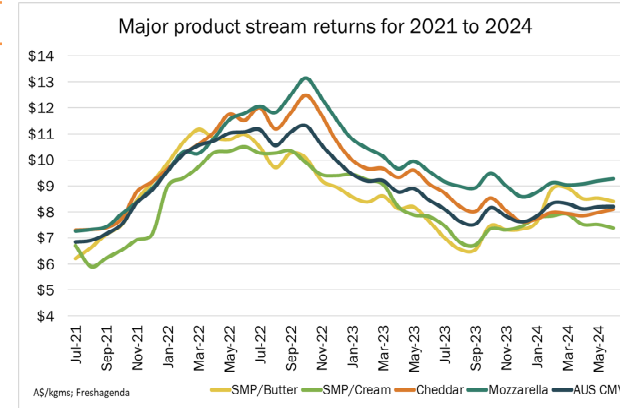
Markets

Critical issues

- Dairy Australia reported a small increase in cheese output for July to December 2023 (the latest published), which may not be accurate based on milk collections and the anecdotal build in stocks.
- Cheese continues to offer better stream returns as well as better stability compared to fragile SMP/fats options.
- Bulk cream spot prices rebounded after crashing to near \$6kgBF equivalent in Q1-24 as supplies have tightened again. Current spot prices are A\$9.50-\$10.00kgBF, although there is limited trade happening at present. Butter availability has tightened, with little surplus cream churned in recent months.
- Higher domestic availability has slowed cheese and butter imports and will likely sustain those trends while milk collections sustain growth and export markets remain subdued.
- The “cost-of-living” crisis continues to impact demand, with recent retail sales data indicating dairy sales volumes are slightly down or flat. Cheese volumes were up 1% for the year to 28 January, while yogurt was up 6%.
- Sales value is up YOY with price increases but will come under pressure if farmgate prices are lowered in 2024/25, given the government and media scrutiny being applied to major supermarkets.
- Consumer sentiment remains in pessimistic territory, with cuts in interest rates still distant on the horizon. “Cost-of-living” crisis continues to dominate the news cycle, although some consumer surveys suggest the “crisis” has become less acute.

Outlook factors

- Local SMP prices are likely to come under increasing pressure, given improving European spring production and sustained higher NZ availability.
- Increased US cheese capacity in the second half of 2024 may increase competition from imports.
- Although there continues to be signs inflation has peaked, it is not forecast to return to the Reserve Bank’s target range until 2025.
- While the price of many goods have ease, services price inflation remains high and broadly based. This strength has been because of continued pressure from the level of demand exceeding supply alongside strong growth in domestic costs.
- In general, businesses continue to face pressure from higher labour and non-labour costs like professional services, logistics and insurance.
- For dairy manufacturers in particular, margins are likely to remain under pressure in 2024/25, even if raw milk prices ease with the new season.
- While competition may still bid milk prices higher than market fundamentals suggest, pressure from supermarkets is also likely to intensify in coming months, with any reduction in input prices passed onto shoppers.



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	Freshagenda'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.