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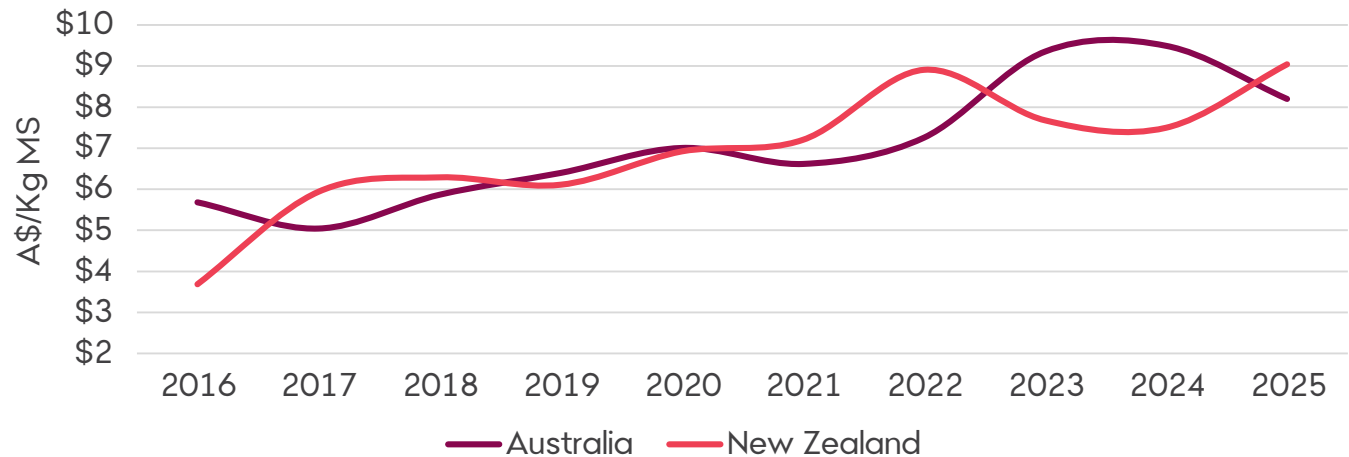
Key Watchpoints – February

- Will ongoing strength in global prices pressure processors to announce further step ups?
- Local production is faltering as dry conditions spread in southern producing regions.
- Tightening global supply will continue to support international dairy prices.

Will processors be pressured to step up?

With global prices continuing to rally, there are growing calls for processors to lift farmgate prices. The Global Dairy Trade (GDT) Price Index continues to lift and now sits 17 per cent higher than when opening prices were set. A round of step ups from major processors late last year resulted in the average southern farmgate price lift from \$8.10 to \$8.20/kg MS, still 14 per cent lower than last season. Across the ditch, Fonterra has responded to improved global prices by lifting their forecast payout to New Zealand producers 25 per cent from opening at around NZD\$8.00/kg MS to NZD\$10.00/kg MS. With local supply starting to feel the effects of dry weather, the likelihood of increased year-on-year production is at risk. With Australian production remaining low for the foreseeable future and global dairy prices continuing to lift, there isn't much of a case for reducing farmgate prices in the coming season. But it's yet to be seen whether processors will respond to improved margins by announcing further step ups this season.

Australia v New Zealand Farmgate Prices



Source: Bendigo Bank, Fonterra

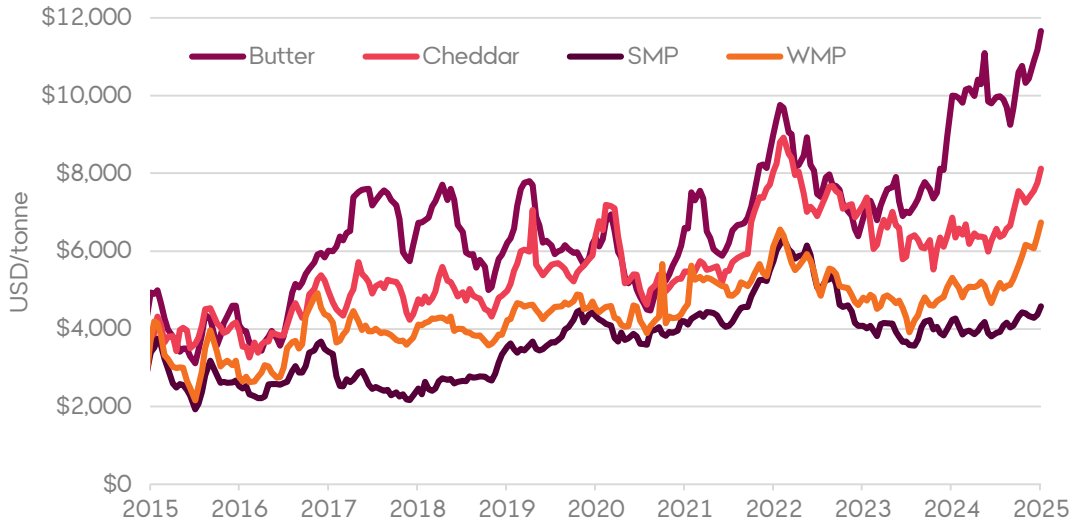


Poor global production to remain a key price driver...

Global dairy prices have continued their strong run of form with the Global Dairy Trade (GDT) Price Index hitting an 18-month high. All products made gains, but consecutive gains in the past two trading events for both whole (WMP) and skim (SMP) milk powders was notable. A key driver of higher prices has been reduced volumes available for purchase. With Australian and New Zealand production coming out of peak production, and US milk production continuing to post lower year-on-year production, supply is tightening. Uncertainty surrounding US tariffs on Canada and Mexico has also played a role with South America the major buyer of Anhydrous milkfat (AMF), while the Middle East preparing for Ramadan supported WMP and butter prices.

While demand isn't shooting the lights out, global supply is falling behind as countries gradually recover from high inflationary environments. This gap is unlikely to narrow in the medium term so downside to global pricing will be limited. Some volatility is expected as buyers back off should prices spike, but the outlook is positive for global dairy prices to maintain above average levels.

Global dairy prices

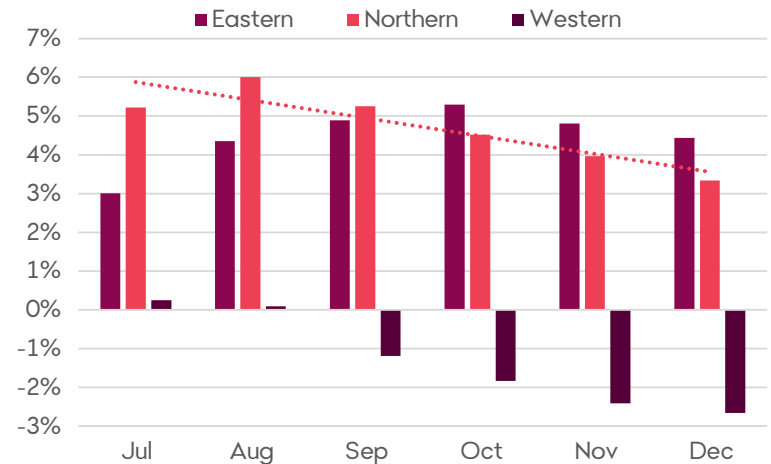


Source: GDT

Dry weather takes its toll

December marked the first month this season to record lower year-on-year national milk production, with 799 million litres a one per cent decline on December 2024. This leaves season-to-date milk production one per cent ahead of this time last year at 4.66 billion litres. All states recorded lower year-on-year output, though results at a national level would have been worse if not for Victoria holding comparatively steady at -0.2 per cent. The effects of deteriorating seasonal conditions are best exemplified by scrutinising Victoria's regions. Drought conditions saw Western Victorian production start off on the back foot and only recorded higher year-on-year production in July and August before falling behind. More favourable conditions in Gippsland have Eastern region monthly production averaging 4.5 per cent higher year-on-year. Increased year-on-year production in the Northern region has been maintained, but ongoing dry conditions are whittling that away, with season to date production now just over three per cent higher compared to six per cent in August. With dry conditions persisting in Victoria through summer, it's likely this trend of lower year-on-year production will accelerate through January and February.

Vic year-on-year production





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