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Key Watchpoints – March

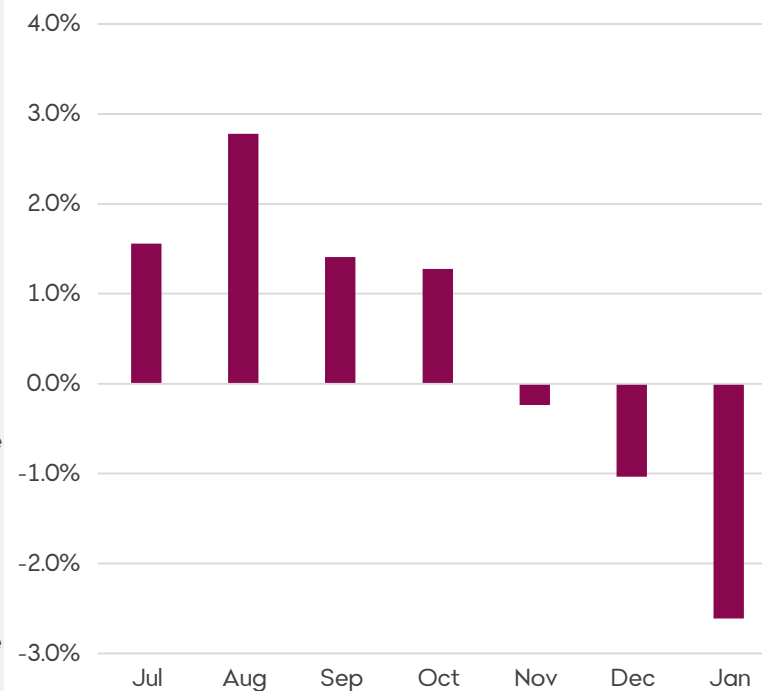
- Australian milk production continues to flag with full season milk output estimated at 8.3 billion litres.
- Global dairy prices find a bearish tone, but fundamentals remain supportive to maintain prices at current levels.
- Industry contraction continues as more processor closures announced.

January Australian milk output plunges

Australian produced 708 million litres of milk in January, down 2.6 per cent on last year and 2.7 per cent below average. New South Wales was the only state to record higher milk production year-on-year, while Victoria produced 3.6 per cent less milk than January 2024. National season to date production of 5.37 billion litres is now almost equal to last season's 5.35 billion litres. Our initial full season estimate of 8.5 billion litres is now looking unlikely as it would require monthly production for the last five months of the season to exceed both last year and the five-year average.

Monthly production similar to last year for Feb-Jun would put current season production around 8.4 billion litres. While there is a clear trend of declining production from a promising start, output is expected to stabilise relative to last season in coming months. Should monthly totals remain 2.5 to 3.0 per cent below last year, full season production would finish around 8.3 billion litres. Weather outlooks are relatively neutral through to June so there is little likelihood of a rebound in production for the rest of the season.

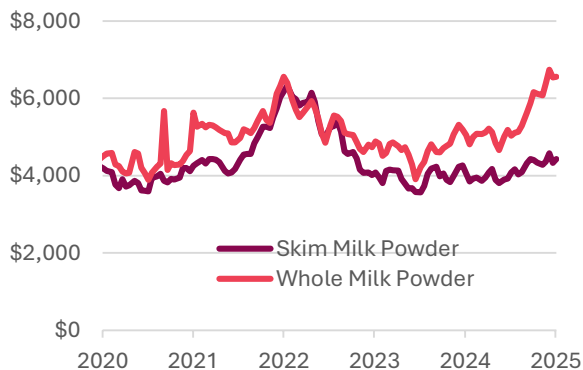
Australian year-on-year milk production



Source: Dairy Australia



Global Milk Powder Prices



Source: Global Dairy Trade

Global Dairy Prices

Bearish sentiment has seen the Global Dairy Trade (GDT) Index ease 0.5 per cent in both of the past two trade events. Uncertainty relating to tariff wars and weakness in broader markets played a role, but butter prices hitting a record high in the most recent event prevented further losses.

Dairy markets will be closely watching Mexico's response to US tariffs given they account for around 38 per cent of US cheese exports. China has also responded by imposing a 10 per cent tariff on certain US dairy products amongst other commodities.

At this stage the impacts on Australian dairy exports will be minimal, but as we've seen developments can be rapid and unexpected, so it's a close watch.



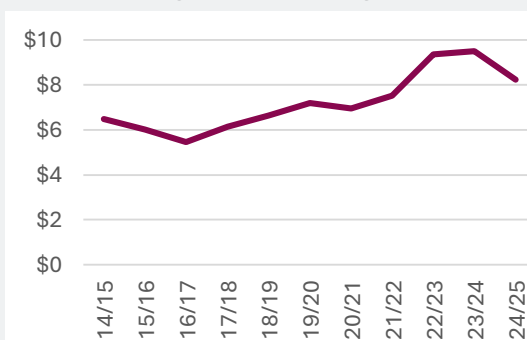
More processor closures

Ferraro Dairy Foods and Nepean River Dairy are the latest processors to go under, being placed into administration in February. They join Beston Global Foods which is currently in the process of liquidation, and about a dozen other processing companies or plants that have gone under, been sold or faced crippling losses in the past two years.

The Australian Dairy Products Federation cited increased cheap imported products placing pressure on local processors. Consumers are opting for cheaper imported products in response to cost-of-living pressures. Higher global prices have improved margins for processors this season compared to last, but domestic focused processors are still facing stiff competition from cheaper imports.

The reshaping of the Australian dairy industry will likely continue to claim victims as processors adjust to the new lower production environment.

Avg Southern Farmgate Price



Farmgate price step-ups

Bulla is the latest processor to announce a step-up after Fonterra, Bega and Saputo lifted prices 15 cents in December. Following a price review in mid-February, Bulla delivered a 20 cent per kilogram milk solids step-up to an average of \$8.65/kg MS, to be paid retrospectively on milk supplied this season.

Bulla's production of cream and ice-cream for both domestic and international markets rely on butterfats which are sitting near record highs and have been a major driver of strength in the global dairy trade index.

We're not expecting any more material step-ups this season. With expectations new season farmgate will lift on this season, processors will be reluctant to move from current levels.

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