Dairy

February Monthly Update

Bendigo Bank Agribusiness

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Key Watchpoints – February

- Prices rise on the GlobalDairyTrade platform as NZ volumes offered pull back in line with seasonal trends, but global supply remains strong.
- Recent market uptick will help Australian product stay competitive considering tighter supply and ease the squeeze on processing margins.
- Australian milk production increased marginally in December, but dry conditions, higher input costs and smaller herds are ongoing constraints.

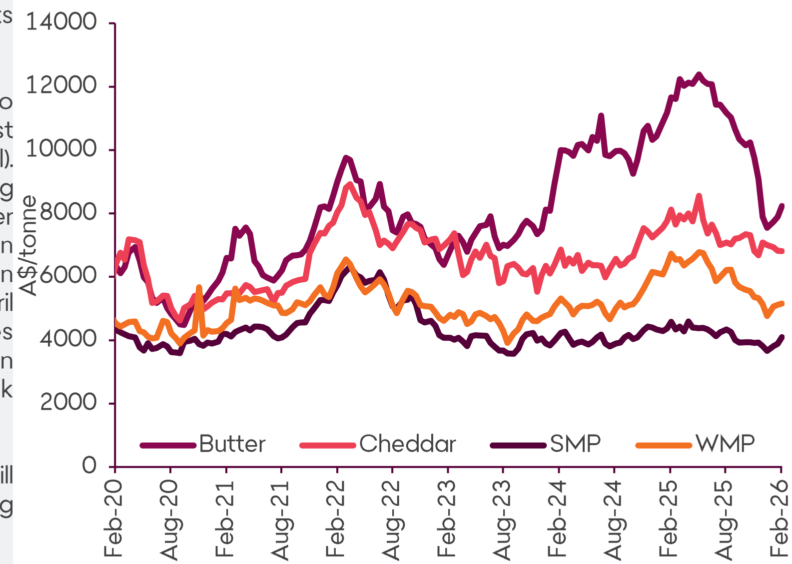
Export prices rise

December to January is usually a quiet and uneventful time for dairy markets, but this year seems to be an exception. The global trade environment remains as uncertain as ever, with the US striking Venezuela, talks of invading Greenland, renewed tensions between the US and Europe, and China's announcement of new provisional tariffs on select EU dairy products. Furthermore, the run of price declines on the GlobalDairyTrade (GDT) platform halted at the first event of the year, as buyers in key markets try to stock up before NZ offers tighten further. Back home, Australian milk production increased for the first time in 9 months in December. The question remains: do these market shifts suggest sustained improvement or are they part of a blip?

Global milk production continues to go from strength to strength, which will ultimately limit the support that robust demand can provide to export prices (all else being equal). Milk flows in the US hit a historical high in 2025, producing about 231,000 million pounds (or 105 billion litres), after finishing the year up 4.4 per cent year-on-year (YOY) in December (thanks to a much larger national herd). In Europe, milk production has consistently grown since April 2025, with no signs of slowing just yet and the latest figures in NZ show production increased 2.5 per cent YOY in December (on a tonnage basis), with the country on track for a strong season.

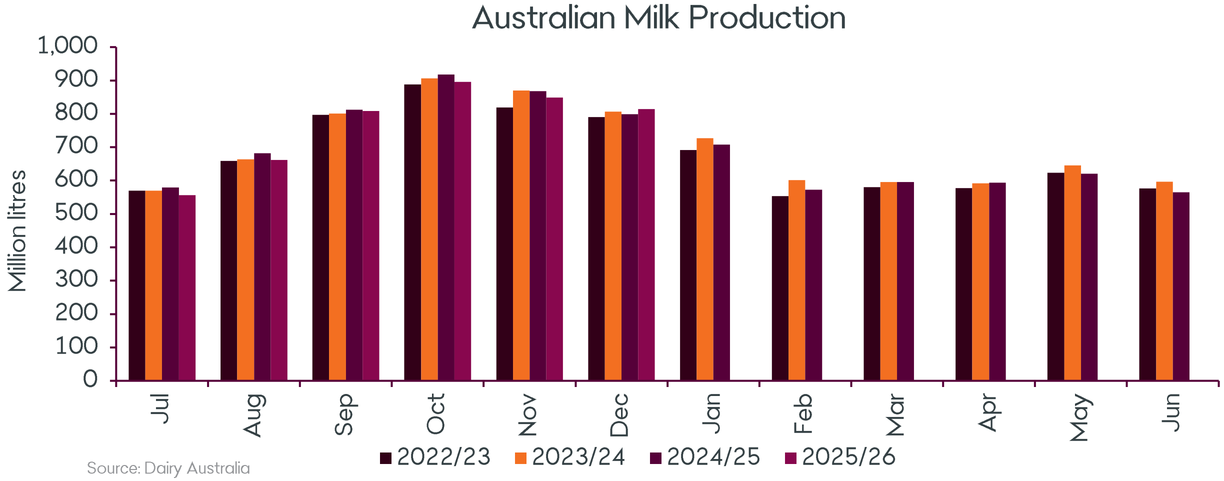
Nonetheless, there are expectations that prices will continue to increase on GDT events over the coming months, as NZ volumes decrease in line with seasonal trends, buyers look to replenish stocks following recent major holidays, and book orders before prices rise further. However, hand-to-mouth importing will only help support export values for so long and will likely pull back as prices move higher. It's also worth mentioning global unrest still holds the potential to tip the scales; buyers may stock up in anticipation of supply chain challenges which would help outweigh the pressure of abundant global production. In the meantime, the recent market uptick will help Australia's product maintain competitiveness considering our tight supply and ease some of the squeeze on this season's processing margins.

GlobalDairyTrade (GDT) average prices

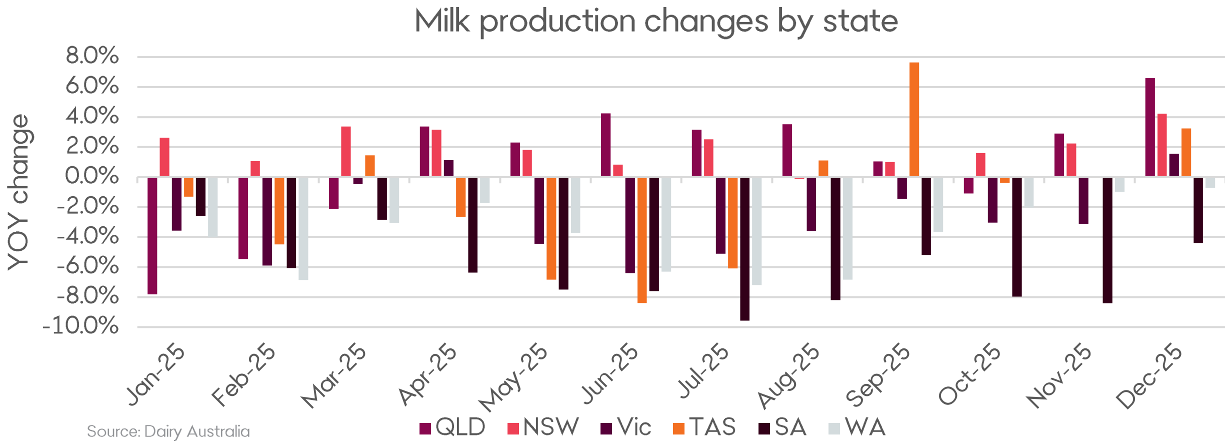


Source: GDT

Monthly Commodity Insights



Source: Dairy Australia



Source: Dairy Australia

Milk production improves?

While Australian milk production increased in December (+1.8% YOY), the underlying challenges suggest it is more likely a symptom of the favourable end to spring rather than marking a turning point.

The rainfall many southern regions received as temperatures started to warm up helped support pastures and homegrown feed production. Victorian milk production has risen in response during December (+1.6 per cent YOY), showing increases across all three dairying regions. However, milk volumes in Australia's largest producing state remain -2.4 per cent on a season to date basis, outweighing the growth we continue to see in NSW, Queensland and Tasmania. Additionally, milk volumes remain below last season in SA and WA (-7.2 per cent and -3.5 per cent, respectively, on a season to date basis).

While dry conditions substantially impacted production in the second half of last season, weather conditions will need to consistently improve in the coming months to stabilise production. Herds are smaller in some regions and water constraints remain prevalent in terms of both rainfall and higher irrigation costs. The latter may also pressure fodder prices; while many farmers were able to replenish stored homegrown feed late last year, continued hot and dry weather would see these stores worked through quicker, increasing vulnerability to the purchased feed market. Fertiliser prices will also likely remain volatile, depending on how further conflict in the Middle East unfolds.

All in all, while the recent rise in milk flows may help lessen the extent that this season's milk pool eases, volumes are still on track to end 2025/26 1 to 2 per cent below last season.