Dairy

June Monthly Update

Bendigo Bank Agribusiness

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Key Watchpoints – June

- Opening farmgate prices averaging around $8.80/kg MS have disappointed producers.
- Prices are expected to lift through the season, but current offerings do little to encourage industry growth.
- New season production is forecast to see a third consecutive annual decline, with early estimates between 8.2-8.1 billion litres.

2025/26 milk supply to fall further

April milk production of 594 million litres brings season-to-date volumes to 7.12 billion litres, on par with last year's 7.13 billion litres for the same period.

Average production in the last two months of the season would see 2024/25 finish level with last season on 8.37 billion litres, while a 5 per cent drop would see full season production at 8.30 billion litres. We expect the final result to be somewhere between these two numbers, which will mean a marginal decline on last season's 8.376 billion litres.

Looking ahead to 2025/26, we anticipate production to continue to shrink. Season to date production in 2024/25 has been aided by improved year-on-year supply in the early months before drought conditions took hold at the start of the calendar year.

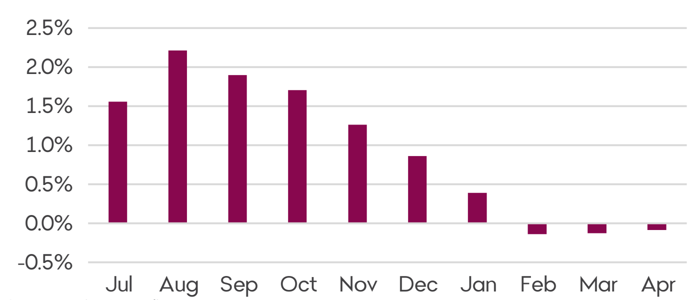
The upcoming season will be starting on the back foot with volumes already under pressure from lower herd numbers, cost of production hikes and ongoing weather challenges. This will likely see national milk production lower in 2025/26 compared to the current season. We forecast a 2-3 per cent decline, putting our new season forecast at around 8.2 billion litres, with the possibility of falling as low as 8.1 billion litres if adverse seasonal conditions are sustained.

Global dairy prices flatten out

In what could be considered unfortunate timing given opening farmgate price announcements, global dairy prices have eased in the past two Global Dairy Trade (GDT) events. Northern hemisphere production is coming into season with peak supply typically in June which has eased some supply pressure. But pricing seems to be the main driver of demand with buyers backing off after consecutive price lifts.

The fundamentals supporting global dairy prices remain in place. US milk supply is gradually recovering, but EU deliveries continue to lag last year. Australian and New Zealand supply are in the seasonal flat supply period, so global supply remains constrained. Demand continues to outpace supply, particularly for butter and anhydrous milk fats which is supporting global prices. Our outlook is for global dairy prices to remain supported in coming months despite recent softening.

Australian cumulative year-on-year milk production



Source: Dairy Australia

Opening farmgate prices 'disappointing'

Opening farmgate milk prices have been announced for the 2025/26 season, and it's fair to say the response from dairy farmers has been one of disappointment.

The average offering from major processors is around $8.81/kg MS, 9 per cent (70 cents) above last season's open, and roughly 7 per cent (55-60 cents) above last season's likely closing prices.

The Global Dairy Trade (GDT) Index has lifted roughly 24 per cent since 2024, and the Commodity Milk Value Index (an indicator based on the spot price of various major dairy commodities) Index has lifted around 33 per cent.

Farmers and advocacy groups point out the disparity between lifts in export values compared to farmgate price offerings. They also call attention to the significant impact of drought and flooding many producers are contending with. We do anticipate 2025/26 average farmgate milk prices will hit the $9.00/kg MS mark at some point this season, but many are disappointed prices didn't open there.

What's the fallout?

Taking a broader view, current opening farmgate prices don't look sufficient to arrest the contraction of the dairy industry in Australia. Producers were already facing significant pressure on cash flow from elevated input costs which has been exacerbated by adverse weather. Around 60 per cent of all Australian dairy farms are estimated to be impacted by either drought or flooding, placing further pressure on production and expenses.

Putting aside seasonal impacts, current farmgate price indications aren't seen as sufficient to encourage or support efforts to increase production. Indeed, there are likely to be further farmer exits – whether forced or voluntary – as a result of hardship many in the industry are facing. This is evidenced by reported sentiment in Dairy Australia's National Dairy Farmer Survey (NDFS) indicating a significant decline in farmers' confidence about the future of the industry. The NDFS also reveals a reduction in farmers intending to expand their operations, and business positivity is at its lowest point in five years. Sentiment can undoubtedly be attributed to trying seasonal conditions, but financial strain plays a significant role.

Processors have their own challenges – product mix means it's not as simple as pointing to global pricing as a determinant of local pricing. Processors face elevated supply chain costs, pressure from retailers and competition from imports. Some processors have pointed to other methods of supporting producers such as assisting with procurement of feed or inputs, front ending payments or supplier partnership programs. While these are admirable and show an attempt to assist, some of these measures are temporary or not sustainable. And more to the point, they don't get to the heart of the issue which is diminishing ability for producers to run a productive and profitable business.

It would be oversimplistic to assume that higher farmgate prices are the panacea to all of the Australian dairy industry's woes. But current offerings are unlikely to ease pressure on farmers' margin stress or ability to lift production. We expect 2025/26 farmgate prices to lift above $9.00/kg MS through the course of the season. But we also anticipate reduced production, further farmer exits and reduced production in the coming season.

2025/26 Opening Farmgate Prices

Processor	Min	Max	Average	Change from 24/25 Close
Bega	$8.70	$9.12	$8.91	8.7%
Fonterra	$8.60	$8.60	$8.60	3.0%
Saputo	$8.80	$8.95	$8.88	6.0%
Bulla	$8.40	$9.20	$8.80	6.7%
ACM	$8.85	$8.85	$8.85	10.6%
Burra	$8.60	$9.10	$8.85	6.0%
			$8.81	6.8%