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### Key Watchpoints – October

- Australian milk production is already lagging last season heading into peak production period.
- US milk production is improving which is likely to weigh on global dairy prices.
- Lactalis' acquisition of Fonterra's Australian assets is all but approved, though consternation remains around the impact on competition and infrastructure.

### Aus. milk production falling....

Australian milk production finished the 24/25 season on 8.31 billion litres, down 0.7 per cent on the previous season and 1.6 per cent below average.

Of greater concern are the poor production figures in the first two months of the new season. National milk production in July and August were down 3.9 and 3.0 per cent respectively on last year, with season to date production 3.4 per cent below last season.

This result isn't surprising given a reduced herd as a result of trying conditions in southern producing regions over the past year. While July saw good rainfall in key dairy regions, August and September have been relatively dry and soil moisture remains an issue. While the outlook suggests a wet spring, feed shortages will likely persist through peak production period.

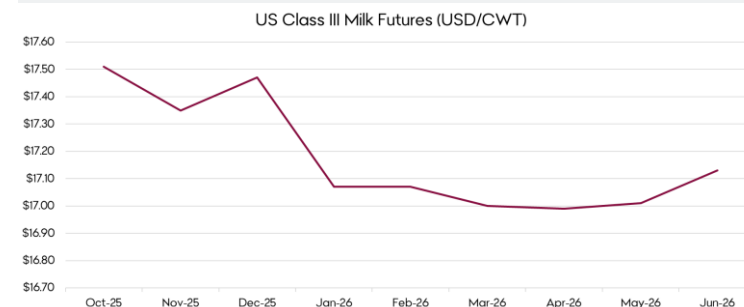
Even with grain harvest coming up and improved pasture growth should climatic conditions improve, production will face an uphill battle to exceed last season given reduced herd numbers.

Current season production to date of 1.22 billion litres is 0.9 per cent below 22/23, when full season production was a 30-year low 8.127 billion litres. Our initial estimate for 25/26 production was a range of 8.2 - 8.1 billion litres, and with a slow start to the season it's looking likely to be at the lower end of that range.

### While US milk production surges

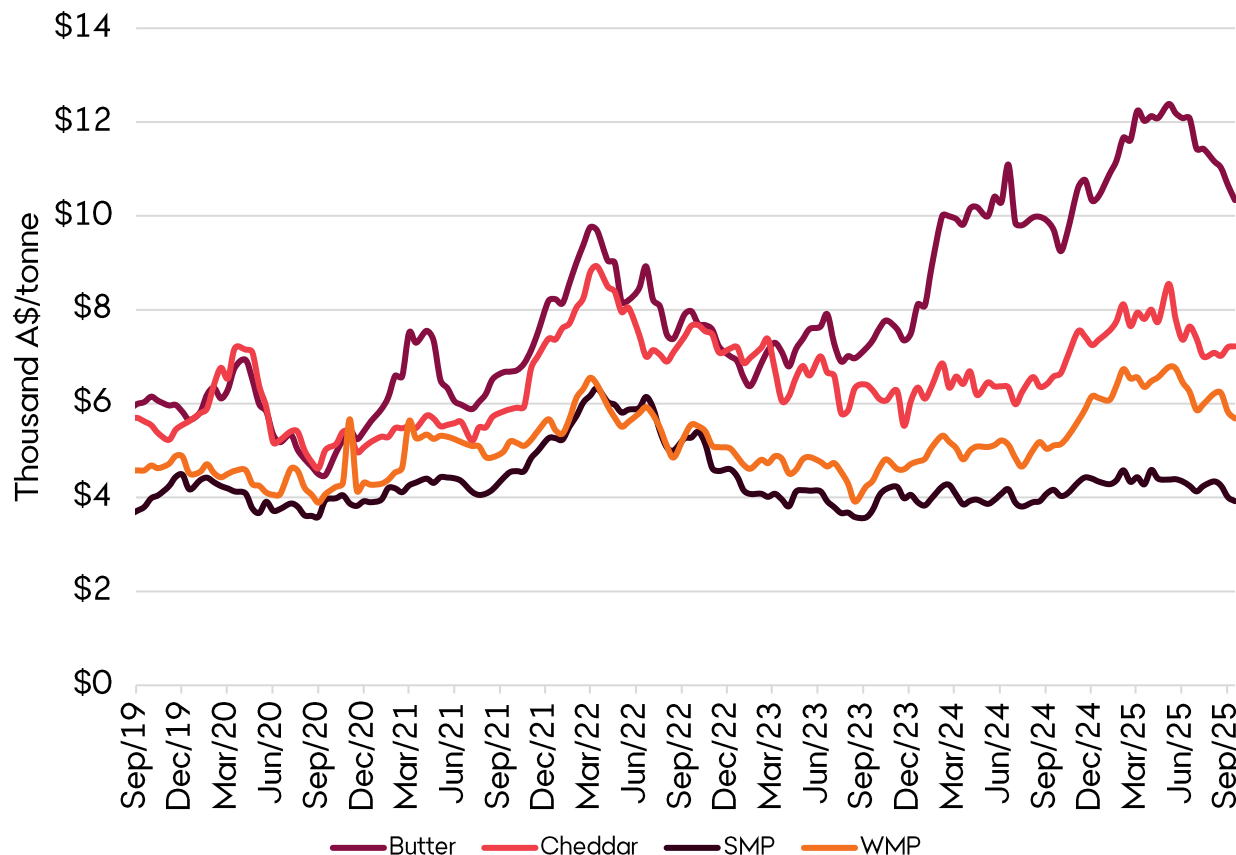
While Australian milk production is flagging, US milk production is lifting following a period of stagnation. United States Department of Agriculture (USDA) reports show July and August milk production lifted 4.2 and 3.2 per cent respectively compared to last year. This comes on the back of a growing US dairy herd, up 1.9 per cent in August to 9.08 million head, the largest herd in close to 30 years.

This rebounding supply is having an impact on both US and global pricing. US Class III milk futures fell below US\$17 for the first time in over a year, and forward contracts point towards lower prices as US production improves. While other factors play a part, global butter prices have eased from record highs reached in June, and cheese prices are down 13 per cent over the same period. Robust demand is supporting global pricing for the time being, but flat global supply has been a supportive factor for dairy pricing over the past year. Should global production continue to lift, we expect to see global dairy pricing soften as a result.



Source: USDA

## Global Dairy Prices



Source: Global Dairy Trade

## Lactalis quiet on intentions

Lactalis have been confirmed as the winning bidder for Fonterra's Australian assets in a \$3.46 billion deal. As well as four Victorian factories, consumer brands including Mainland, Anchor, Western Star butter and Perfect Italiano cheese will change hands as part of the deal.

In an addendum, Fonterra announced the Bega licences held by their Australian business will be included in the divestment, with Lactalis paying an additional NZ\$375 million for them. This essentially maintains the status quo with regard to the licences with Lactalis to continue operation of Bega branded products in Australia.

The response from the Australian dairy industry has been mixed, with many expressing concerns about Lactalis' intentions, particularly with regard to manufacturing facilities. Lactalis already acquire, process and supply a range of products in Victoria and Tasmania. This leads to questions over potential rationalisation of processing facilities resulting in job losses, and reduced competition to secure supply seeing pressure on farmgate prices and weakening bargaining power for producers.

While the deal is not completely finalised – regulatory approval must be provided, and Fonterra's shareholders will vote in a meeting scheduled for this month – these are expected to be cleared without issue. Fonterra claims it will be 'business as usual' for their suppliers, but Lactalis has remained tight lipped as to their future plans in the Australian market with Fonterra's assets.

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