



Rabobank

*Media release
October 1, 2014*

Dairy enters protracted bear market – Rabobank

International dairy prices are now well below levels that will be sustainable in the medium term, however all signs suggest a prolonged period of low prices will be required in order to soak up the current global market surplus, according to Rabobank in its latest **Dairy Quarterly** report.

The report, released this week, indicates the orderly decline in global dairy prices that became evident in the second quarter of 2014 well and truly set in during the third quarter of the year.

According to Rabobank director of Dairy Research New Zealand and Asia Hayley Moynihan, milk production has continued to expand strongly in global export regions, while China has pulled back from buying on the international market as it concentrates on digesting stock accumulated in early 2014, with other import buyers proving unable to take up the slack.

“However, while a bottom appears to have been reached for New Zealand and Australian export prices, market rebalancing will be a slow process and price recovery looks some way off,” Ms Moynihan said.

Impact for New Zealand

Achieving 2014/15 New Zealand milk price forecasts remains challenging without an earlier-than-expected commodity price recovery, a lower NZD/USD exchange rate or both, the report says.

An ongoing bear market may also see opening 2015/16 milk prices below the historical five-year average level, the Rabobank report cautions. However, Ms Moynihan says, the medium-term outlook for dairy remains favourable with prices expected to trend up towards a more sustainable trading range through the course of 2015.

“The next year promises to be challenging for New Zealand’s dairy producers, however the longer-term outlook remains positive, with prices expected to return to more profitable levels for farmers into the 2015/16 season,” she said.

“Rabobank firmly believes the current downturn in prices is cyclical, as agricultural commodity prices often are, rather than a more fundamental structural change, and farmers will work hard to ‘wait out’ the lower price cycle by trimming less-productive farm expenditure or deferring longer term cap-ex decisions.”

Global expectations

Exceptional milk production growth in export regions has outstripped weak local domestic consumption, boosting supply on international markets just as China reduced its forward purchases, the Rabobank report says.



Rabobank

**Media release
October 1, 2014**

Milk production growth in the 'Big Seven' export regions – the EU, US, New Zealand, Australia, Argentina, Brazil and Uruguay – will slow considerably in the coming six months (from 5.1 per cent in the first half of 2014 to 2.7 per cent in the second half to 1.6 per cent in first half of 2015), the report says, as lower prices are passed to producers, exceptionally favourable weather normalises and prior higher growth rates become tougher to exceed.

Ms Moynihan warns, however, that the pace of the slowdown in global dairy production will be constrained by falling feed costs, the removal of quotas in the EU from April 2015 and the fact many farmers have not yet even received the signal that the international market is amply supplied.

“This will likely mean that the brakes on milk production will be applied too slowly to avoid a further increase in surpluses over the next 12 months,” she said.

On the consumption side, Ms Moynihan says domestic dairy consumption in export regions will slowly improve on the back of higher incomes, employment growth and falling retail prices.

“The combination of these production and consumption factors will see growth in exportable surpluses slow from around 4.5 billion litres in the first half of 2015 to 2.2 billion litres in the second half – a six per cent year-on-year rise – with a similar rise factored in for early 2015,” she said.

However, the gradual nature of the supply slowdown, and the absence of a strong buying base for surpluses, is likely to ensure a protracted period of low prices on the international market place.

Market risks

Ms Moynihan says, while not anticipated, market pricing could improve more quickly should Russia elect to remove the ban on dairy imports or Chinese import buying resumes earlier and more strongly than expected.

“Further downside risks to the market may also lie in the level of EU milk production after quota removal in early 2015,” she said.

“For local milk prices the NZD/USD exchange rate is a critical component. While a stronger US dollar would assist New Zealand dollar milk prices, it may also place further downward pressure on US dollar-denominated commodity prices.”

<ends>



Rabobank

**Media release
October 1, 2014**

Rabobank New Zealand is a part of the international Rabobank Group, the world's leading specialist in food and agribusiness banking. Rabobank has more than 110 years' experience providing customised banking and finance solutions to businesses involved in all aspects of food and agribusiness. Rabobank is structured as a cooperative and operates in 41 countries, servicing the needs of about 10 million clients worldwide through a network of close to 1600 offices and branches. Rabobank New Zealand is one of the country's leading rural lenders and a significant provider of business and corporate banking and financial services to the New Zealand food and agribusiness sector. The bank has 32 branches throughout New Zealand.

Media contacts:

Denise Shaw
Media Relations
Rabobank Australia & New Zealand
Phone: +61 2 8115 2744 or 0439 603 525
Email: denise.shaw@rabobank.com

Jess Martin
Media Relations Manager
Rabobank Australia & New Zealand
+61 7 3115 1832 or 0418 216 103
Email: jess.martin@rabobank.com