



Rabobank

*Media release
December 10, 2014*

Reduced milk payout challenge to farmers, but recovery likely to commence in 2015-16 – Rabobank

While the reduced milk price forecast means New Zealand dairy farmers will face significant challenges in the coming 12 to 18 months, the medium to longer-term outlook for dairy remains sound, agribusiness banking specialist Rabobank said today.

Commenting on today's announcement that Fonterra has further cut its farmgate milk price forecast for 2014/15, Rabobank New Zealand CEO Ben Russell said while the challenges New Zealand dairy farmers would have to deal with in the immediate term were "acute", farmers should have confidence in the medium and longer-term outlook for dairy, with Rabobank expecting a price recovery to commence during the 2015-16 season.

"Today's announcement by Fonterra reflects the unfortunate reality of subdued demand and over-supply of milk in global markets," Mr Russell said. "It also demonstrates the inherently volatile nature of global agricultural commodity markets and the sharp swings in income that farmers face on an annual basis.

"In the past seven years, since 2007-08, dairy prices have shown enormous volatility, with extreme highs, followed by sharp retractions in pricing. And clearly the rollercoaster ride continues this season."

Rabobank director of Dairy Research New Zealand and Asia, Hayley Moynihan said economic indicators were beginning to emerge that would lead to reduced global dairy supply.

"Importantly, milk prices are now falling in key production markets around the world, which will in time produce a supply response and lower export supply growth," she said. "European prices continue to ease and US prices are expected to join the trend over coming weeks and months after holding up for an extended period."

However, Ms Moynihan cautioned that low global (feed) grain prices would delay the magnitude of the supply response, particularly in the US, resulting in plentiful global export supply through at least the first half of 2015.

Mr Russell said while a milk price of \$4.70/kg would result in trading losses for a very significant proportion of New Zealand dairy farmers, most dairy farmers had entered the current downturn in strong shape, with farmers benefitting from a good season in 2013-14 and a record high price.

"Many dairy farmers have strengthened both their balance sheets and the efficiency of their operations in recent years, and particularly since 2008," he said "We are confident that the vast majority of our clients have the resilience to handle this plunge in dairy prices, unpleasant and stressful as it is.



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“The high milk price in 2013-14 will assist farm cash flows in 2014-15. Cash flows for farmers will tighten significantly into 2015, when the season tapers off and with little in the way of deferred payments to supplement cash flow through the winter and early spring.”

Mr Russell said many dairy farm business would use this time to examine and prioritise their business spending.

“Tough times provide a good opportunity for all businesses to really examine what investment and spending creates real value in their business, and what are ‘nice to haves’ or really only make sense in a higher payout environment,” he said. “We encourage farmers to make use of their professional advisers and banks to evaluate their options and short to medium- term financial needs.”

Mr Russell said this was also a time for banks to support their clients in need, to communicate effectively, and to keep a firm eye on the longer-term sustainability of client viability when making shorter term financing decisions.

“The vast majority of dairy clients will enter this period with strong cash balances, however as milk incomes dwindle into 2015, Rabobank understand that for many farmers, additional financing will be essential,” he said.

“Our relationship managers are in discussions with clients now assessing their shorter and medium-term needs. We fully understand the need to manage through the impact over the next two seasons as high volatility will remain a key feature of the market.”

Mr Russell said “no-one should also underestimate the human side of difficult financial times, manifesting as depression and withdrawal for those people for whom financial stress becomes overwhelming”.

“The wider industry has support mechanisms in place, most notably through the Rural Support Trusts who operate on a strictly confidential basis, and provide an extremely important service for farmers” he said.

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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.



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