

[View online](#)



As 2020 comes to an end we do tend to reflect on the year that was. I'm not going to use any of those words we have heard incessantly, but what a year of extremes. The virus on one hand and in many regions the best season in living memory on the other. I would like to extend to you a safe and happy Christmas and better 2021 from everyone at the Suppliers' Council.

As we committed during the year we have commissioned Freshagenda to provide the FASC board an independent view of the market and returns to validate information that we are provided from the Fonterra team. We have also asked them to present a summary of the market place and commodity pricing for the season ahead that we can provide to all of our farmers to assist in business planning.

It is important to remember that this is a spot price at a single point in time. It's also important that we follow trends, not just one number, and we as farmers make ourselves better informed. You can [read the report from Freshagenda here](#).

Please stay safe, enjoy your time with family and friends over the festive season.

John
Chair – Fonterra Australia Suppliers' Council

[Manage your preferences](#) [Update your details](#) [Privacy policy](#) [Terms and Conditions](#)

[Unsubscribe](#)

We will not disclose your personal details to any third party without your consent. This email and its content are the copyright of Farm Source Australia.

This email has been sent to.
Fonterra Australia Pty Ltd 40 River Boulevard, Richmond, Victoria, 3121, Australia.

The outlook for 2020/21 Southern Australian milk prices

Highlights

- **Commodity prices have remained stable in 2020**
- **A stronger \$A has pushed local export returns lower**
- **Global dairy markets likely to remain balanced in 2021**

About this outlook

This farmgate price outlook has been commissioned by the Fonterra Australia Suppliers' Council (FASC) as an independent assessment of the market for milk in southern Australia. It has been prepared by Freshagenda based on their Global Dairy Directions analysis of global supply and demand, the likely impact of commodity prices and other influences on milk prices in relevant FASC supplier regions.

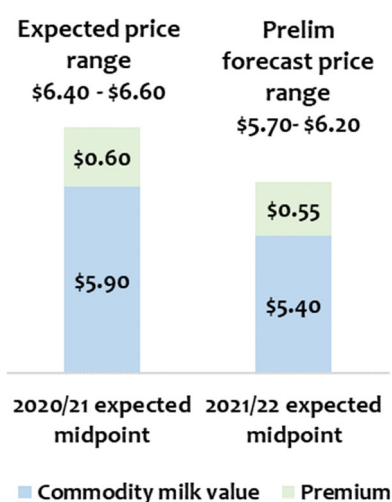
Market settings and outlook

- The outlook identifies **two components of farmgate milk prices** paid by manufacturers in southern Australian regions, an estimated annual **commodity value of milk (CMV)*** and an additional **value-capture** reflecting returns from higher value products and markets – including domestic sales - which constitutes the average price paid to farmers.
- Global dairy markets have remained relatively stable throughout 2020, despite the turmoil created by successive waves of COVID-19 infections in major economies.
- While most spot commodity prices - except for cheddar – have improved since opening 2020/21 farmgate prices were announced in June, the continued strength of the Australian dollar against the US currency is weighing on exporter returns. The impact on individual dairy companies will depend on their exposure to these currency shifts through the season.
- Chinese demand has been key to improvements in commodity prices in recent months, with increased participation in recent GDT auctions pushing contract prices for milk powder and fats higher. In most developed domestic markets foodservice sales have been negatively impacted, which has particularly affected demand for some cheese varieties – at a time when production capacity has increased in Europe and the US. The drop in foodservice sales has been somewhat offset by a boost in retail demand as people eat at home more.
- Europe and the US are currently enduring the second wave of COVID-19 infections, although government responses are even less uniform than during the first wave. Lockdown strategies are mixed, and generally less severe than they were earlier in 2020, and financial supports have been tied up in political discussions. With unemployment rates still high, and household savings depleted, the impact on dairy demand and consumption is likely to be greater unless further financial supports are available in coming months.
- There are some positive signs on the pandemic front, as mass vaccinations are being rolled out in Europe and the US. While effective coverage is still some months away markets have generally welcomed the news and consumer confidence has been boosted. A new US Administration is also raising hopes of a more predictable approach to trade and a renewed focus on repairing the economy, although the final make-up of the US Senate will have some bearing on this.
- On the supply side, slow milk growth in Europe and drying conditions in New Zealand and South America have kept the global dairy market relatively balanced. At home milk production growth has stalled, while domestic demand has been relatively stable, although weakness in foodservice demand for cheese and cream have been a drag on sales. Looking ahead to 2021, global milk supply growth is expected to remain relatively slow, although US growth in exporting regions could place additional pressure on SMP and cheese prices.

The outlook for milk prices

Comparison of midpoint and range for expected 2020/21 average price and the 2021/22 forecast:

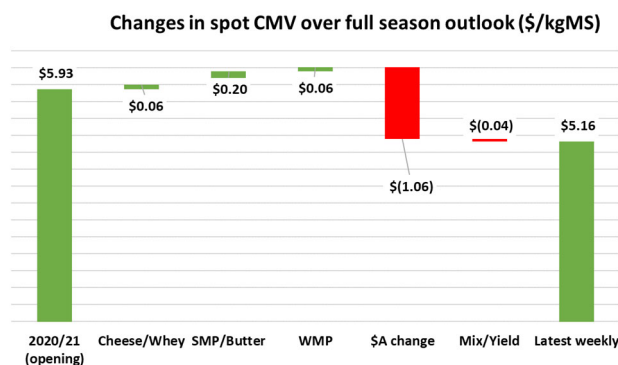
2020/21 v 2021/22 milk price comparison \$/kgms



This outlook is sensitive to a number of variables affecting product prices and the value of the \$A.

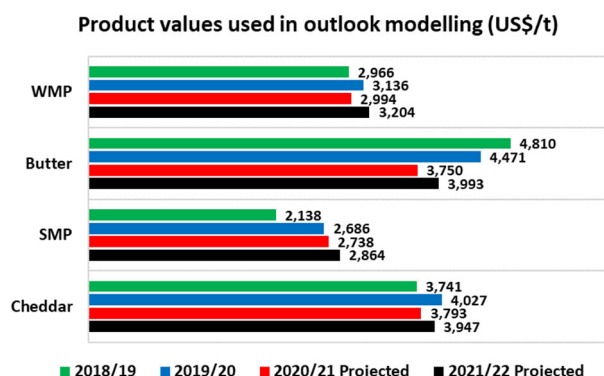
The spot commodity milk value

- The **spot CMV** has continued to fall throughout the 2020/21 season, largely reflecting a stronger Australian dollar. In fact, currency impacts have **reduced the CMV by around \$1kgMS over the season**, more than offsetting around a \$0.30kgMS improvement in the spot value due to improved returns for commodities, as shown in the chart at right.
- While the CMV was below \$5kgMS in late August, it has since recovered and **at the time of writing in early December, the spot CMV was \$5.16kgMS**, with the Australian dollar valued at over US\$0.75.



The assumptions & milk price forecast

- Our current **projected fundamental values (PFV)** for dairy commodities in 2020/21 (which we derive as a proxy for forecast product prices) are shown at right.
- Based on a consensus forecast average exchange rate for the Australian dollar value of \$0.73, this implies the 2020/21 season **average spot CMV would be between \$5.00 and \$5.30kgMS**. Assuming a value-added component of between **\$0.50 and 0.60kgMS**, this would suggest a southern milk farmgate value of **\$5.50 to \$5.90kgMS based on spot returns**.
- This compares to the **estimated \$5.90kgMS value for the CMV at which 2020/21 southern farmgate prices were struck in early June**, at a time when the local currency was valued at around US\$0.65. **Current (expected) southern farmgate prices are estimated at between \$6.40 and \$6.60kgMS**. Therefore, based on market returns since June, and what is forecast for commodity and exchange rates for the remainder of 2020/21, there is **limited upside for prices in the current season**.
- Looking ahead to 2021/22, PFVs are expected to strengthen slightly as global economic recovery from COVID-19 continues and growth in milk supply remains weak. **Our very preliminary view of the opening 2021/22 CMV is higher than current spot values – although down on where 2020/21 farmgate prices were struck at the beginning of the current season.**
- With a consensus forecast **exchange rate around US\$0.76 (based on the current consensus of currency specialists)** our **preliminary forecast CMV is in the range \$5.20 to \$5.60kgMS**. Using the mid-point of the range and recent estimated premiums paid in southern farmgate milk prices this implies a range of **\$5.70 to \$6.20kgMS in 2021/22**. **It should be noted this is a very early view, subject to review and updates in early 2021.**
- Companies may offer prices that differ from this forecast** due to differences in product mix and business models. Farmgate prices in 2021/22 will continue to reflect robust competition for milk supply, with the integration of the Lion business into Bega and the future operations of Freedom Foods potentially changing some of the dynamics for milk acquisition – particularly in the highly-contested northern region of Victoria.



Sensitivity of CMV forecast

- The outlook for the 2020/21 CMV is sensitive to changes in commodity prices and exchange rates. This **table** illustrates the impact on the expected 2020/21 CMV from varying commodity prices (by up to 15%) and the \$A by +/-3c from our milk returns model. Given the current setting for 2020/21 there is **limited upside for farmgate prices**.
- In 2021/22 exchange rates will continue to be a significant source of volatility for exporter returns and milk pricing.

		Average change to commodity prices				
Change to currency		-10%	-5%	0%	5%	10%
	0.70	4.67	5.11	5.56	6.00	6.45
	0.71	4.55	4.99	5.43	5.87	6.31
	0.72	4.44	4.88	5.31	5.74	6.18
	0.73	4.34	4.76	5.19	5.62	6.05
	0.74	4.23	4.65	5.08	5.50	5.92
	0.75	4.13	4.55	4.96	5.38	5.80
	0.76	4.03	4.44	4.85	5.27	5.68

Further Information

The outlook is intended as a planning input for Fonterra Australia suppliers. **Freshagenda's commodity milk value (CMV) is an estimate of milk value based on spot prices for key commodities and the average industry product mix, net of costs. Between 2011/12 and 2018/19 the CMV has averaged over 80% of final farmgate returns (as published by Dairy Australia) – ranging between 70% and 95% of the final average price paid by manufacturers in southern Australia.* For more information on Freshagenda's approach to calculating the Commodity Milk Value, please go to our freshagenda.com.au