Quarterly Update

DairyNZ

What is on dairy's horizon?

26 June 2025

New Zealand dairy farmers have had an encouraging start to the 2025/26 season, supported by strong opening milk prices and buoyant international market conditions, especially with the recent positive Global Dairy Trade (GDT) auctions. However, farmers should remain cautious due to ongoing uncertainty in global markets and geopolitical tensions.

Milk Price Forecast and Profitability:

Fonterra's opening farmgate milk price is between $8 and $11 per kg of milk solids (MS), with a midpoint of $10/kg MS. DairyNZ's Econ Tracker currently forecasts an average payout of $10.21/kg MS for the season, comfortably above the breakeven milk price, estimated at $8.68/kg MS. This indicates healthy margins that can support debt reduction, farm reinvestment, and adjustments in personal drawings to manage inflation.

However, it's important to note that the breakeven milk price is rising, projected to increase from $8.41/kg MS in 2024/25 to $8.68/kg MS in 2025/26. This increase is mainly driven by:

- Tax increases (+$0.41/kg MS)
- Higher farm working expenses (+$0.13/kg MS)

On the positive side, interest payments are forecast to decrease by approximately $0.26/kg MS. Nonetheless, interest rates are unlikely to drop significantly further due to ongoing economic uncertainty and a relatively high Official Cash Rate (OCR), expected to remain above 3%. A weaker New Zealand dollar could also contribute to upward pressure on interest rates.

Cost Pressures: Feed, Fertiliser, and Energy

Farmers should prepare for continued upward pressure on key input costs, in particular feed, fertiliser and energy expenses.

Fertiliser: Prices are sharply rising, driven by global supply constraints, export restrictions from China, and increased natural gas prices.

- Phosphate prices: up 34% compared to May last year
- Urea prices: up 40%

Feed: Most feed commodities have increased notably, driven by global shortages and supply constraints, although Palm kernel was the only feed to decrease slightly.

- Maize grain: up 37% per tonne compared to May last year
- Wheat: up 11% per tonne
- Barley: up 12% per tonne
- Oats: up 6% per tonne
- Palm kernel: down 7% per tonne

Energy: Crude oil prices have recently surged by 17% due to instability in the Middle East. While it may be expected that these prices will drop back to more normal levels, this most recent spike illustrates the volatility of energy commodity prices. Given New Zealand's reliance on imported fuel, dairy farmers must account for higher energy costs, especially during peak operational periods in late winter and spring.

Global Market Dynamics and Trade Risks:

International dairy markets remain volatile, shaped by increased global protectionism and geopolitical tensions.

China's dairy sector: China is expected to increase dairy imports, driven by domestic challenges like low local milk prices, rising costs, and producers shifting to other sectors such as pork.

Protectionism and trade tensions: Worldwide, trade-distorting measures such as subsidies and quota restrictions have increased since 2019. Dairy is vulnerable to these disputes, as evidenced by New Zealand's recent trade dispute with Canada over dairy quota access. Although New Zealand maintains strong international trade relationships, trends towards increasing protectionism pose long-term risks to export demand and market access.

Heading into the 2025/26 season, we advise farmers to closely monitor rising fertiliser, feed, and energy prices. At the sector level, global trade dynamics, and ongoing geopolitical tensions, could have significant implications for commodity prices. To mitigate these risks, farmers are encouraged to budget conservatively, remain well-informed about key input prices and strategically manage farm finances.

For more detailed forecasts and updates throughout the season, farmers can visit DairyNZ Econ Tracker.

Visit the Econ Tracker tool