Research

Economy Watch

19 November 2025

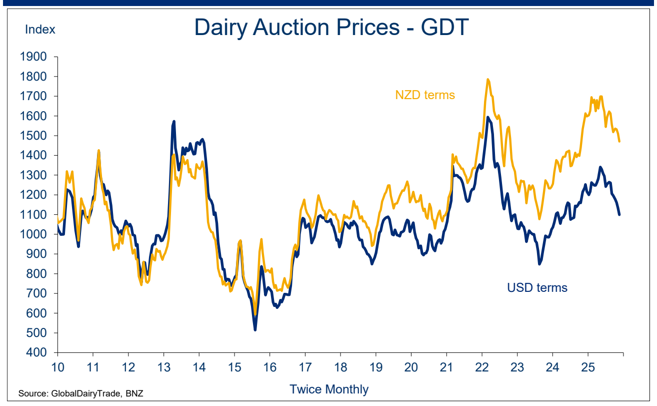
Dipping dairy dynamics

- **Global milk production accelerates**
- **Denting dairy prices**
- **Season average milk price still seen solid, but easing**
- **We revert to a $9.50 milk price forecast for 2025/26**
- **Downside potential remains for following season**

Dairy prices have been generally strong in 2025 and the national income flows from it have been robust. However, the dynamics are changing with the global dairy market now clearly softening. A surge in global milk supply is putting material downward pressure on prices.

Recent global dairy trade auctions tell the story. The GDT price index fell 3% overnight. Not a large move but it is its seventh consecutive decline for a cumulative 18% drop from its May peak. Prices are 11% lower than a year ago. A lower NZD has somewhat cushioned the downside in local currency terms.

Global dairy prices retreating



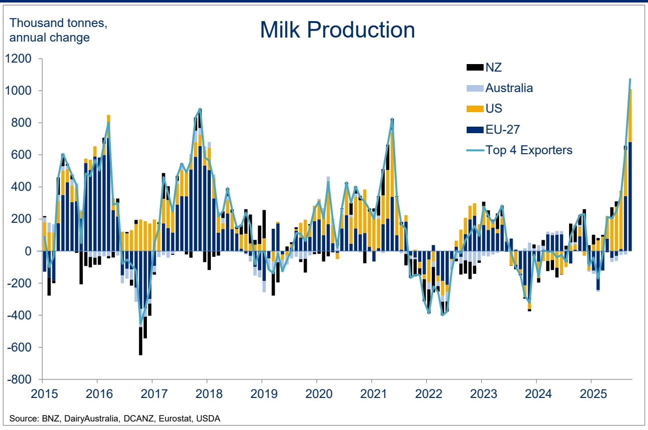
Dairy demand still looks reasonable but not sufficient to soak up the extra supply at previously prevailing prices. All major product prices fell at auction overnight. This puts downward pressure on local prices, all other things constant.

Lower global dairy prices reflect a surge in milk supply from major exporting regions including the US, NZ, and most recently the EU.

Global milk production always looked like it would respond to previous price strength. Indeed, back in August, when global dairy prices were very strong, we noted 'we are also wary of above average inflation-adjusted prices encouraging more milk from those that can increase production. That still feels like a question of when not if. Dairy prices are high relative to global grain prices.'

US milk production has continued its firm expansion with latest figures showing 4% annual growth, while EU milk production has accelerated sharply. Latest data shows that annual growth in EU milk production recently jumped from zero to nearly 6% in two months.

Global milk supply ramps aggressively



While a lift in global milk production is no surprise, the pace of it from major producing regions has been rapid and earlier than implicitly assumed in our base case.

More milk puts downward pressure on this season's milk price forecasts in NZ. The chance of more than $10 per kilogram of milksolids for Fonterra's 2025/26 milk price appears to be depleting. On our calculations if current market conditions remain the same for the rest of the season a milk price around the mid-$9s could be expected. Some improvement in GDT prices would seem necessary from here to achieve a $10 milk price or a meaningfully lower effective NZD than we have assumed.

Earlier in the dairy season we had a point forecast of $9.50 for Fonterra's milk price for the 2025/26 season. We lifted it a few months ago to $10.25 as the global milk production response to previous price strength was modest and some offshore production was hindered by disease. Supply conditions have clearly changed.

With evidence that the global production response has ramped up significantly we revert to our lower milk price point forecast of $9.50 for the 2025/26 season as a reflection of current risks.

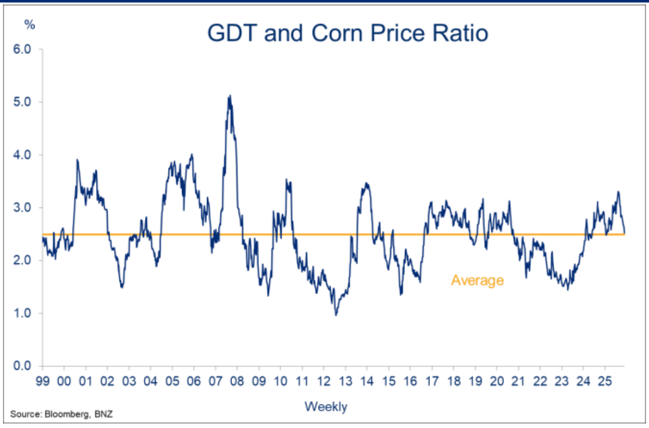
Our milk price thinking for the following 2026/27 season remains lower than 2025/26, toward $9. This broad view has long been predicated on global supply responding to previous price strength.

If global milk supply expansion remains rapid, like it has on occasion in the past, and demand doesn't strengthen sufficiently, the risk of a sharper drop and sub-$9 milk price next season will increase. Current momentum is in that direction.

Conversely, if global supply expansion were to slow meaningfully, like it did in 2021, downward price pressure could quickly fade. On that possibility, it is notable that global dairy prices no longer look elevated relative to global grain prices.

A relatively low effective NZD conversion rate would offer some support to local milk prices.

Encouragement to make more milk has been elevated



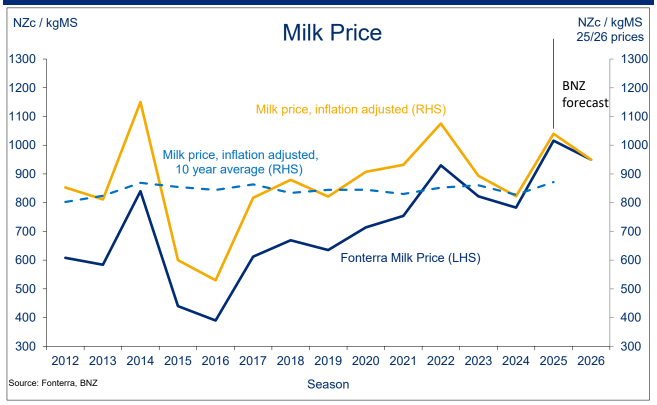
The bounds around any milk price forecast remain wide. As the past three months has shown, supply conditions can change rapidly and need to be continuously monitored. Ditto demand, foreign exchange, and trade conditions.

Many outcomes remain possible, but it is important to acknowledge the current downward pressure on prices and risks from rapidly expanding global milk supply.

A $9.50 milk price in 2025/26 would be a solid outcome, albeit lower than the prior season's $10.16. On an inflation-adjusted basis, a $9.50 milk price outcome would still sit above its long-term average.

NZ dairy sector revenue this season also looks to be supported by more production. Early season NZ milk production has been strong. The prospect of a La Nina weather pattern affecting milk flows is on the risk radar to monitor over coming months. It is one of many on the radar worth watching closely.

Past peak



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