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The return of milk scarcity – Rabobank on dairy

The global dairy market appears to be heading for a period of renewed supply scarcity in the coming 12 months, according to Rabobank.

Rabobank senior dairy analyst Michael Harvey says the impetus for the tightening global market emanates largely from the supply side, where low milk prices, extreme feed costs and pockets of unfavourable weather are slowing growth in milk production across key export regions.

“We fear that much of the market has been lulled into a false sense of security by the phenomenal growth seasons we saw late in 2011 and early 2012, and the next 12 months may provide a rude awakening,” Mr Harvey says.

“The slowdown in milk production growth in export regions will be sufficient to undershoot even the modest growth in consumption that we expect in advanced economies – particularly in the EU and US.”

Mr Harvey says this will reduce the exportable surplus available from the ‘Big Seven’ export regions of the world (EU, US, New Zealand, Australia, Argentina and Brazil) in the closing months of 2012 and the first half of 2013 – the first such reductions in more than four years.

“With little excess inventory in the market, the equation then becomes simple – any increase in import demand from deficit regions will create supply shortages, with the extent of the shortage fuelling an appetite for imports,” he says.

Factoring in a modest planned increase in imports over the next 12 months from key buying regions, Rabobank expects prices to rise substantially in the international market in order to bring about the demand rationing needed to balance the market.”

Locally, despite strong starting momentum, the Australian dairy farmers are “bracing” for several challenges in the current season, Mr Harvey says.

“Southern export region producers are expected to receive a full-year price of between AUD 4.70-5.00/kg milk solid for the current season. This represents a fall of around 10 per cent on the previous year and northern producers are facing similar prices cuts.”

The cost of grain-based feed has also by at least 20 per cent for all in the last few months, pushing most farmers back towards the “break-even” mark.

“Finally, farmers in many regions face the possibility of poor seasonal conditions – forecasts suggesting a probable dry spring across the southern dairy regions,” Mr Harvey says.

"The upcoming spring peak will be critical to the prospects for Australian milk supply growth, with 40 per cent of Australia's output coming between September and December."

Rabobank forecast Australian milk production in 2012/13 to growth around two per cent with the rate of growth more of less sustained through the first and second halves of the season, pushing the milk pool to 9.65 billion litres.

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