24 February 2022

Fonterra lifts forecast Farmgate Milk Price and maintains earning guidance range

Fonterra Co-operative Limited today lifted its 2021/22 forecast Farmgate Milk Price range to NZ$9.30 - $9.90 per kgMS, up from NZ$8.90 - $9.50 per kgMS.

This increases the midpoint of the range, which farmers are paid off, by 40 cents to NZ$9.60 per kgMS.

Fonterra CEO Miles Hurrell says the lift in the forecast reflects the increase in global dairy prices since the Co-op’s last milk price update in January, and good levels of ongoing global demand for dairy.

“Since we last revised our forecast, average Whole Milk Powder prices on GDT have increased 10.3%, while Skim Milk Powder has increased 8.4%. Both products are key drivers of our milk price.

“Global demand for dairy remains firm, while global milk supply growth continues to track below average levels. These demand and supply dynamics are supporting the increase in prices.

“Milk production in the EU and US continues to be impacted by the high cost of feed and this is not expected to change in the coming months.

“Here at home, ongoing challenging weather conditions have continued to impact grass growing conditions. As a result, the Co-op has revised its 2021/22 New Zealand milk collections forecast to 1,480 million kgMS, down 3.8% compared to last season, noting that last season generally benefitted from much better growing conditions.

“This reduction in supply reinforces our strategic focus on ensuring our milk is going into the highest value products.

“The forecast midpoint of NZ$9.60 per kgMS represents a cash injection of over $14 billion into New Zealand’s economy through milk price payments alone, and will be welcome news for farmers who are facing rising costs on farm, including from inflation and rising interest rates.

“Analysis by Statistics New Zealand shows a number of key farm inputs have experienced significant inflation pressure over the past two years, for example electricity costs are up 21%, while stock grazing costs are up 36.9%.”

Mr Hurrell says while the higher forecast Farmgate Milk Price puts pressure on the Co-op’s margins in Consumer and Foodservice, prices in its ingredients business remain favourable for milk price and earnings at this stage.

“As a result, our current 2021/22 earnings guidance of 25-35 cents per share remains unchanged.”
“As we shared last month, there are a number of factors we are continuing to keep a close eye on, including the potential impact on demand from rising interest rates and inflation, increased potential for volatility as a result of high dairy prices, geopolitical issues and economic disruptions from COVID-19, particularly as governments manage the rapid spread of the Omicron variant.”

ENDS

For further information contact:
Fonterra Communications
Phone: +64 21 507 072