CURRENT MARKET CONDITIONS

As we enter the 2019/20 season the key fundamentals are looking brighter. Due to rising global dairy commodity prices, a reduction in the Australian dollar, and fierce competition for raw milk, most processors have opened the 2019/20 season with a base price between $6.60 and $7.00 per kilogram of milk solids. This is more than a 10 per cent increase on the 2018/19 closing price of circa $6.15/KGMS which should dramatically improve the bottom line for many dairy farmers. Due to successive below average years and poor seasonal conditions most farmers will be focussing on paying long dated creditors, reducing debt, and building up fodder inventory, with what most hope will be a more sustainable price for imported feed in the coming year.

Seasonal conditions across the state have improved with most areas getting rain throughout the autumn 2019 period, albeit some regions such as East Gippsland and Northern Victoria having a slow start to the growing season due to the late timing of the rain. The widespread rain has also helped the outlook for grain producing regions which may ultimately lead to lower priced grain than we have seen in the prior 12 months.

Due to the cashflow constraints and lack of profitability experienced in the prior 12 to 36 months, it is likely that farmer to farmer activity will be slower, with larger established family and corporate farmers likely to be active purchasers taking advantage of the milk price and dairy farmers wanting to exit the industry. It is our view that the dairy industry offers excellent capital growth prospects over the medium term, particularly as domestic dairy production is at decade lows helping keep the farm gate price up.

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