QUARTERLY UPDATE

Higher milk price, higher costs: the Strait flows into the farm gate

DairyNZ Economics & Insights

03 June 2026

2026/27 outlook – Expected scenario

Farm Working Expenses	Breakeven Milk Price	Operating Profit
$6.19 per kgMS	**$8.79** per kgMS	**$3.88** per kgMS

The 2025–26 season closed strongly, but 2026–27 is looking to be a high-price, high-cost season. The Expected scenario remains profitable, but Farm Working Expenses and Breakeven Milk Price rise, leaving a smaller Operating Profit buffer if milk prices soften, production slips or seasonal conditions turn dry.

01 Summary

- **2025–26 is closing strongly.** The season is finishing on a series of records. On DairyNZ's production data, national milksolids are set to reach around 2.02 billion kgMS, the first time New Zealand has passed the two-billion mark, and about 4.5% above last season's 1.94 billion. Many farms enter winter with their strongest balance sheet in recent years, with strong production and solid payout.
- **But the Strait of Hormuz is no longer a distant global event, it is at the farm gate.** Four months in, the disruption is feeding through fuel, fertiliser, feed and freight prices (the 4Fs) that farmers are seeing right now.
- **Our scenario analysis shows breakeven milk price (BEMP) rises $0.36 to $8.79/kgMS for 2026–27,** with fertiliser, feed, fuel and interest doing most of the lifting under the Expected scenario, while Farm Working Expenses rise to $6.19/kgMS and Operating Profit falls to $3.88/kgMS.
- **Spring is the pressure point.** Fertiliser, fuel and supplementary feed decisions all land in the same August to November window, and that is where the cost shock bites hardest.
- **The bigger risk is duration.** History shows cost increases tend to stick. The longer the disruption persists, the more of today's elevated cost base becomes the new normal, where BEMP stays near $9.00/kgMS into 2027–28 under our Prolonged Disruption scenario.

02 Closing 2025–26 strong, opening 2026–27 very differently

The 2025-26 season is finishing strongly, and production has been the standout. April collections reached 160.3 million kgMS, up 6.9% on the same month last year, and across the full season national output is tracking about 4.5% ahead of 2024-25. What stands out is how broad the lift has been: every region in the country is running ahead of last season. The south did the heavy lifting, with Southland and Otago up 7.7% and the Lower North Island up 5.5%. The major North Island dairying regions were close behind, with Taranaki up 4.4%, Waikato up 4.3% and the Bay of Plenty up 3.7%, while on the South Island the West Coast rose 4.1% and Canterbury 3.1%. Only the northern and upper-South extremities lagged, with Northland up 2.0% and the Top of the South Island up 1.5%. With strong growth, a farmgate milk price of $9.70/kgMS, and Fonterra's $3.2 billion capital return paid to shareholders in April, many farms enter the new season with strong cash, lower debt, or both.

However, the 2026-27 picture has shifted materially since our March update. At that point the Iran-related disruption was a distant global event. Four months on, the Strait of Hormuz remains effectively closed, and the prices farmers pay have moved with it. Brent crude is up around 57% since mid-February, from about US$67 a barrel to near US$105 late in May, having spiked roughly 70% to above US$114 at its early-May peak. Diesel at port has lifted about 36% over the same period, from around 236 cents a litre to 321 cents, after peaking near 380 cents. Urea has followed, now trading at $1,175 to $1,299 a tonne across Ballance and Ravensdown, up roughly a third on a year ago, while palm kernel has climbed about a quarter, from a long-run average near $340 a tonne to over $430. These are the prices on invoices today, not figures in a forecast table.

By contrast, the demand for dairy has not collapsed, even if buyers are more cautious and price volatility has risen. Global Dairy Trade prices softened in April, particularly for fats, while milk powders were more stable.

On the revenue side, the season ahead looks strong. Fonterra has announced an opening farmgate milk price range of $8 to $11 with a midpoint of $9.75. Correspondingly, our forecast average payout received for the 2026-27 season is $10.15 per kilogram of milksolids.

Overall, the picture for 2026-27 is looking to be another season of strong revenue, but our point of concern is rising and enduring expense increases.

03 Three scenarios for the season ahead, or even further

Our three scenarios are not predictions of geopolitical outcomes. They are a structured way of testing how different shock durations and normalisation paths may affect farm budgets.

Faster recovery Reset

Strait of Hormuz reopens in July.
Shipping starts transition to normal after two months. Energy and fertiliser export restrictions lifted by December 2026.

What it means on farm
Fuel, fertiliser and feed costs stay high through spring, then ease later in the season. Interest rates rise, level off, then begin to ease late season.

Expected Adjust

Strait of Hormuz reopens in August.
Shipping starts transition to normal after three months. Energy and fertiliser export restrictions lifted by May 2027.

What it means on farm
Fuel, fertiliser and feed costs remain elevated for most of the season, especially fertiliser. Interest rates rise, hold high into the start of 2027–28, then ease slowly.

Prolonged disruption Adapt

Strait of Hormuz reopens in September.
Shipping starts transition to normal after four months. Energy and fertiliser export restrictions lifted by December 2027.

What it means on farm
Fuel, fertiliser and feed costs stay significantly elevated into 2027–28, especially fertiliser. Interest rates keep rising into 2027–28 before flattening mid-season.

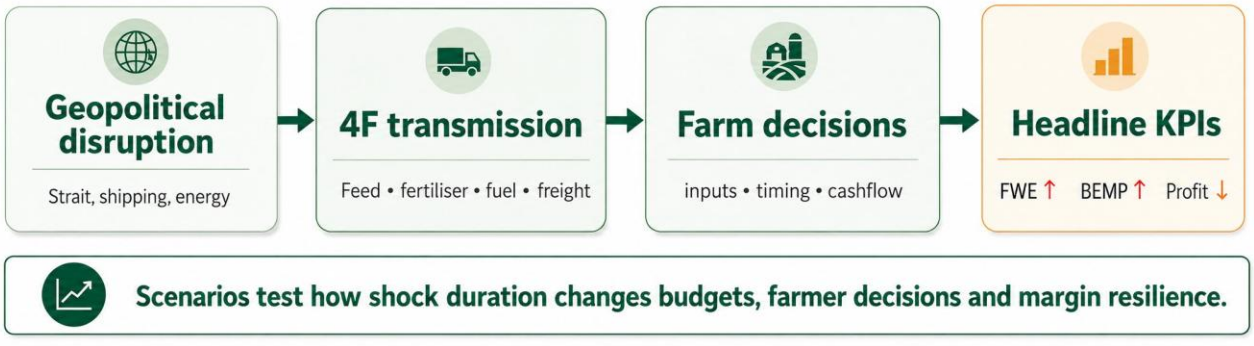

Figure 1. How geopolitical disruption flows through to the three headline KPIs.

04 Three KPIs tell the margin story

Our three scenarios are measured with three key performance indicators (KPIs): Farm Working Expenses, Breakeven Milk Price and Operating Profit.

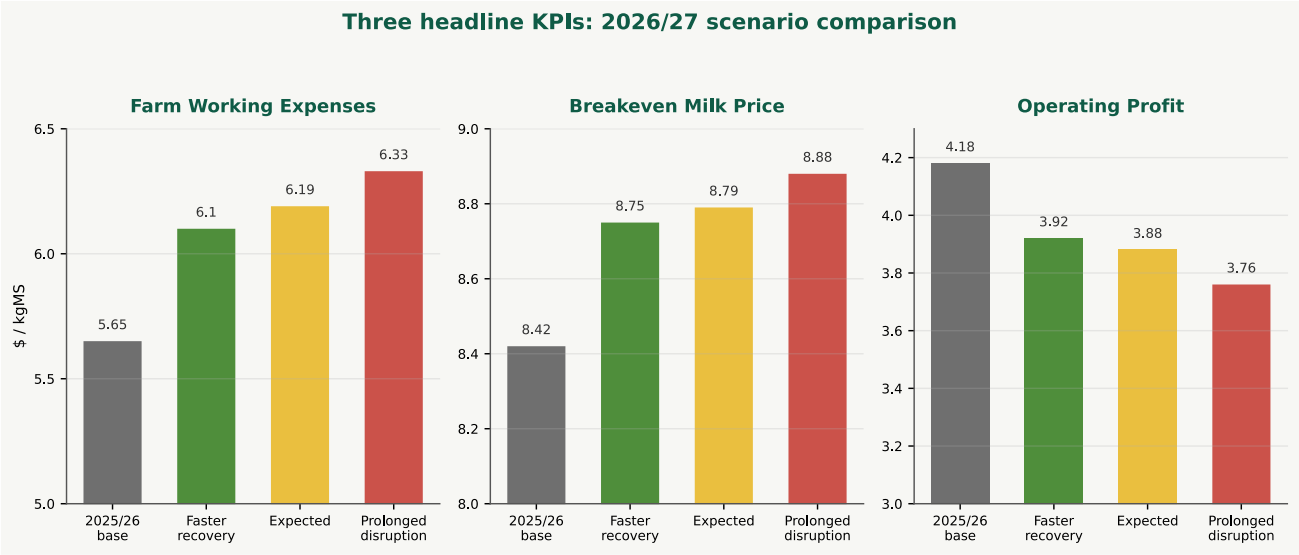

Figure 2. Headline KPI comparison for 2026/27. Values are $/kgMS.

What the numbers say

- **In the Expected scenario for 2026-27,** Farm Working Expenses rise about $0.55/kgMS (around 10%) to $6.19/kgMS. Fertiliser is the single largest driver, up 41% ($0.23/kgMS), followed by feed, up 10% ($0.15/kgMS). The next-largest movers are fuel, up 34% ($0.03/kgMS), wages, up 3% ($0.02/kgMS), and young and dry stock grazing, up 5% ($0.02/kgMS).
- **Farm Working Expenses** stay between $6.10 and $6.33/kgMS in 2026-27 across all three scenarios, still well above the $5.65 baseline.
- **Operating profit eases from $4.18/kgMS in 2025–26 to $3.88/kgMS in Expected.** Still a profitable year, but the buffer is smaller, and under the Prolonged Disruption scenario it falls to $3.76/kgMS.
- **Breakeven milk price rises from $8.42/kgMS in 2025-26 to $8.79/kgMS under Expected,** and to $8.88/kgMS under Prolonged Disruption.

05 The pattern that worries us: stickiness of inflated prices

Looking back at the past decade, there is a clear pattern. After every major inflationary event, the 2022 Russia–Ukraine conflict and the post-COVID supply-chain disruption, feed and fertiliser prices have settled at a stubbornly higher level. They fluctuate, but they don't return to their pre-shock baseline.

Figure 3 shows this pattern. Since 2014, feed and fertiliser costs and non-feed and fertiliser working expenses have risen faster than average payout received. Farmers have partly offset this by lifting production, but that strategy has limits. Extra production depends on pasture growth, weather, body condition score, feed availability and the profitability of marginal inputs.

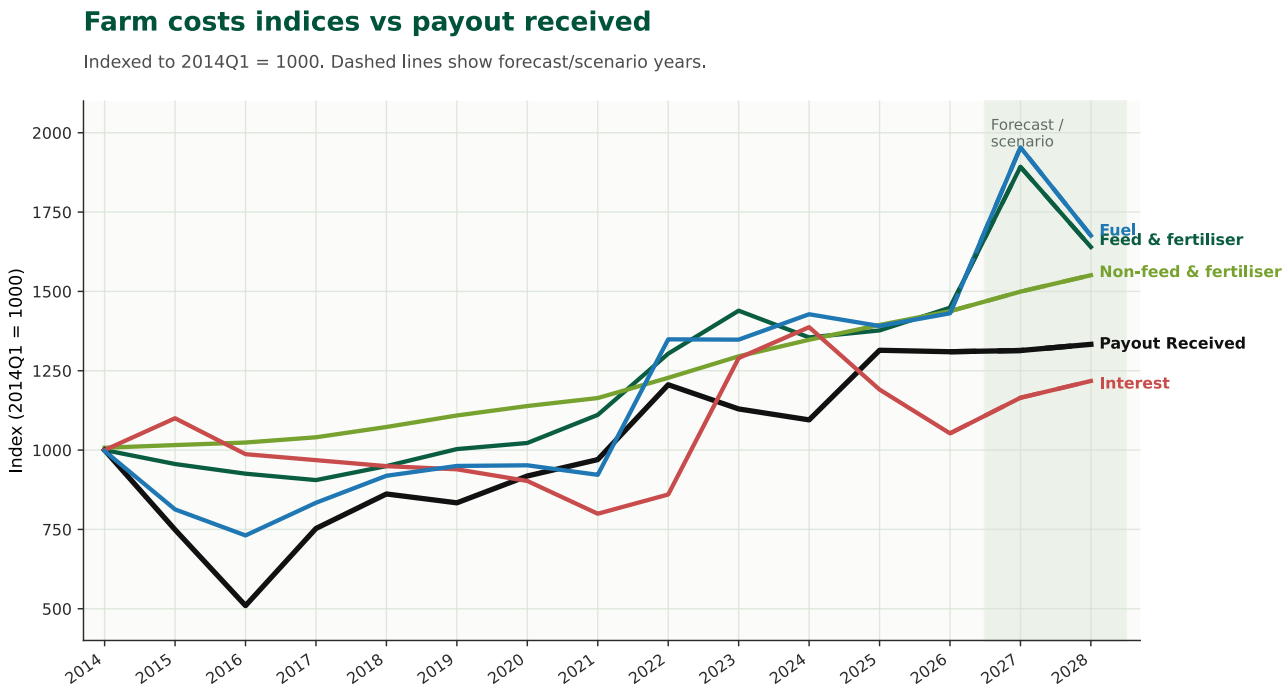

Figure 3. Indices of farm costs and revenue.

The duration of the current disruption matters. A short-lived shock would still lift costs in 2026–27, but a prolonged disruption increases the chance that some of today's higher prices become embedded in the farm cost structure. In that case, the issue is not simply a temporary squeeze on margins, but a higher cost floor that keeps Farm Working Expenses and Breakeven Milk Price elevated into 2027–28.

Carry-over of the three headline KPIs into 2027-28

Values are $/kgMS. The longer the disruption lasts, the more pressure carries into the following season.

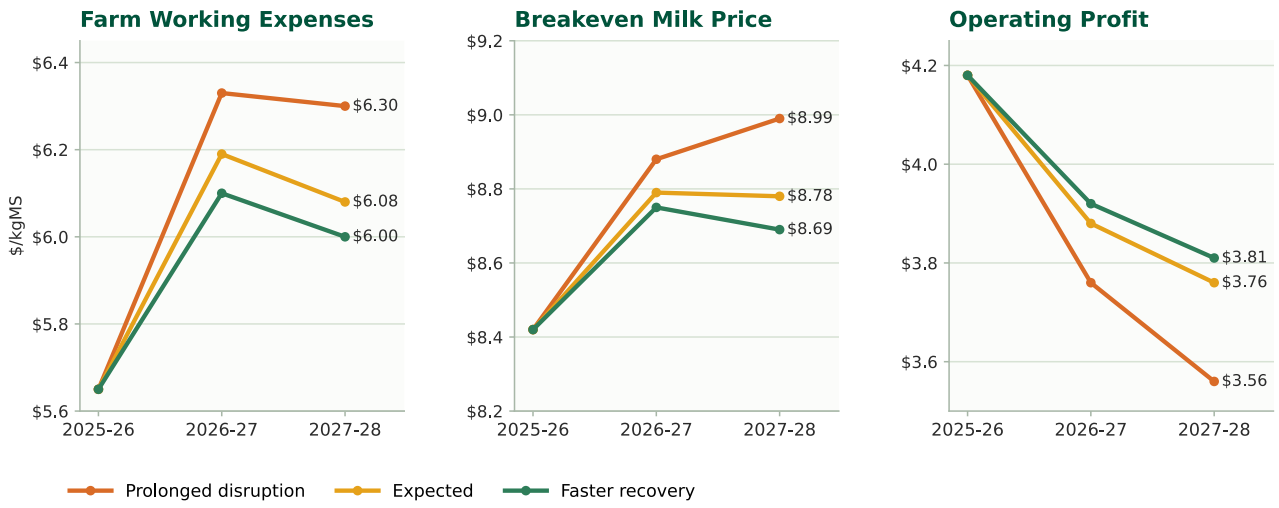

Figure 4. Carry-over of the three headline KPIs into 2027/28. Values are $/kgMS.

06 What this means at the farm gate

Three things matter most for the season ahead.

1. Spring is where the risk concentrates

Most of the cost lines stressed in the scenarios (nitrogen applications, diesel for cultivation, supplementary feed buying, summer cropping commitments) sit in the same 12-week window between August and November. Prices through that window will largely determine whether the season tracks closer to Expected or to Prolonged Disruption. Regional intel already points to farmers "pricking up ears" to higher fertiliser and fuel prices; several regions are flagging a looming El Niño climate pattern, which would compound the cost pressure with a feed deficit.

2. Profitable production beats maximum production

With BEMP approaching $9/kgMS, the question is not whether marginal milksolids get produced, it is whether they get produced profitably. A nitrogen application at $0.60/kgMS fertiliser cost is a different decision at $0.85/kgMS. Prioritise paddocks and timing where pasture response is strong. Non-nitrogen fertilisers don't drive a direct pasture response, but they protect the soil fertility base that feeds future seasons.

3. Liquidity is the buffer

Lower margins mean less room for surprises: a dry summer, a lower milk price, a herd health event. The Fonterra capital return in April was a one-off cash payment; how it is deployed (debt reduction, infrastructure, retained cash) will materially affect resilience if disruption persists.

07 Our recommendations

In the 2026–27 season, the focus needs to shift from maximising production to maximising profitable production.

Stress-test budgets against Expected and Prolonged Disruption.	Build different scenarios into your cashflow forecast; don't plan for the best case and hope the worst doesn't happen.
Be selective with nitrogen fertiliser use.	Prioritise paddocks and times where pasture response is strong. Maintain non-nitrogen fertiliser to protect the underlying soil fertility base; it remains your currency for pasture growth.
Plan for elevated costs to persist into 2027–28 across all scenarios.	Even under the Faster Recovery scenario, operating expenses remain around $7.20/kgMS throughout 2026-27 and drop only 7c in 2027-28 to $7.13. The new cost floor will outlast the geopolitical shock.
Build flexibility into spring and summer feed strategies.	Plan for dry weather under high input prices. Decisions made before Christmas drive the second half of the season.
Maintain a cash buffer where possible.	Liquidity is the key tool to absorb volatility in prices, production and weather.

Take the next step

Explore the full dataset, scenario settings and seasonal outlook behind this update on the DairyNZ EconTracker.

connect.dairynz.co.nz/EconTracker

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