

Australian dairy industry offers attractive opportunities for investors

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Australia's dairy industry can expect a season with steady prices. Dairy Australia, the government information service, expects production of all dairy products to climb up to 2 percent in the 2013/2014 season to more than 9 million tons.¹ This acceleration in volume coincides with a deceleration in dairy production in the USA and New Zealand due to drought. As a dairy exporting country – around 50 percent of domestically produced dairy products are for export – Australia is profiting from this trend as demand, particularly from Asia, accelerates.

The surge in demand, particularly from southeast and eastern Asia, has already caused the spread between supply and demand for dairy products to widen in recent years. This development is expected to continue. The OECD forecasts growth rates for milk and dairy products from the emerging markets of between 1.6 and 2.8 percent.² This might lead to a potential demand overhang for dairy products of as much as 5 billion litres by 2020.³

The Australian Bureau of Agricultural and Resource Economics and Sciences is forecasting that milk prices will at least remain unchanged over the next four years at 50 Australian cents per litre, but could head up to 52,5 cents per litre between 2018/2019. In a scenario of this kind, investors in Australian dairy farms can expect to generate higher returns, with an Internal Rate of Return (IRR) of up to 16 percent p.a. possible. But even based on a conservatively-estimated scenario using milk prices of 41.5 Australian cents, an IRR of 11 percent p.a. could still be generated. The Australian dairy sector therefore offers the highest risk-adjusted return in the global agricultural sector.



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¹ Dairy Australia: Dairy Situation and Outlook, February 2014 Update

² OECD-FAO: Agricultural Outlook 2013-2022

³ MilkWays Holding: Maritime Bulk Supply Chains for Dairy, 2013

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