



JUNE 2020

Global Dairy UPDATE AUSTRALIA



• New Zealand ends season with increased monthly production. Australia's recent production improvement continues. EU production growth slows and US declines.



• New Zealand monthly exports decline and Australia exports soften. Monthly increase from US and EU.



• Latin America, Asia and Middle East and Africa imports have strong decline. China monthly imports soften.



- Most of the country continued to enjoy favourable conditions and lower purchased feed prices through May.
- Most dairy regions experienced a dry end to what has been one of the most favourable autumns in recent memory.
- The BOM's three-month outlook indicates average rain for much of the country.



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Farmgate Milk Price Update



On 3 June we revised our weighted average opening price to **\$6.40 per kgMS** and our **forecast closing range to \$6.40-\$6.70 per kgMS**.

In opening, we kept in line with industry convention to open at a price lower than the full year forecast, with the understanding that step-ups would be paid throughout the season where the market supports it.

We remain committed to being competitive and have adjusted our price accordingly, and will continue to review our pricing regularly as the season unfolds.

Over the last couple of months we have been communicating with you that the impact of COVID-19 on economies and the market is still largely unknown and will be uncertain for some time. Consumers' purchasing power is reduced and the foodservice industry remains impacted. This holds true today.

Our minimum price has been updated, as set out in our base and seasonal rates table which you can find in our milk supply agreements which are available on www.farmsource.com.au/pricing.



- Fonterra Australia signs exclusive supply agreement with GMP Pharmaceuticals.



Global production

AUSTRALIA

2%↓

Production change for the 12 months to April 2020

Australia milk production rose 6.4% in April compared to last April. Better seasonal conditions and improved farmer confidence contributed to the continuing recovery in the second part of the season, especially in Victoria and Tasmania. Dairy Australia revised its 2019-20 outlook to a drop of 1-3% on last year.

NEW ZEALAND

0%↓

Production change for the 12 months to May 2020

New Zealand milk production increased 4.3% on a litres basis (up 3.8% on milk solids basis) in May compared to May 2019. Following months of drought and lower milk production, May production improved on the back of more favourable weather conditions.

EUROPEAN UNION

1%↑

Production change for the 12 months to April 2020

EU milk production increased by 0.2% in April compared to the same period last year. The main production regions showed slower growth. Increases can be seen in Ireland (up 3.5%), Spain (2.3%) and the Netherlands (1.7%), but largely offset by a sharp drop in Italy (down 2.1%) and the UK (1.6%).

USA

1%↑

Production change for the 12 months to May 2020

US milk production decreased 1.1% in May compared to May last year. Year-on-year production for the month of May declined as production restriction programmes were put in place. Reduced rations, lower frequency of milking and, to a lesser extent, cow culling were observed to reduce output.

Global exports

AUSTRALIA

7%↓

Export change for the 12 months to April 2020

Australia dairy exports increased by 1.9%, or 1,244 MT, in April compared to April last year. Fluid milk products and SMP were up a combined 4,311 MT, but were partially offset by lower demand for cheese, down 1,807 MT. For the 12 months to April, declines were recorded across a broad range of products. SMP, infant formula, whey, cheese, butter and WMP were down 81,330 MT offset by an increase in fluid milk products of 29,922 MT.

NEW ZEALAND

1%↓

Export change for the 12 months to April 2020

New Zealand dairy exports decreased by 4.4%, or 13,444 MT, in April compared to last April, albeit to a lesser extent than last month, on decreased demand for cheese to China and Japan, butter to Egypt and Australia and fluid milk products to Taiwan and the Philippines. Exports for the 12 months to April were down by 1.0%, or 34,427 MT, primarily driven by butter and AMF.

EUROPEAN UNION

6%↑

Export change for the 12 months to March 2020

EU dairy exports increased 2.3%, or 11,667 MT, in March compared to March last year. This was driven by increased whey to China, butter and cheese to the US, up a combined 29,317 MT, offset by a decrease in SMP exports to China, Egypt and Asia of 24,496 MT. Exports for the 12 months to March were up 5.8%, or 317,396 MT, driven by fluid milk products, butter and cheese, up a combined 248,922 MT.

USA

2%↑

Export change for the 12 months to April 2020

US dairy exports increased 7.1%, or 13,584 MT, in April compared to last April, bouncing back from the past two months. Exports increased to South East Asia and China offsetting a drop in exports to Mexico on the back of a lower peso and weaker Mexican economy. The increase was driven by SMP, WPC and lactose, up a combined 17,410 MT, partially offset by lower exports of cheese, down 6,157 MT.

Global imports

China dairy imports increased 2.1%, or 5,584 MT, in April over last April, as the sharp increase in year-on-year imports seen in March eased. Higher volumes of WMP, whey, and infant formula, up a combined 20,060 MT, partially offset decreased fluid milk products, down 11,307 MT.

CHINA

6%↑

Import change for the 12 months to April 2020

ASIA

3%↓

Import change for the 12 months to March 2020

MIDDLE EAST & AFRICA

4%↓

Import change for the 12 months to March 2020

Dairy Commodity Prices



Global pricing

GDT Event 262, held 16 May resulted in an index increase of 1.9 per cent.

SMP

4.1%↓

Change vs. 12-month Rolling Average of USD 2,680/MT

USD 2,570

June Average Price (USD/MT, FAS)

SOURCE: Global Dairy Trade

WMP

7.3%↓

Change vs. 12-month Rolling Average of USD 3,014/MT

USD 2,795

June Average Price (USD/MT, FAS)

BUTTER

13.0%↓

Change vs. 12-month Rolling Average of USD 4,713/MT

USD 4,100

May Average Price (USD/MT)

SOURCE: Dairy Australia, May Pricing

CHEDDAR

1.0%↓

Change vs. 12-month Rolling Average of USD 4,242/MT

USD 4,200

May Average Price (USD/MT)

Australian dollar trend

The AUD ended the month at US\$0.69, up from US\$0.65 at the end of May. In early June, equity and capital markets rallied on news that the European Central Bank Pandemic Emergency Purchase Program would expand to €1.35tn (US\$1.53tn) and continue to June 2021. This, with continued expansion in Chinese manufacturing, led to the AUD rising in value against the USD.

SOURCE: news.com.au



SOURCE: Reserve Bank of Australia

Local factors affecting farming conditions



Feed

Most of Australia continued to enjoy favourable conditions and lower purchased feed prices through May. Cereal hay prices eased or remained steady with the eastern seaboard at a significant discount to last year, a direct reflection of improved pasture availability and lower demand. Following uncertainty around COVID-19 and prices firming in April, grain prices eased with wheat decreasing in all regions by 4-12% in May. The winter crop outlook continues to add downward pressure to prices. If realised, the exportable surplus would mean prices are likely to re-align to global markets. Wheat and barley futures prices dropped in May, down 5% and 8% respectively.

SOURCE: Dairy Australia

Weather

Most dairy regions experienced a dry end to what has been one of the most favourable autumns in recent memory. May rainfall was 31% below the average for Australia, with much of the deficit occurring in the southern half of the country. In particular, SA and NSW were much below average and the Bega Valley also missed out on much of the May rainfall, adding to long-term deficiencies. Despite the dry end, autumn rainfall was above average for a large area of the southeastern states and Tasmania. Southwest WA didn't experience the same favourable start, but did receive some rainfall in late May that has been beneficial for new season crop development.

SOURCE: Dairy Australia

Seasonal Outlook

The three-month outlook has average rain for much of the country. TAS, southern VIC and parts of southern SA are the only regions in the south expected to have below average winter rainfall. Initial forecasts suggesting a much wetter than average winter have been revised to indicate a dry June overall. Rainfall over autumn improved soil moisture for large areas of the southeast, providing a favourable start to the crop and pasture season. Increased soil moisture, particularly along the eastern wheat belt, will provide a buffer to any dry weather forecast. WA began June with below average soil moisture levels with any prevailing dry weather expected to be more damaging to crops and pasture.

SOURCE: Bureau of Meteorology



Fonterra Australia signs exclusive supply agreement with GMP Pharmaceuticals



The Australian Nutritionals and Value Add Ingredients business has landed a probiotics supply agreement with GMP Pharmaceuticals – the largest third-party pharmaceutical manufacturer in Australasia, and long-time customer of the Co-op.

Over the next 12 months Fonterra Australia will supply probiotics, made at Fonterra’s Microbial Fermentation Unit in Palmerston North, for all GMP’s paediatrics products for young children and pregnant women.

René Dedoncker says the partnership is a result of trans-Tasman collaboration and delivers on the global strategy to drive sustainable value through five core categories – core dairy, foodservice, paediatrics, sports & active and medical & ageing.

“While initial volumes are not huge, it gives the Co-op access to the pharmaceutical market in Australia, creates good value and is right on strategy around driving value in paediatrics.

“It’s also a sector with good opportunity for growth, with the global probiotic market estimated to be worth between US\$40-60 billion,” says René.