

GLOBAL DAIRY UPDATE AUSTRALIA



Dairy for life



• Australia production continues to decline. EU and US production flat. Small volumes of early season New Zealand production.



• Exports from Australia and the EU grew in June. Large decline in monthly US exports.



• Monthly imports into Middle East & Africa show large decline. China, Latin America and Asia imports continue to grow.



• Cheese is one of our biggest exports, and it's now been voted amongst the best in the world – with our Stanhope and Wynyard cheese recently picking up a swag of awards at the annual International Cheese and Dairy Awards at Nantwich in the United Kingdom.



• The children at Wydinia Kindergarten and Early Learning Centre in Colac are solving the age-old question of what comes first – the chicken or the egg – with a new egg incubator and chicken coop bought with the help of the Fonterra Grass Roots Fund.

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Global production

AUSTRALIA

8% ↓

Production change for the 12 months to June 2019

Australia milk production decreased 9.9% in June compared to June last year. Production for the 12 months to June was down 8.2% on the previous 12 months. Dairy Australia is forecasting a decline in the 2019/20 season of 3% to 5% in total milk production on the back of reduced herd sizes and strained farmer finances.

NEW ZEALAND

2% ↑

Production change for the 12 months to July 2019

New Zealand milk production in July was 23.5 million kgMS, up 4.8% compared to July last year. June and July account for only a small proportion of total milk production for the full season. The increase over last season partly represents good conditions at the start of the season and supply is also supported by winter milk.

EUROPEAN UNION

0% ↑

Production change for the 12 months to June 2019

EU milk production decreased 0.3% in June compared to June last year. A slowdown in production due to the recent heatwave, impacted Germany (2.3%), The Netherlands (2.7%), Spain (2.1%) and Finland (5%). Irish production continues to grow, up 7.5% in June. EU milk production for the 12 months to June was up 0.1%.

USA

0% ↑

Production change for the 12 months to July 2019

US milk production remained stable at 8 billion MT in July, compared to July last year. The lack of production growth continues as poor on-farm profitability is leading to an increase in culling. Milk production for the 12 months to July was up 0.3% compared to the same period last year.

Global exports

AUSTRALIA

5% ↑

Export change for the 12 months to June 2019

Australia dairy exports increased 10.3%, or 6,545 MT, in June. Fluid milk products rose 9,643 MT, partially offset by cheese and whey powder, down a combined 2,847 MT. For the 12 months to June, fluid milk product and infant formula were the main drivers of the 5.1% increase, up a combined 56,059 MT, offsetting declines in WMP and SMP of 19,002 MT.

NEW ZEALAND

8% ↑

Export change for the 12 months to June 2019

New Zealand dairy exports decreased by 0.2%, or 410 MT, in June compared to June last year, driven by butter and AMF, down 9,700 MT and offset by a WMP increase of 7,326 MT. Exports for the 12 months to June were up 8.4%, or 272,002 MT, driven by a significant increase in WMP and fluid milk products, up a combined 250,000 MT.

EUROPEAN UNION

4% ↑

Export change for the 12 months to May 2019

EU dairy exports increased 5.9%, or 28,049 MT, in May compared to May last year. SMP, fluid milk products and butter were up a combined 32,477 MT, offsetting WMP, down 5,993 MT. Exports for the 12 months to May were up 3.7%, or 199,704 MT. SMP, lactose and fluid milk products were up a combined 255,738 MT, offset by a 75,231 MT decrease in WMP.

USA

6% ↓

Export change for the 12 months to June 2019

US dairy exports decreased 12%, or 24,978 MT, in June. Whey exports to China continue to decline (7,778 MT) as a result of the African Swine Fever. Declines were also reported in SMP and cheese, down a combined 18,669 MT. Exports for the 12 months to June were down, driven by whey powder, WPC, lactose and SMP, down 177,916 MT, combined.

Global imports

China dairy import volumes increased 2.8% in June driven by increases in fluid milk products, WMP, SMP and cheese, up 33,283 MT, but largely offset by whey, down 21,900 MT. African swine fever continues to impact whey imports as demand for feed declines.

CHINA

8% ↑

Import change for the 12 months to June 2019

ASIA

6% ↑

Import change for the 12 months to May 2019

MIDDLE EAST & AFRICA

11% ↓

Import change for the 12 months to May 2019

OUR MARKETS

DAIRY COMMODITY PRICES



Global pricing

GDT Event 240, held 16 July resulted in an index decrease of 0.2 per cent.

SMP

7.9% ↑

Change vs. 12-month Rolling Average of USD 2,299/MT

USD **2,480**

August Average Price (USD/MT, FAS)

SOURCE: Global Dairy Trade

WMP

3.7% ↑

Change vs. 12-month Rolling Average of USD 2,959/MT

USD **3,070**

August Average Price (USD/MT, FAS)

SOURCE: Dairy Australia

BUTTER

2.8% ↓

Change vs. 12-month Rolling Average of USD 5,142/MT

USD **5,000**

July Average Price (USD/MT)

SOURCE: Dairy Australia, June Pricing

CHEDDAR

3.3% ↑

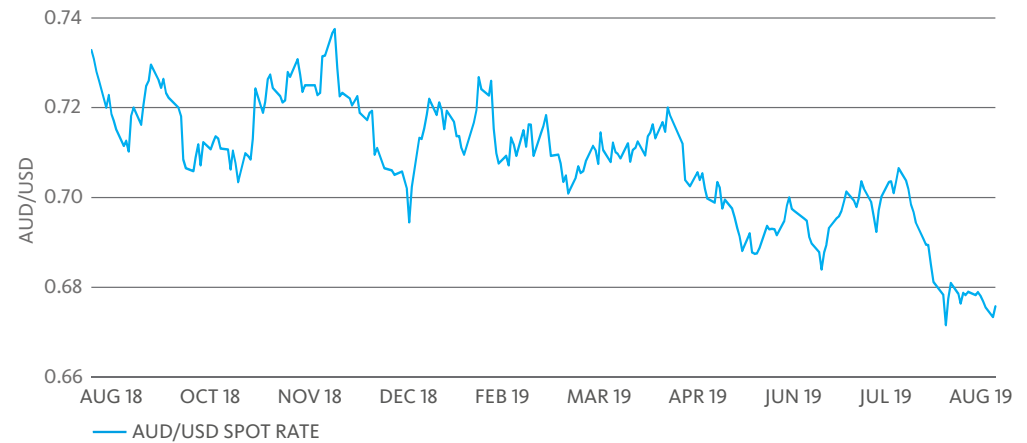
Change vs. 12-month Rolling Average of USD 4,067/MT

USD **4,200**

July Average Price (USD/MT)

Australian dollar trend

The Australian dollar fell three cents from US\$0.70 to US\$0.67 throughout August after a number of escalations in the Sino-US trade dispute. China and the USA both increased import tariffs on each other's goods, and the Chinese Renminbi fell in value against the US dollar to its lowest level since 2008.



SOURCE: news.com.au

SOURCE: Reserve Bank of Australia

Local factors affecting farming conditions



Hay

Demand for fodder remains strong across the country and tight supply continues to underpin prices, which in many regions are exceeding peak price levels set late last year. As we enter the last month of winter, many have purchased extra feed to fill the feed gap between on-farm fodder reserves and available pasture. The balance of opinion suggests even in the event of a good spring and a substantial new crop, demand will remain firm due to the ongoing drought across the major feed producing regions. Pasture and lucerne hay experienced the largest price increases, up \$26/tonne and \$28/tonne respectively.

SOURCE: Dairy Australia

Grain

Australia's current winter crop production remains on track to be higher than 2017/18. However continuation of drought conditions throughout NSW and QLD has injected volatility into domestic markets with prices firming. Spring rainfall and favourable growing conditions will be critical to the success of this year's winter crop. Internationally, there has been some instability in global grains markets as US and China trade issues continue. The latest development resulted in a plan for the US to increase tariffs by a further 10% on Chinese imports. These developments are far from encouraging and add further instability to global commodity markets.

SOURCE: Dairy Australia

Weather

July rainfall across Australia was below average with the majority of deficits throughout WA, SA, NSW and southern QLD. Both the northern and southern points of the country recorded higher than average falls; TAS received substantial rain on the western side while select areas in northern QLD received above average rainfall. Parts of VIC and southwestern WA also received timely rainfall. Overall, it was the fourth warmest July on record for Australia. Dry and warm conditions are likely to persist until at least October, according to the latest BOM climate outlook with lower than average rainfall for August to October likely across the eastern seaboard.

SOURCE: Bureau of Meteorology

OUR BUSINESS



It's official – we make some of the world's best cheese, and your milk plays a big role

Cheese is one of our biggest exports, and it's now been voted amongst the best in the world – with our Stanhope and Wynyard cheese recently picking up a swag of awards at the International Cheese and Dairy Awards in the United Kingdom.

The 122-year-old competition brings together cheese from all over the world to compete to be deemed the best, so to walk away with three golds, two silvers and two bronze medals is no easy feat.

This year we shook things up a bit, entering our block mozzarella into the competition along with our traditional award-winning cheddars. The move paid off with our Stanhope NZMP

Premium Frozen Mozzarella taking home gold for Best Mozzarella, competing against European and other global mozzarellas.

Wynyard is also adding two golds to its trophy case, picking up Best Australian Cheddar for its NZMP Tasty Cheddar and NZMP Mild Cheddar.

Director Nutritionals and Value-Added Ingredients Australia Fabrizio Jorge, says that it's incredible to be recognised at one of the biggest competitions for cheese globally.

“Over 5,000 cheeses are entered in this competition from more than 50 countries, so we're competing against the best of the best.

“These awards are a team effort, from our farmers providing their high-quality milk, to our Stanhope and Wynyard factories that



turn that milk into our award-winning cheese, and everyone that has a hand in getting these products to market,” says Fabrizio.

“The whole team can be proud of this achievement.”

Our award-winning cheeses were:

- **Gold** – Best Mozzarella – NZMP Premium Frozen Mozzarella – Stanhope
- **Gold** – Best Australian Cheese – Cheddar Mature – NZMP Tasty Cheddar – Wynyard

- **Gold** – Best Mild Cheddar Cheese – White or coloured (Non-UK) – NZMP Mild Cheddar – Wynyard
- **Silver** – Best Australian Cheese – Cheddar Mature – Stanhope
- **Silver** – Best Australian Cheese – Cheddar Mild – Wynyard
- **Bronze** – Best Australian Cheese – Cheddar Extra Mature/Vintage – Wynyard
- **Bronze** – Best Australian Cheese – Cheddar Mild – Stanhope

OUR COMMUNITY



An egg-cellent opportunity for children's learning at Wydinia Kindergarten and Early Learning Centre

The children at Wydinia Kindergarten and Early Learning Centre in Colac are solving the age-old question of what comes first – the chicken or the egg – with a new egg incubator and chicken coop bought with the help of the Fonterra Grass Roots Fund.

Sixty children were eagerly awaiting the hatching of 12 baby chicks, and have now

seen the small baby chicks' first moments in the world – an exciting and hands-on way to learn about the early stages of life.

President of the Wydinia Kindergarten Parents Committee, Cindy Smith, says the Henny Penny Hatching program teaches children about caring for animals and the circle of life, which wouldn't have been possible without funding from Fonterra.

“When we showed the kids the fertilised eggs in the new incubator, they were all so excited and would rush in every morning to check

if the chicks had hatched,” says Cindy.

“As parents, we believe it's critical for kids to understand the life cycle and to learn how precious life is – and what better way to do that than from seeing the chicks hatch, to then having the responsibility of looking after them as they grow into laying chickens.

“We were also able to buy a new chicken pen which means we'll be able keep two fully-grown chickens, giving the kids an opportunity to raise the animals and learn how to properly care for them.”

Fonterra Cobden Beverages Plant Manager, Andrew Westlake, says the Fonterra Grass Roots Fund is designed to support groups that keep local communities thriving.

“Learning to care for animals is an important part of farm life, so we're thrilled to be able to bring the experience to all of Wydinia Kindy's kids,” says Andrew.

