



NOVEMBER 2019

Global Dairy UPDATE AUSTRALIA



- New Zealand 12-month production flat on last period. Increase in monthly US and EU production. Australia continues to decline.



- Exports from New Zealand and the EU show strong growth and an increase in monthly US exports. Australia monthly exports continue to decline.



- Imports into China continue to grow. Asia and Latin America monthly imports down. Middle East & Africa imports grew in August.



- Workers at the now-closed factory at Fonterra Dennington have remembered and reminisced over a century of food production and friendships as they hang up their hair nets for the last time.



- Families across Victoria's south west in need of emergency food relief will now see fresh milk in their Warrnambool and District Food Share hampers, with the first donations made from Fonterra's Cobden plant.



Following our bi-monthly milk price review, we are increasing our farmgate milk price comprising 5 cents per kg of butterfat and 10 cents per kg of protein. This takes our average farmgate milk price to \$6.95/kgMS, with the payment to apply from 1 July 2019 and be paid with November proceeds on 15 December.

Since our last price review, we have seen improvements in commodity prices and a small depreciation in the Australian dollar, which have enabled this price increase.

As your business partner, it's important that we provide you with regular and consistent signals as to what is being earned in the market so that you can manage your business and achieve the best outcome as we head into the second half of the season.

Looking ahead, global production is stable, demand looks relatively strong, and our currency continues to trade in the US\$0.67 to \$US0.69 range, which are positive indicators going forward.

However, there are a number of factors which may impact the good balance we currently see between global supply and demand. These include the US-China trade tensions and political instability in some key sales regions. Weather conditions will also clearly continue to play a big role in global supply and local Australian conditions will remain a challenge.



Farm Source Service Centre

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Global production

AUSTRALIA

7%↓

Production change for the 12 months to September 2019

Australia milk production decreased 4.5% in September compared to last September. Milk production continues to contract and farmers face an outlook of dry conditions for the rest of the year. Water costs remain elevated and feed production is mixed, with southern areas faring better than their northern counterparts.

NEW ZEALAND

0%↓

Production change for the 12 months to October 2019

New Zealand milk production was down 2.6% on a litres basis (down 1.5% on a milk solids basis) in October compared to October last year, with last October being a record month in terms of volume production. Some dryness in Waikato and wet conditions in the lower South Island are likely to have had some impact on peak production figures.

EUROPEAN UNION

0%↑

Production change for the 12 months to September 2019

EU milk production increased slightly by 0.8% in September compared to September last year. Production growth was from key milk producing countries – Germany (1.1%), Spain (3.2%), The Netherlands (1.7%) and France (0.7%). EU milk production is likely to drop in the later part of the year due to seasonal fluctuations.

USA

0%↓

Production change for the 12 months to October 2019

US milk production increased by 1.3% in October, compared to the same period last year. A return to herd size expansion and a continued increase in milk per cow in October is driving production higher and may indicate a sustained return to production growth in the coming months.

Global exports

AUSTRALIA

2%↑

Export change for the 12 months to September 2019

Australia dairy exports declined 5.6% in September compared last September. SMP and WMP were down a combined 6,216 MT but were offset by an increase in fluid milk products of 4,608 MT. Fluid milk products and infant formula continued as the main drivers of 12-month growth, up a combined 59,628 MT. WMP, cheese and SMP declined by 43,943 MT.

NEW ZEALAND

9%↑

Export change for the 12 months to September 2019

New Zealand dairy exports increased by 22.4% in September compared to last September. This was driven by WMP, up 23,796 MT, followed by cheese, infant formula and fluid milk products up a combined 11,083 MT. Exports for the 12 months to September were up 8.9%, or 287,858 MT, driven by WMP, fluid milk products and infant formula, up a combined 275,549 MT.

EUROPEAN UNION

8%↑

Export change for the 12 months to August 2019

EU dairy exports increased 13.2% in August compared to August last year. SMP and fluid milk products and cheese were up a combined 45,115 MT. High cheese volumes were recorded with demand from the US, South Korea, Canada and Ukraine. Exports for the 12 months to August rose 7.7% with SMP, fluid milk products, lactose and cheese the main drivers, up 415,764 MT.

USA

10%↓

Export change for the 12 months to September 2019

US dairy exports increased 3.3%, or 6,060 MT, in September compared to September last year, curbing a declining trend in recent months. The increase was driven by SMP and cheese, up a combined 16,277 MT. Whey exports continue to decline, however, as a result of the downturn in whey for feed due to the African Swine Fever in China.

Global imports

China dairy import volumes continue to increase, up 15.2%, or 30,187 MT, in September compared to September last year. This was driven by increases in fluid milk products, up 34,615 MT, consistent with the trend for the past year.

CHINA

11%↑

Import change for the 12 months to September 2019

ASIA

4%↑

Import change for the 12 months to August 2019

MIDDLE EAST & AFRICA

4%↓

Import change for the 12 months to August 2019

Dairy Commodity Prices



Global pricing

GDT Event 249, held 3 December resulted in an index decrease of 0.5 per cent.

SMP

19.4%↑
Change vs. 12-month Rolling
Average of USD 2,488/MT

USD **2,970**

November Average Price
(USD/MT, FAS)

SOURCE: Global Dairy Trade

WMP

7.0%↑
Change vs. 12-month Rolling
Average of USD 3,073/MT

USD **3,288**

November Average Price
(USD/MT, FAS)

BUTTER

3.3%↓
Change vs. 12-month Rolling
Average of USD 5,067/MT

USD **4,900**

October Average Price
(USD/MT)

SOURCE: Dairy Australia, October Pricing

CHEDDAR

2.0%↑
Change vs. 12-month Rolling
Average of USD 4,117/MT

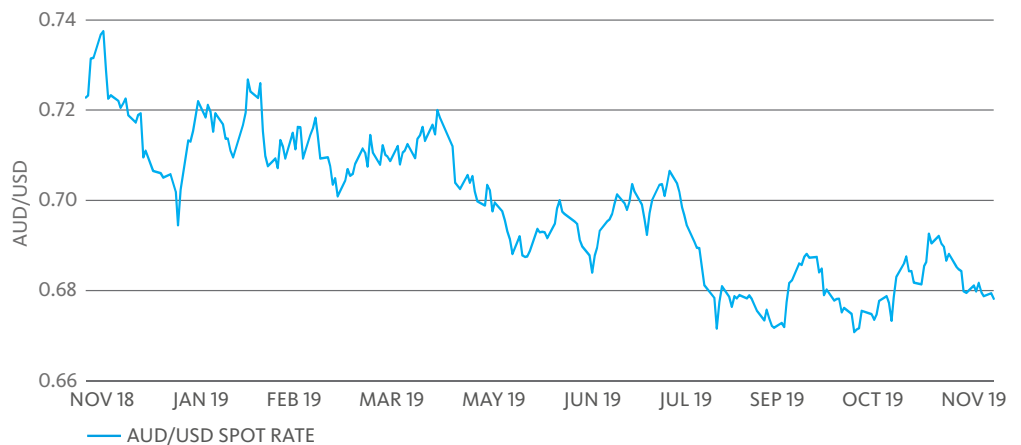
USD **4,200**

October Average Price
(USD/MT)

Australian dollar trend

After beginning November valued at 0.69, the AUD lost just over 1c against the USD, ending November just below 0.68. Earlier in the month, the RBA left the cash rate unchanged at 0.75 per cent, however weaker than expected Australian jobs data and continued uncertainty in Sino-US trade negotiations caused the AUD to weaken throughout the month.

SOURCE: news.com.au



SOURCE: Reserve Bank of Australia

Local factors affecting farming conditions



Hay

Hay making season has been in full swing across the country this month. The northern Australian harvest is coming to an end with limited production. Hay is being transported in from southern regions which is expected to continue due to low stocks. Baling is underway in southern Australia and yields are looking much better. New season hay entering the market has generally eased prices across the country. Currently, pasture and lucerne hay are trading cheaper than October last year, although month to month prices remain stable, which, considering the new season volume entering the market, shows demand remains firm.

SOURCE: Dairy Australia

Grain

A warm and dry October has kick-started the national grain harvest. The downward price pressure normally associated with harvest hasn't been noticed across the country. Frost in the west and dry conditions in most other regions weighed on the national crop production forecast, firming spot prices. Despite this, the ASX wheat and barley futures dropped \$20 and \$35 a tonne respectively (month-on-month). This is down nearly \$100/tonne from the same time last year. Victorian crops are providing some optimism, although many are still concerned with the supply deficits in the north.

SOURCE: Dairy Australia

Weather

October rainfall was very much below average, particularly in southern regions. Recent conditions exacerbated the long-term dry spell throughout NSW, SA and VIC. Central QLD was one of the only states to record above average falls following storms. The strong Indian Ocean Dipole will continue to impact the climate for the remainder of the year. Dry and warm conditions are expected to persist, although there are signs of easing and the chance of dry conditions in December is notably less than November. Similarly, the outlook for December to January looks more promising, however, nowhere is expected to have above average rainfall.

SOURCE: Bureau of Meteorology



Fonterra Dennington team thanks the community for over a century of support

Workers at the now-closed factory at Fonterra Dennington have remembered and reminisced over a century of food production and friendships as they hang up their hair nets for the last time.

Food production at Dennington ceased at the end of October, and the team have spent the past month conducting a “deep clean” of the site, scraping down the powder dryer to remove milk powder build-up, cleaning the silos and ensuring it’s in a maintainable and presentable state post-closure.

A small team will remain onsite over the coming months as decommissioning and removal of plant and equipment takes place.

A family day last month saw around 350 people, including families and friends of the

team and our farmers, tour the factory, accessing areas that are normally off limits in an operational site. Newborns and nonagenarians alike toured the site, enjoyed local favourite Timboon ice cream, and checked out memorabilia commemorating the century-old site.

Dennington Site Manager Joel Saywell says the family day was an opportunity to celebrate the next chapter as well as say goodbye to colleagues and friends, with many team members having already decided their next career move. “Around two-thirds of our people have decided their next step – whether that be moving on to another job in the region, retraining in a new industry, or packing up the caravan to enjoy their retirement,” says Joel.

“Some are still pondering their next move, and we’re all supporting each other as we step into the unknown.”

Although the factory has closed, its legacy will live on through the many community initiatives supported by the site, including Santa’s annual visit to South West Health and the Fonterra Grass Roots Fund.

“It was really important to us that we leave a legacy that we can be proud of. We’ll be there at South West Health this year, welcoming Santa back for his annual visit, and Fonterra will continue to support Grass Roots initiatives in the region.”

Joel says the community has been a huge part of Dennington’s history and had played a vital support role in the lead up to the closure.



“From the organisations that came to our Jobs Fair to the support received from the Warrnambool City Council, Regional Development Victoria and countless others, we’re grateful for that support and we want to thank the community – you’ve supported us for more than 100 years, and that community spirit, along with the camaraderie of our team, is what we’ll miss the most.”

“We’ve been part of something special here at Dennington, and although the factory may be closed, the friendships formed here will last a lifetime,” says Joel.

Our Community



Fresh milk for families in south west Victoria doing it tough

Families across Victoria’s south west in need of emergency food relief will now see fresh milk in their Warrnambool and District Food Share hampers, with the first donations made from Fonterra’s Cobden plant.

Each week, Fonterra will donate around 100 litres of Woolworths Own brand milk fresh from the factory to Warrnambool and District Food Share to be distributed via a network of schools, churches and partner welfare agencies to children and families in need in the region.

As a not-for-profit, the Warrnambool and District Food Share relies largely on local supermarkets to donate fresh produce to make up its hampers and until recently, was having to

buy staples like milk to meet the shortfall in contributions from local shops.

Dedy Friebe, Warrnambool and District Food Share Executive Officer says the partnership with Fonterra will make a huge difference to their service as they no longer have to worry about how they will get milk into every hamper.

“Fonterra’s fresh milk donation forms an important part of our ‘staple food guarantee’ – which means that every single hamper that goes out to families doing it tough will be sure to include essential items like fresh milk, eggs and rice,” says Dedy.

“In October we got 500 hampers out to families struggling to put food on the table. With this weekly donation from Fonterra, we’re now able to have fresh milk in every one of those boxes arriving at someone’s door.”



Since hearing their local Food Share had been going without fresh milk in its emergency food relief packs for some time, Fonterra’s Cobden team has been committed to turning that around.

“Milk is a key staple for Australian households – we couldn’t imagine not giving fresh milk to our kids. All of us who work at Cobden also live in south-west Victoria so we genuinely want to help people around us doing it tough,” says Andrew Westlake from Fonterra’s fresh milk Cobden plant.

“Every litre of milk that will now form part of the Warrnambool and District Food Share emergency hampers will help bring the goodness of dairy to families right across our community, even the most vulnerable.”

Each Warrnambool and District Food Share hamper is packed with fresh produce such as fruit and vegetables, dairy, bread and other grocery items, providing much needed emergency food assistance – enough for three to four days – for families in need across Victoria’s south west.