



JANUARY 2020

Global Dairy UPDATE AUSTRALIA



- Monthly New Zealand production down. Increase in EU and US production. Australia continues to decline.



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



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



- Bush fires in Australia – how our business is affected and what we're doing to help.



Following our January price review, we advise that we are holding our price at the current rates.

However, you should note our current average milk price is now \$6.98 per kgMS which reflects changes to our seasonal curve and milk composition, with a greater percentage of total milk being paid at off peak rates.

Since our last price review, the Australian dollar has traded between 0.67 and 0.69 against the USD, and global supply is relatively flat with continued demand from key importers.

Although the current outlook is encouraging, we're closely watching the impact the coronavirus may have on exports and commodity pricing, with analysts expecting the outbreak to stifle China's economic growth.

We'll review our price at our next bi-monthly review in March.



- Applications for the 2020 Fonterra Grass Roots Fund Open 5 February!





Global production

AUSTRALIA

7% ↓

Production change for the 12 months to November 2019

Australia milk production decreased 3.4% in November compared to November 2018. Production for the 12 months to November was down 6.7% on the previous 12 months. Challenging farm conditions continue to impact milk production this season with further reductions in the national herd predicted.

NEW ZEALAND

1% ↓

Production change for the 12 months to December 2019

New Zealand milk production was down 0.5% on a litre basis (up 0.2% on a milk solids basis) in December 2019. Dry and warmer than usual weather in Waikato and Bay of Plenty and favourable rainfall in the South Island did impact December production figures. Production for the 12 months to December was 0.7% lower than December 2018.

EUROPEAN UNION

0% ↑

Production change for the 12 months to November 2019

EU milk production increased by 0.5% in November compared to the prior November. Growth was from key milk producing countries: Germany (0.4%), France (1.7%), the Netherlands (2.8%) and Poland (2.1%). Winter weather has been mild so far and is resulting in continued production growth.

USA

0% ↓

Production change for the 12 months to December 2019

US milk production increased by 0.7% in December compared to the December 2018. December US milk production continued the strong growth of September and October but at a slower pace. The increase in herd size and in milk per cow seen in prior months stalled in November and December.

Global exports

AUSTRALIA

1% ↓

Export change for the 12 months to November 2019

Australia dairy exports declined 11.5%, or 8,743 MT, in November compared to November 2018, primarily driven by SMP and infant formula, down a combined 7,665 MT. For the 12 months to November, declines were recorded across a broad range of products. SMP, WMP, cheese and whey were down 55,857 MT, offset by sustained increases in fluid milk products and infant formula, up a combined 52,095 MT.

NEW ZEALAND

9% ↑

Export change for the 12 months to November 2019

New Zealand dairy exports increased 7.8%, or 27,546 MT, in November 2019. This was driven by WMP and butter, up a combined 38,052 MT, with a decline in SMP and AMF, down a combined 10,152 MT. Exports for the 12 months to November were up 9.4%, or 305,409 MT, on the previous comparable period with WMP, fluid milk products, infant formula and SMP, up a combined 298,597 MT.

EUROPEAN UNION

8% ↑

Export change for the 12 months to October 2019

EU dairy exports increased 8.1%, or 39,086 MT, in October compared to October 2018. Butter, cheese, SMP and whey rose a combined 29,949 MT, driven by exports of butter to Morocco and Indonesia, and cheese to Korea and Japan. Exports for the 12 months to October were up 8.3%, or 442,487 MT. SMP fluid milk products, butter, cheese and lactose were the main drivers, up a combined 457,297 MT.

USA

8% ↓

Export change for the 12 months to November 2019

US dairy exports increased 14.5%, or 25,310 MT, in November 2019 – a six-month high – primarily SMP, up 21,083 MT. Exports for the 12 months to November 2019 were down 7.7%, or 188,293 MT. Whey, SMP, WPC and lactose were down a combined 188,403 MT. Exports to China remain below the prior year for the 17th consecutive month although the pace of the decline is slowing.

Global imports

China dairy imports for the 12 months to November rose 319,070 MT. Strong Chinese demand continued across key categories. Growth in fluid milk products, WMP, SMP and infant formula offset continued decline in whey, down 105,554 MT.

CHINA

11% ↑

Import change for the 12 months to November 2019

ASIA

3% ↑

Import change for the 12 months to October 2019

MIDDLE EAST & AFRICA

3% ↓

Import change for the 12 months to October 2019

Dairy Commodity Prices



Global pricing

GDT Event 252, held 21 January resulted in an index increase of 1.7 per cent.

SMP

15.3%↑

Change vs. 12-month Rolling Average of USD 2,629/MT

USD **3,031**

January Average Price (USD/MT, FAS)

SOURCE: Global Dairy Trade

WMP

1.1%↑

Change vs. 12-month Rolling Average of USD 3,156/MT

USD **3,191**

January Average Price (USD/MT, FAS)

BUTTER

6.1%↓

Change vs. 12-month Rolling Average of USD 5,058/MT

USD **4,750**

December Average Price (USD/MT)

SOURCE: Dairy Australia, December Pricing

CHEDDAR

1.8%↑

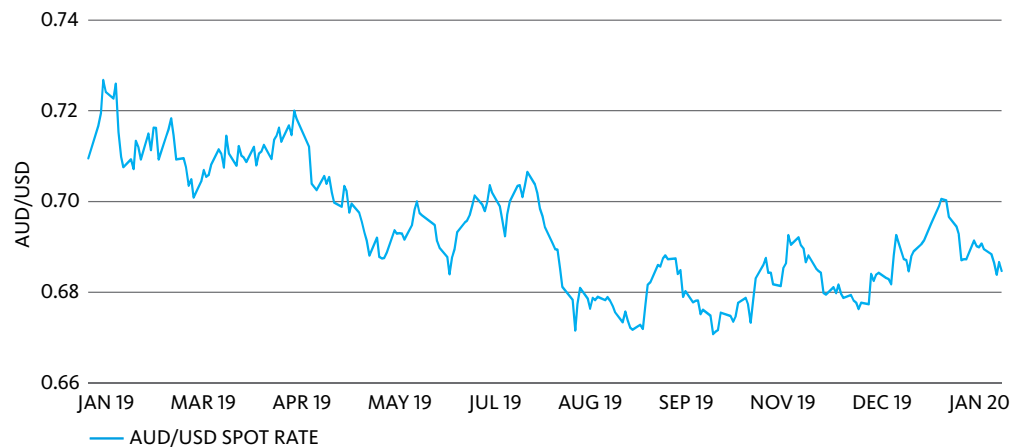
Change vs. 12-month Rolling Average of USD 4,175/MT

USD **4,250**

December Average Price (USD/MT)

Australian dollar trend

The Australian dollar spent most of January valued between 0.68 and 0.69 against the US dollar. The Reserve Bank of Australia continues to be prepared to lower domestic interest rates to provide support to the Australian economy.



SOURCE: news.com.au

SOURCE: Reserve Bank of Australia

Local factors affecting farming conditions



Hay

The hay season has all but finished for 2019/20 with varied results. Production across southern regions was average to above average particularly in Western Victoria, South Gippsland, Western Tasmania and cropping regions which harvested a larger volume of failed or frost-damaged crops into hay. However, Northern and Western Australia yields were typically very low due to sustained rainfall deficits. Demand is driving large volumes of hay in the north and with low inventories, prices remain strong, particularly for high quality hay. Whilst securing supply can be challenging with varying quality levels, feed-tests are recommended particularly with weather-damaged hay.

SOURCE: Dairy Australia

Grain

The winter grain harvest largely mirrored the hay season with some southern regions producing excellent yields, particularly in Victoria, but the story of the 2019/20 season is failed crops due to rainfall deficits across major Australian grain producing regions. As such, the winter crop production is forecast to be 3 per cent below 2018/19 and 27 per cent below the 10-year average. Domestic demand remains strong as feed stocks are in short supply, particularly in the Northern and East Coast, which is seeing grain supply move to fill these markets. Domestic grain prices have remained firm, but steady over December

SOURCE: Dairy Australia

Weather

National weather in December was particularly challenging. It was the hottest and lowest rainfall December on record, and concluded 2019 as Australia's hottest, driest year on record. Whilst some regions received average to above average rainfall and isolated storms (WA and Western TAS), the majority had below to very much below average rainfall which, coupled with ongoing drought and higher than average temperatures, led to damaging bush fires across the nation, which by the end of December had burnt over 5 million hectares. The January-March 2020 outlook is more favourable, with a reversion to average rainfall and above average temperatures.

SOURCE: Bureau of Meteorology

OUR Business



Bush fires in Australia – how our business is affected and what we're doing to help

All of us at Fonterra are saddened by the suffering being experienced by so many in our community. We're thankful that our people and farmers are safe, and our thoughts are with those who have not been so lucky.

To help get much-needed supplies out to the affected regions, we supported our charity partner Foodbank through a donation of 7,800kg of milk powder – which equates to 78,000 litres of milk for those who need it most. We're also helping store 500 pallets of food and supplies generously donated by food companies and the public until Foodbank is ready to ship it.

Our people wanted to know how they could help, so we hosted events at our Richmond head office and our sites across Victoria and Tasmania where our people had the opportunity to donate. Our team has raised \$7,500 so far – and with Fonterra matching every dollar, \$15,000 will be shared amongst the Australian Red Cross Disaster and Relief Recovery Fund and local support organisations where our sites are located.

Our farmers are part of a tight-knit community, and it's important that we all rally together. We've helped to support the co-ordinated industry effort to get help to where farmers need it most. This includes getting feed to affected farms and helping to home cows outside the fire zones.

The bravery and determination of the emergency services



These images were taken by one of our Kiwi farmers, Graeme Appleby from Southland, who was part of the second fleet of New Zealand firefighters deployed to New South Wales before Christmas

volunteers has been nothing short of inspiring, and we're proud to have members of our team on the front-line with the CFA and SES. To recognise their dedication and the care they show to the community, we provide volunteer leave so they're not left out of pocket.

We've been humbled by the support of our Kiwi colleagues and farmers who joined the fleet of New Zealand volunteer

firefighters to bravely fight these devastating fires.

Sadly, it's going to be a challenging next few months as the dry conditions as a result of the drought show no signs of abating. Although at this point our business is fortunate to be in a better position than many, and our priority continues to be the safety of our people and our farmers.

Our Community



Applications for the 2020 Fonterra Grass Roots Fund Open 5 February!

We're looking to team up with people and initiatives that are keeping our local and surrounding dairy communities thriving.

Whether it's building a community veggie garden or playground, aiding emergency services with much-needed equipment, or developing educational programs in local schools, we want to help.

We know the dairy industry

plays an important role in supporting rural livelihoods and community development, that's why we have the Fonterra Grass Roots Fund – it's our way of partnering with our community to really make a difference.

To be eligible, initiatives must fit within one of three criteria – the initiative must bring communities together through rural activities and events, support healthy lifestyles such as sporting equipment for clubs, or care for the environment through projects such as recycling or tree planting.



Warragul Bowling Club is bowling its rivals over with help from the Fonterra Grass Roots Fund

Applications are open from 5 February until 5 March 2020, and you can apply online via Fonterra's website –

www.fonterra.com.au, where funding guidelines and additional information is also available.