



MARCH 2020

Global Dairy UPDATE AUSTRALIA



- Monthly New Zealand production flat and Australian production steadies. Increase in EU and US production.



- Monthly exports from the US and EU grow. New Zealand, Australia monthly exports decline.



- Latin America and Asia monthly imports down. December imports up for Middle East and Africa. China records decline for first two months of 2020.



Following our March price review, we advise that we are holding our milk price at the current level for now, which is \$6.98 per kgMS.

The uncertainties that we face in the economy, market and supply chain mean that the responsible decision is to hold until we understand the full impacts of COVID-19 – our number one priority is ensuring that we all navigate these times and come out the other side with strong and enduring business partnerships.



A solid first half prepares Fonterra for uncertain times.





Global production

AUSTRALIA

6%↓

Production change for the 12 months to January 2020

Australia milk production increased 0.5% in January compared to January 2019.

Production for the 12 months to January was down 5.6%.

Australian production has steadied in recent months, with rainfall in many regions offsetting the impact of dry conditions and helping to offset higher feed costs.

NEW ZEALAND

2%↓

Production change for the 12 months to February 2020

New Zealand milk production was up 1.7% on a milk solids basis in February compared to February last year. Adjusting for the leap year, February 2020 production was down 1.8%. Drought conditions across the North Island and heavy rainfall in the lower South Island affected milk production in February.

EUROPEAN UNION

1%↑

Production change for the 12 months to January 2020

EU milk production increased by 1.1% in January compared to January last year. The largest growth was seen in The Netherlands (up 2.8%), Poland (2.2%), France (1.3%) and Germany (0.7%). The increase in production is likely to translate into more cheese, especially from Poland which has sustained growth for the last six months.

USA

1%↑

Production change for the 12 months to February 2020

US milk production increased by 5.3% in February compared to February last year. However, with February 2020 containing an extra 'leap' day, the adjusted increase is closer to 2% on a daily basis.

This continuing milk production growth was driven by steady increases in herd sizes and in milk per cow.

Global exports

AUSTRALIA

6%↓

Export change for the 12 months to January 2020

Australia dairy exports declined 18.1%, or 11,683 MT, in January compared to January last year, primarily driven by SMP and infant formula, down 12,410 MT.

Exports for the 12 months to January were down 5.7%, or 45,072 MT with declines were recorded across a broad range of products. SMP, whey, cheese and WMP were down a combined 76,126 MT partially offset by an increase in fluid milk products, up 37,635 MT.

NEW ZEALAND

4%↑

Export change for the 12 months to February 2020

New Zealand dairy exports decreased by 6.1%, or 19,348 MT, in February compared to February 2019, driven by decreased demand for butter from Iran and for fluid milk products from China, down a combined 20,068 MT.

Growth for the 12 months to February of 3.7% was driven by WMP, fluid milk products, cheese and infant formula, up a combined 156,044 MT.

EUROPEAN UNION

8%↑

Export change for the 12 months to December 2019

EU dairy exports increased by 3.0%, or 12,444 MT, in December compared to December 2018. This was mainly driven by increases in butter, fluid milk products, cheese and WMP, up a combined 29,405 MT, and partially offset by a decrease in SMP exports of 18,349 MT.

Growth for the 12 months to December was driven by SMP, fluid milk products, butter, cheese and lactose.

USA

3%↓

Export change for the 12 months to January 2020

US dairy exports increased 18.8%, or 31,964 MT, in January compared to January 2019 marking the fourth consecutive month of growth. The increase was driven by SMP, up 20,153 MT, and WPC and lactose up a combined 9,849 MT. This increase was the result of higher demand from Indonesia, Philippines and Vietnam. Whey exports have begun to grow, up 923 MT, after months of sustained declines.

Global imports

China dairy imports decreased by 2.1%, or 13,605 MT, in the January-February period compared to the same period last year. Lower volumes of SMP (25%), WMP (5%) and lactose (41%) drove the decline, partially offset by butter, fluid milk products and whey, up a combined 26,153 MT.

CHINA

7.5%↑

Import change for the 12 months to February 2020

ASIA

2%↑

Import change for the 12 months to December 2019

MIDDLE EAST & AFRICA

2%↓

Import change for the 12 months to December 2019

Dairy Commodity Prices



Global pricing

GDT Event 256, held 17 March resulted in an index decrease of 3.9 per cent.

SMP

1.3%↓

Change vs. 12-month Rolling Average of USD 2,673/MT

USD **2,637**

March Average Price (USD/MT, FAS)

SOURCE: Global Dairy Trade

WMP

7.9%↓

Change vs. 12-month Rolling Average of USD 3,122/MT

USD **2,874**

March Average Price (USD/MT, FAS)

BUTTER

9.5%↓

Change vs. 12-month Rolling Average of USD 5,025/MT

USD **4,550**

February Average Price (USD/MT)

SOURCE: Dairy Australia, February Pricing

CHEDDAR

5.9%↑

Change vs. 12-month Rolling Average of USD 4,250/MT

USD **4,500**

February Average Price (USD/MT)

Australian dollar trend

The AUD fell against the USD over the last four weeks, starting the month at 65 US cents and ending the month at 57 US cents. The potential economic impact of COVID-19 resulted in most governments and central banks implementing both fiscal and monetary policy measures to support their respective economies. Money also flowed to US government securities weakening most currencies against the USD.

SOURCE: news.com.au



SOURCE: Reserve Bank of Australia

Local factors affecting farming conditions



Feed

ASX wheat and barley futures dropped by 6 to 7 per cent in February. This was a result of rain in key grain growing regions improving the outlook for the upcoming winter crop and spot prices, followed by wheat prices easing across all dairy regions as major rain events buoyed sentiment on the potential 2020 national crop. Hay price movements were mixed, with reductions in northern and southern Australia, whilst central eastern states firmed. Widespread rainfall helped pasture growth across the country and eased demand in the North. Whilst it's a good start, an average to above average autumn break will continue to see feed prices ease heading into the new season.

SOURCE: Dairy Australia

Weather

February's above average national rainfall resulted in a wetter finish to summer with average to above average for all dairy regions, some along the east coast recorded decile +10 rainfall. This provided some respite to a challenging summer, although ongoing rain is required to properly revive long-term deficiencies. 30 per cent of Australian and 90 per cent of NSW regions still have severe rainfall deficiencies. This was the second warmest summer on record and despite recent downpours, rainfall remained below average. Rain events and mild summer temperatures in the southern and east coast dairy region setup many for a recovery if favourable conditions continue.

SOURCE: Dairy Australia

Seasonal Outlook

Australia's main climate drivers remain neutral, however, the outlook for March indicates drier than average conditions in the North and wetter in the South. The April to June outlook has been one of the more favourable recently, as nearly all regions are expected to have average to above average rainfall. It is particularly favourable for SA, northern Victoria and southern NSW and SE Australia more generally. With warmer temperatures predicted to persist, improved soil moisture from late summer rains and a realisation of the prevailing rainfall forecast over the crucial Autumn period, the upcoming season and winter crop appear favourable.

SOURCE: Bureau of Meteorology



A solid first half prepares Fonterra for uncertain times

COVID-19 has brought uncertainty, and we're all trying to adapt to our new reality. For Fonterra, our global operations have been largely unaffected but we're continuing to watch the situation closely, as no one can predict how long this will last or what the impacts will be.

We have seen a slow-down in the processing of containers at ports but currently, our product is continuing to be cleared by customs and quarantine officials in our key markets.

We've also seen our Foodservice customers affected as people are eating out less and some have been forced to close due to government-enforced lock-downs. However, our Consumer business has picked up on the back of unprecedented panic buying.

Our response to the global COVID-19 outbreak is being managed through our robust incident response

processes. We have actioned our business continuity plans for our sites, offices, and facilities.

At this stage our operations and logistics are largely operating as normal. Our factories and supply chain are continuing to run as usual, and we're focused on keeping it this way.

The government confirmed that food production and supply is an essential service, which is good news for our industry as we won't be affected by shutdowns. Our factories will stay open, tankers will collect farmers' milk and our distribution centres will be running, making sure your dairy continues to get to people.

We take our responsibility as an essential business providing dairy seriously, and we're taking precautions to ensure the health and wellbeing of our people, our farmers, and our community during this time.

Our number one priority is ensuring that we navigate these times and come out the other side, and right now our business is in a strong place to make this happen.

Despite a few challenges, we delivered a good start in the first half. Our Consumer and Foodservice businesses performed well, and our Ingredients business had an improved first half versus prior year, despite the tough environment of lower milk volumes.

We know the next half will be challenging – the global environment, commodity prices, currency and unknowns such as COVID-19 and the subsequent impact these have on the market – however our good start has put us in a good position to deliver in the second half.

[You can read more about the results –](#)

