

GLOBAL DAIRY UPDATE AUSTRALIA



• Australia monthly production continues to decline, growth softening in the EU and small decline in the US. New season starting in New Zealand.



• Exports from New Zealand, the EU and Australia continue to grow. Strong decline in monthly US exports.



• Monthly imports into Asia show strong growth. Latin America, China and Middle East & Africa down.



• From a distribution centre so big it houses a 1.4km train, to our Fanshawe Street headquarters to hear first-hand from the Fonterra Management Team and Board about the business – four of our Australian farmers recently experienced it all as part of the Understanding your Co-operative Program.



• Plastic Free July may have been and gone, but this isn't stopping a group of Gippsland residents from sewing up a storm to reduce single-use plastic bags in their local community.

CONTACT US



Farm Source Service Centre +1800 266 674



Global production

AUSTRALIA

8% ↓

Production change
for the 12 months to
May 2019

Australia milk production was down 13.6% in May compared to last May and down 7.6% for the 12 months to May compared to the previous 12 months. Dairy Australia forecasts annual production to decline by 7% to 9% for the 2018/19 season, and a further decline of 3% to 5% in the 2019/20 season due to reduced herd sizes and strained farmer finances.

NEW ZEALAND

2% ↑

Production change
for the 12 months to
June 2019

New Zealand milk production was up 13.9% in June compared to the same period last year, on relatively small winter volumes and as a result of better weather conditions this season than last season. New Zealand milk production for the 12 months to June was 2.3% higher than last year.

EUROPEAN UNION

0% ↑

Production change
for the 12 months to
May 2019

EU milk production increased 0.1% in May compared to last May. Growth continues in Ireland, though at a slower pace, up 10.8% in May. The recent heatwave slowed down production in Germany (15%), France (1.6%) and The Netherlands (2.5%) and led to abnormally dry conditions that could have a lasting effect on production for the quarter.

USA

0% ↑

Production change
for the 12 months to
June 2019

US milk production decreased 0.3% in June, compared to June last year. Poor on-farm profitability is leading to increased culling which is likely to continue to impact growth over the next few months. Milk production for the 12 months to June was 0.4% higher compared to the same period last year.

Global exports

AUSTRALIA

4% ↑

Export change for the 12
months to May 2019

Australia dairy exports rose 1.7% in May compared to last May driven by fluid milk products and infant formula, up 7,400 MT, offsetting declines in SMP, whey and cheese, down a combined 6,800 MT. For the 12 months to May, growth of 3.8%, or 29,000 MT, was mainly in infant formula, fluid milk products, and whey powder which offset declines in WMP and SMP.

NEW ZEALAND

7% ↑

Export change for the 12
months to May 2019

New Zealand dairy exports increased by 17.1%, or 42,203 MT, in May compared to May 2018 driven by WMP and fluid milk products, up 34,200 MT. Butter had the largest decline, down 3,400 MT for the month. The increase in exports for the 12 months to May was led by WMP, fluid milk products, AMF, and infant formula, up a combined 270,500 MT.

EUROPEAN UNION

3% ↑

Export change for the 12
months to April 2019

EU dairy exports rose by 11.5% in April compared to April 2018, driven by fluid milk products, SMP, butter, cheese and lactose partially offset by declines in WMP and whey powder. For the 12 months to April SMP, lactose, WPC, fluid milk products, MPC and cheese rose by a combined 240,100 MT. WMP, butter, AMF, and cultured products declined 100,000 MT.

USA

4% ↓

Export change for the 12
months to May 2019

US dairy exports declined 10.3%, or 23,300 MT, in May compared to May last year, driven by declining Chinese whey powder imports and declines in SMP, lactose, WPC, butter and WMP, down a combined 29,800 MT. This was slightly offset by an increase in cheese and fluid milk products of 6,300 MT.

Global imports

China dairy import volumes decreased in May driven by a 27,900 MT decline in whey powder. African Swine Fever has impacted hog numbers in China reducing demand for whey as feed. Lactose, butter and infant formula declined 13,800 MT, fluid milk products rose 28,900 MT.

CHINA

7% ↑

Import change for the 12
months to May 2019

ASIA

7% ↑

Import change for the 12
months to April 2019

MIDDLE EAST & AFRICA

9% ↓

Import change for the 12
months to April 2019

OUR MARKETS

DAIRY COMMODITY PRICES



Global pricing

GDT Event 240, held 16 July resulted in an index increase of 2.7 per cent.

SMP

9.4% ↑

Change vs. 12-month Rolling Average of USD 2,256/MT

USD **2,468**

July Average Price (USD/MT, FAS)

SOURCE: Global Dairy Trade

WMP

2.5% ↑

Change vs. 12-month Rolling Average of USD 2,946/MT

USD **3,021**

July Average Price (USD/MT, FAS)

BUTTER

0.5% ↑

Change vs. 12-month Rolling Average of USD 5,225/MT

USD **5,250**

June Average Price (USD/MT)

SOURCE: Dairy Australia, June Pricing

CHEDDAR

3.4% ↑

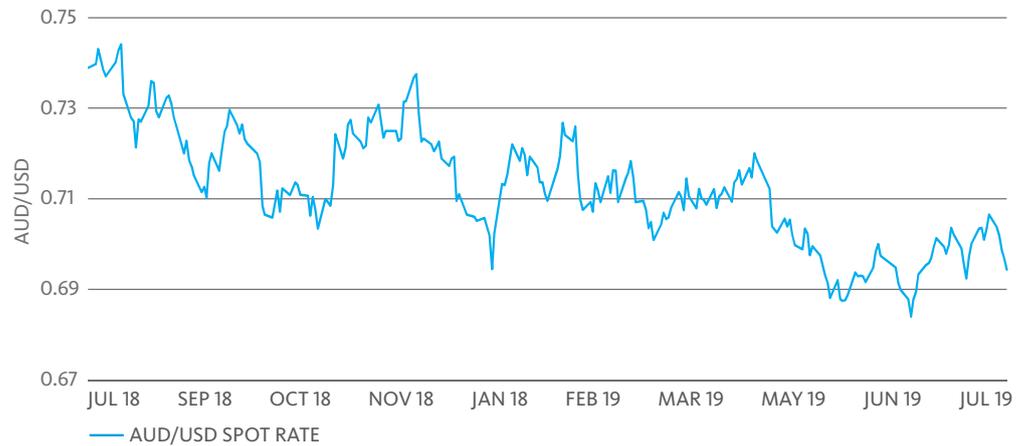
Change vs. 12-month Rolling Average of USD 4,063/MT

USD **4,200**

June Average Price (USD/MT)

Australian dollar trend

The Australian dollar ranged between US\$0.69 and US\$0.71 throughout July. Market expectations for the balance of 2019 were for both the US Federal Open Market Committee and the Reserve Bank of Australia to cut interest rates. Trade and tariff negotiations between the US and China continued without a resolution.



SOURCE: news.com.au

SOURCE: Reserve Bank of Australia

Local factors affecting farming conditions



Hay

Despite a break in weather across many regions, the onset of winter and little feed on farm is sustaining demand across the country. Accordingly, the hay market remains in a precarious position. For consecutive winters, hay and fodder demand has well exceeded supply and prices continue to reflect this imbalance. Overall, prices in June increased or remained steady at best. NSW and SA experienced the largest price increase, while Tasmania had a small increase. Recent rain has provided some positive sentiment as new season crop prospects and increased pasture availability held prices in Victoria.

SOURCE: Dairy Australia

Grain

Climatic conditions across Australia and robust demand for grains continued to drive prices in the local market. ASX barley futures increased \$9/tonne in June, while wheat futures remained steady. Some rainfall across WA, and Victoria provided optimism on new season crop prospects. All eyes are on new season crops as domestic grain stocks remain depleted from the poor 2018/19 harvest. The new season crop is forecast to increase 20 per cent, however this would still be 10 per cent below the 10-year average according to ABARES.

SOURCE: Dairy Australia

Weather

Southern QLD, NSW and SA recorded below to very much below average rainfall in June, SW WA, VIC and TAS had average to above average rain as timely cold fronts brought substantial falls. YTD rainfall is tracking below to very much below average. June was warmer than average, 2019 YTD is the second warmest on record. BOM forecasts (Jul-Sep) indicate average to drier than average conditions across most agricultural regions. Below average rain is forecast in SW WA, VIC, most of NSW and QLD. TAS and SA are expected to receive closer to average rainfall. Clear skies and low soil moisture will increase frost chances, particularly southern inland areas.

SOURCE: Bureau of Meteorology

OUR BUSINESS



Sharing knowledge across the Tasman

From a distribution centre so big it houses a 1.4km train, to our Fanshawe Street headquarters to hear first-hand from the Fonterra Management Team and Board about the business – four of our farmers recently experienced it all. BSC Director for the North, Paul Weller, recently travelled to Auckland to attend the Understanding Your Co-operative Program, and was joined by three of our Supplier Forum members – Mark Miers and Drew Carter from Tassie, and Dave Algie from Gippsland. Held over two days, the program is run by the Fonterra Shareholders' Council for Fonterra's Kiwi suppliers, and is designed to provide farmers with a 'viewing window' into the complex operations of

Fonterra's business, from the grass on our farms to the glass of the customer.

The Shareholders' Council welcomes representatives from the BSC Board and Supplier Forum so they can learn more about our business and share these learnings with fellow Aussie farmers, so that our farmers on both sides of the Tasman can benefit.

Paul says that while the program focuses on what Fonterra is doing in New Zealand, it was interesting to hear from Fonterra's Directors about their thinking behind the decisions being made.

"Hearing from members of the Fonterra Shareholders' Council, which is made up of Fonterra farmers, reminded me of the challenges farmers in New Zealand are facing, which we sometimes lose sight of

given the tough season we've had in Australia.

"Environmental issues are front-and-centre in New Zealand, just one example is Kiwi farmers having to consider how much nitrogen they can use, which limits their production per hectare.

"As for the business, it's feeling the impact of a more competitive milk pool there too. So while we're facing different challenges, in some ways our markets are very similar," says Paul.

Mark says the visit was useful to better understand the challenges affecting business performance both in New Zealand and in other global markets, as well as where the opportunities lay.

"It was great to learn direct from Fonterra's management team about the co-op's business strategy – particularly about



LEFT TO RIGHT - MARK MIERS, DREW CARTER, DAVE ALGIE AND PAUL WELLER AT FANSHAWE STREET

the role of overseas investment such as Australia. They reiterated to us the important role that Australia plays in the global business," says Mark.

Thanks to Paul and Mark for sharing your reflections. Farmers who have any questions for Paul or Mark about the program are encouraged to reach out to them direct or via your local BSC or Forum representative.

OUR COMMUNITY



Sewing up a storm for the war on waste

Plastic Free July may have been and gone, but this isn't stopping a group of Gippsland residents from sewing up a storm to reduce single-use plastic bags in their local community.

Once a month, several keen sewers head along to the Yinnar and District Community Hall for a 'sewing bee' as part of the Boomerang movement. Using recycled fabric bought from their local Salvation Army and fabric donations from the local community, they make and donate environmentally sustainable fabric bags to local businesses to give to their customers as an alternative to single-use plastic bags. The Boomerang movement

started in 2014 to reduce plastic bag waste. Now over 950 communities worldwide participate, saving over 75,000 kilograms of waste from landfill and the communities of Yinnar and Boolarra are getting behind it.

Jane Brown coordinates the local Yinnar and Boolarra Boomerang Group, and says the amount of plastic waste is visible even in their small community.

"All you have to do is look around at your local supermarket to see just how many people are still grabbing a plastic bag because it's so convenient. We decided to join the Boomerang movement and find a way to reduce plastic while still offering a convenient option for shoppers,

so we can help change people's behaviour," says Jane.

"We were fortunate to receive funding this year from the Fonterra Grass Roots Fund, which meant we could buy enough fabric to make over 100 bags for our community.

"A lot of local businesses have jumped on the cause and our bags are now available for free with a borrow and bring back system from The Yinnar General Store, Boolarra Milk Bar, Yinnar Post Office and Webster's Butchers, which we couldn't have done with the help of Fonterra.

"While our aim is to reduce plastic waste, the group has also seen us foster stronger connections within our communities, build awareness about the importance of caring



LEFT TO RIGHT - JILL DIXON, AMY CLOSE, JANE BROWN AND FARM SOURCE GIPPSLAND'S CHRISTINE BOWDEN

for the environment and pass on life skills, like sewing, to younger generations," says Jane.

Members of the public are invited to join the Boomerang movement – sewing experience is not necessary. The group encourages people of all ages and welcomes anyone interested in helping fight the war on waste and learn a skill or two along the way.