

GLOBAL DAIRY UPDATE AUSTRALIA



FARMGATE MILK PRICE UPDATE



- Significant monthly production decline in Australia. New Zealand finished season up on weak prior season. Steady growth in the EU and growth easing in the US.



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



- Monthly imports into China and Asia show strong growth. Latin America and Middle East & Africa down in March.



- Aussie consumers vote Bega and Mainland most trusted cheese brands.



- Local community groups get a leg-up thanks to the Fonterra Grass Roots Fund.

We are increasing our farmgate milk price for the 2018/19 season by 10 cents per kgMS. This brings our average farmgate milk price to close at \$6.15/kgMS, which will apply from 1 July 2018 to 30 June 2019 and be paid on 15 July 2019. This 10c step-up will be paid to all suppliers who are supplying Fonterra on 30 June as well as suppliers who retired during the 2018/19 season.

We are also increasing our farmgate milk price for the 2019/20 season by 20 cents per kgMS, which brings our average farmgate milk price to \$6.80/kgMS.

You will have the option to take this step-up upfront rather than receiving it through the season. Talk to your Area Manager if you'd like to know more on how this can work for you.

The outlook for the 2019/20 season is positive due to softening currency and we now have a better view of pricing on some of our new season customer contracts since we announced our opening price in May.

Please get in touch with your Area Manager or use our online income estimator on Farm Source Digital for information on what this means to your farm.

CONTACT US



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Global production

AUSTRALIA

6% ↓

Production change for the 12 months to April 2019

Australia milk production decreased 14% in April compared to April last year. High input costs have led to lower milk production and low farmer confidence. Reduced supplemental feeding, increased cow cull rates and farm exits continue to impact production.

NEW ZEALAND

2% ↑

Production change for the 12 months to May 2019

New Zealand milk production was down 0.1% in May compared to May last year. Weather improved in May with temperatures above average across the country and rainfall near or above average in Waikato, Taranaki and most of the South Island.

EUROPEAN UNION

0% ↑

Production change for the 12 months to April 2019

EU milk production increased 1% in April compared to last April. Growth continued in Ireland, up 15% in April, supported by favourable weather relative to last year which was impacted by a poor spring. Key exporting countries with production declines were Austria, France, Germany and the Netherlands, at 1.6%, 1.0%, 0.5% and 1.7% respectively.

USA

1% ↑

Production change for the 12 months to May 2019

US milk production decreased 0.4% in May, compared to the same Month last year. Poor profitability is leading to an increase in culling which is likely to continue to impact growth over the next few months. Milk production for the 12 months to May was 0.5% higher compared to the same period last year.

Global exports

AUSTRALIA

4% ↑

Export change for the 12 months to April 2019

Australia dairy exports increased by 5.6% in April, driven by infant formula, fluid milk products and cheese, up 7,400 MT. The increase was offset by declines in WMP and SMP, down a combined 4,700 MT. For the 12 months to April, infant formula, fluid milk products, and whey powder made up most of the growth, up a combined 47,800 MT.

NEW ZEALAND

5% ↑

Export change for the 12 months to April 2019

New Zealand dairy exports increased by 13.6% in April compared to last April driven by WMP and fluid milk products, up 32,400 MT. Butter had the largest decline in volume, down 3,100 MT for the month. For the 12 months to April, WMP, fluid milk products, AMF, and infant formula, were up a combined 224,900 MT. SMP was down 43,000 MT.

EUROPEAN UNION

2% ↑

Export change for the 12 months to March 2019

EU dairy exports increased by 5.7% March-on-March with SMP, and fluid milk products up 49,700 MT, offset by WMP, cheese, whey powder, and infant formula, down a combined 22,700 MT. For the 12 months to March, SMP, lactose, WPC, MPC and infant formula were up 196,900 MT, while butter, AMF, and fluid milk products declined by 100,100 MT.

USA

2% ↓

Export change for the 12 months to April 2019

US dairy exports declined 21.2% in April compared to last April, driven by SMP, whey powder, lactose, WMP and WPC down 46,400 MT. The US has seen a more than 100,000 MT decline in whey products to China in the last 12 months. This was partially offset by increases in SMP to Mexico and fluid milk products to Canada and Taiwan.

Global imports

China dairy import volumes increased 31.5% in April compared to April last year, driven by WMP, fluid milk, infant formula and SMP products up a combined 76,300 MT but offset by whey powder, down 11,500 MT.

CHINA

10% ↑

Import change for the 12 months to April 2019

ASIA

7% ↑

Import change for the 12 months to March 2019

MIDDLE EAST & AFRICA

8% ↓

Import change for the 12 months to March 2019

OUR MARKETS

DAIRY COMMODITY PRICES



Global pricing

GDT Event 238, held 18 June resulted in an index decrease of 3.8 per cent.

SMP

8.4% ↑

Change vs. 12-month Rolling Average of USD 2,211/MT

USD **2,397**

June Average Price (USD/MT, FAS)

SOURCE: Global Dairy Trade

WMP

4.5% ↑

Change vs. 12-month Rolling Average of USD 2,940/MT

USD **3,072**

June Average Price (USD/MT, FAS)

BUTTER

4.0% ↑

Change vs. 12-month Rolling Average of USD 5,288/MT

USD **5,500**

May Average Price (USD/MT)

SOURCE: Dairy Australia, May Pricing

CHEDDAR

6.0% ↑

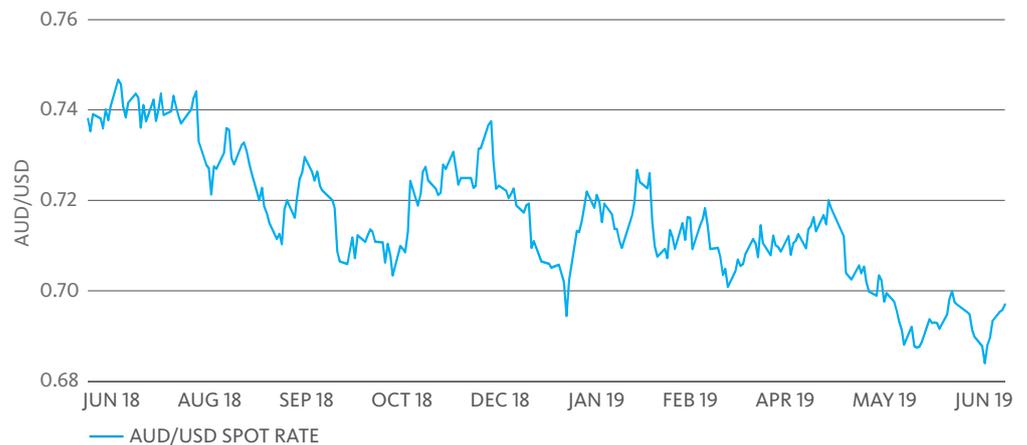
Change vs. 12-month Rolling Average of USD 4,058/MT

USD **4,300**

May Average Price (USD/MT)

Australian dollar trend

The Australiaa dollar was valued just below US\$0.70 at the end of June. The Reserve Bank of Australia lowered its reference interest rate by twenty-five basis points at the start of June, however stronger base commodities and some progress in Sino-US tariff negotiations allowed the Australian dollar to hold its value through the month.



SOURCE: news.com.au

SOURCE: Reserve Bank of Australia

Local factors affecting farming conditions



Hay

With very little hay available in the supply chain, the onset of winter and cold weather, many farmers are finding it difficult to source fodder. More recently, rain in some regions has provided optimism for the upcoming seasons yield and pasture availability. However, this has done little to soften hay prices which remain at near record levels. On the back of a tough season for many dairy farmers, the price of purchased feed is becoming increasingly unaffordable. Demand is likely to remain strong throughout winter and demand and subsequent prices will largely depend on development of crops throughout winter and into spring.

SOURCE: Dairy Australia

Grain

After recent weakness, local markets firmed in late May with ASX wheat and barley futures increasing \$23/tonne and \$13/tonne respectively. International factors combined with a drier than average forecast for many cropping regions have caused the rise in prices. In particular, the market is taking a negative view on unfavourable weather forecasts for WA and SA for new season crops. ABARES has forecast Australia's winter crop to increase 20%, reaching 36.4 million tonnes, off the back of a significantly small harvest last year. Internationally, the lingering threat of trade wars and the big wet in the US mid-West continues to inject volatility to the market.

SOURCE: Dairy Australia

Weather

May rainfall across Australia was mixed The west and parts of the east coast remained dry while most of inland Australia received rain. Well-timed cold fronts and tropical cyclones saw average to above average rainfall in VIC, SA, NT and inland southern NSW. Overall, May was warmer than average. BOM forecasts average to below average rainfall conditions for most of Australia with the June to August forecast suggesting below average rainfall is likely for most of the eastern states and parts of SA. The lack of rain is expected to limit stream flows and soil moisture for many agriculture areas. Clear nights and lack of soil moisture will increase the chance of frosts.

SOURCE: Bureau of Meteorology

