

GLOBAL DAIRY UPDATE AUSTRALIA



FARMGATE MILK PRICE UPDATE



- Wet conditions in New Zealand are impacting early season production.
- Our milk collection in Australia is up 20% for August vs. last year.



- Double-digit export growth for New Zealand in June. US export growth continues and steady growth from the EU.
- Continued strong growth in China and Latin America imports, and steady overall growth in Asia.



Following our September price review we have held our farmgate milk price at \$5.50/kgMS plus \$0.40/kgMS, for a total cash payout of \$5.90/kgMS. This price is supported by the current market and what our mix can earn in this market. We have also held our current full year forecast range of \$5.50-\$5.80/kgMS, plus \$0.40/kgMS, for a total cash payout of \$5.80-\$6.20/kgMS.

We are maintaining a close eye on commodity prices and the exchange rate, which remains at ~0.80 US cents, and will provide updated price guidance following the November peak.

We will continue to keep suppliers informed of the latest developments in the market in future editions of Australia: Global Dairy Update.

- Fonterra Australia is planning to grow its milk supply and processing capacity now that it has firmly established its place in the domestic market and as a global ingredients hub for Fonterra's cheese, whey and nutritionals portfolio.



YOUR LOCAL FONTERRA CONTACTS



Farmer enquiries
+1800 266 674

Gippsland
Transport Office
+61 3 5624 2663

Northern Victoria
Transport Office – North
+61 3 5484 3529

Tasmania
Transport Office – Spreyton
+61 3 6421 2123
Transport Office – Wynyard
+61 3 6442 0230

West
Transport Office
+61 3 5595 1606

- Fonterra opened the doors of its newly rebuilt cheese plant to bring the community inside, as part of a legendary Community Open Day, held at Stanhope earlier this month.



Global production

AUSTRALIA

7% ↓

Production change for the 12 months to June 2017

Australia production in June increased 2% compared to June last year. Production for the 12 months to June was down 7% compared to the previous year. This decrease is largely a result of poor weather conditions in spring and the impact of soft farmgate milk prices earlier in the year.

NEW ZEALAND

1% ↓

Production change for the 12 months to July 2017

New Zealand production in July was up 7% compared to July last year. Due to the seasonal profile, volumes in New Zealand are lower at this time of year, but will build over the coming months as the peak collection period draws near. Wet weather in August is impacting production with the 2017/18 season-to-date down 2%.

EUROPEAN UNION

2% ↓

Production change for the 12 months to June 2017

EU production in June was up 2% compared to last June. While the two biggest producers, Germany and France were down a combined 1%, this was offset by growth in other key export regions, particularly Poland, Ireland and Italy. The increase gives support to the EU Commission forecast for 2017 production growth of 0.7%.

USA

2% ↑

Production change for the 12 months to July 2017

US production in July increased 2% compared to the same month last year. US volumes have been increasing at a rate of 2% per month for the last 13 months. The increase in production is largely driven by larger herd numbers and improved production per cow.

Global exports

AUSTRALIA

3% ↓

Export change for the 12 months to June 2017

Australia dairy exports increased 3% in June compared to June last year. SMP, liquid milk and WMP exports grew a combined 39%, with declines in cheese and whey powder, down 33% for the month. For the 12 months to June, SMP, cheese and butter, were down a combined 40,000 MT, partially offset by a 16,000 MT increase in liquid milk, the largest export category.

NEW ZEALAND

1% ↑

Export change for the 12 months to June 2017

New Zealand dairy exports in June increased 10% or 26,000 MT compared to June last year. Growth was driven by WMP and liquid milk, up a combined 23% for the month. For the 12 months to June, liquid milk was up 69,000 MT, offset by a 49,000 MT combined decline in AMF and casein. WMP, SMP and cheese were relatively flat.

EUROPEAN UNION

3% ↑

Export change for the 12 months to May 2017

EU dairy exports increased 19% or 82,000 MT in May compared to May last year. SMP, one of the largest categories, increased by 40,000 MT as the EU clears excess inventory. Liquid milk, cheese and infant formula grew a combined 37,000 MT. For the 12 months to May growth was seen in most export categories, in particular cheese and lactose, up a combined 165,000 MT.

USA

15% ↑

Export change for the 12 months to June 2017

US dairy exports increased 5% in June compared to June last year. Cheese and SMP were up a combined 17%. For the 12 months to June there was significant growth in SMP, up 117,000 MT or 22%. Growth was also seen across most major export products, in particular whey powder and cheese, up a combined 114,000 MT.

Global imports

China dairy imports were up 20% or 38,000 MT in July compared to July last year. WMP and SMP had the most significant growth, up 16,000 MT and 13,000 MT respectively. For the 12 months to July, growth was seen, in particular, in whey powder, infant formula and WMP, which grew a combined 14% or 146,000 MT.

CHINA

9% ↑

Import change for the 12 months to July 2017

ASIA

10% ↑

Import change for the 12 months to May 2017

MIDDLE EAST & AFRICA

0%

Import change for the 12 months to May 2017

OUR MARKETS

DAIRY COMMODITY PRICES



Global pricing

GDT Event 196, held 19 September resulted in a increase of 0.9%.

SMP

12.9% ↓

Change vs. 12-month Rolling Average of USD 2,218/MT

USD **1,932**

September Average Price (USD/MT, FAS)

SOURCE: GlobalDairyTrade

WMP

1.0% ↓

Change vs. 12-month Rolling Average of USD 3,143/MT

USD **3,111**

September Average Price (USD/MT, FAS)

BUTTER

23.4% ↑

Change vs. 12-month Rolling Average of USD 4,942MT

USD **6,100**

August Average Price (USD/MT)

SOURCE: Dairy Australia, August Pricing

CHEDDAR

5.6% ↑

Change vs. 12-month Rolling Average of USD 3,883/MT

USD **4,100**

August Average Price (USD/MT)

Australian dollar trend

During September the Australian dollar slightly slipped versus the US Dollar, yet is still hovering around the 0.794 USD. It looks like markets have adopted a risk-averse stance based on global political instability related to North Korea and the aftermath of natural disasters. This risk aversion created a slight increase of the US Dollar during September.



SOURCE: news.com.au

SOURCE: Reserve Bank of Australia

Local factors affecting farming conditions



Hay

In many regions cutting silage and hay commenced earlier than expected due to warm weather and limited rain. Great variability exists in terms of rainfall and the subsequent success of winter crops across Australia. In recent weeks some fresh cereal hay eased demand and limited fodder freighted from Southern Australia. The south provides a more positive harvest outlook and another bumper harvest is forecast in several areas. There continues to be an oversupply of feed and little market exists for last season hay. Most farmers continue to search for quality and are considering the impact on animal output.

SOURCE: Dairy Australia

Grain

Almost all major wheat exporters decreased production this season. Global crop quality continue to cause concerns due to difficult conditions. The large global corn stock combined with low probability of an increase in demand, can act to keep grain prices down. Rainfall and frost continue to impact the Australian market. As temperatures begin to heat up estimates for Australian wheat crop, suggest the crop will reach 20 million tonnes. The harvest outlook for the wheat crops in southern regions is increasingly positive with some suggesting the production could be close to last year's levels.

SOURCE: Dairy Australia

Weather

August showed temperatures close to average. Minimum temperatures were cooler than average for much of Tasmania and Victoria. The minimum temperature of -10.4 °C observed at Mt Hotham on the 28th was a site record, and the lowest August temperature at any Victoria site since 1974. We've seen above-average rainfall in some areas around southeastern South Australia and Victoria. The heaviest rain fell over southeastern Australia during the middle of the month, associated with a vigorous cold front combining with a northwest cloudband which had drawn down warm, moist tropical air.

SOURCE: Bureau of Meteorology

OUR BUSINESS



Fonterra accelerates growth plans in Australia on the back of strong demand

Fonterra Australia is planning to grow its milk supply and processing capacity now that it has firmly established its place in the domestic market and as a global ingredients hub for Fonterra's cheese, whey and nutritional portfolio.

Fonterra Australia Managing Director René Dedoncker said the business was generating sustainable returns and was now looking to grow to meet higher demand for dairy.

"We have hit all of our performance targets, we have a clear strategy which is delivering and we have the

right assets and product mix on the ground. We are now looking to build on that base with further expansion linked to growing customer demand for consumer dairy, foodservice products and dairy ingredients.

"With our plants full we will be accelerating our capital investments in regional Victoria and Tasmania, playing to our strengths in cheese, whey and nutritional."

Australia is Fonterra's largest milk pool outside New Zealand and continues to grow, with milk volume growing to two billion litres from 1.6 billion

last season, and a waiting list for new suppliers who would like to supply the company.

"Farmers are seeing us invest in capacity at Wynyard and Cobden and we have just completed the \$140 million rebuild of our Stanhope cheese plant. We have added 75,000 metric tonnes of capacity in the last 18 months."

René said Fonterra will continue to work with its Australian farmers to make the most of the global opportunities available in dairy.

"Along with our business, we've made significant progress with our farmers and we'll continue that so that they can share the confidence that we have about the future opportunities.

"We are optimistic about export and domestic opportunities for growth and we bring the benefit of a global supply chain that's integrated into our Australian milk pool. This ensures farmers here share in the benefit of the returns through a competitive and sustainable milk price," concluded René.

OUR COMMUNITY



Doors open for the Stanhope community at new cheese plant

Fonterra opened the doors of its newly rebuilt cheese plant to bring the community inside, as part of a legendary Community Open Day, held at Stanhope earlier this month.

Over 500 people, including Fonterra farmers, staff, and their families, and the local community, turned out for a fun-filled family day with face painting, jumping castles, a petting zoo, live music, the Art Mural exhibition and a barbecue lunch, with many also taking the opportunity to take a peek inside the new cheese plant.

Jason Wright, Fonterra Site Manager, says it was a fantastic day of celebration with farmers, staff, and the entire community who supported Fonterra after a fire destroyed the previous cheese plant in 2014.

"Stanhope is known as the 'Town of the Tastiest Cheese', so we were delighted to bring people into the plant and show them how we make the cheese," said Jason.

Fonterra Australia Managing Director René Dedoncker welcomed the crowds, and said that out of the devastation of the fire had come the opportunity to invest in Stanhope cheese and to grow the dairy industry in the region.

"The new cheese plant gives us a great foundation for even more growth. We're already looking to the next stage, and at ways we can reinvest in Stanhope capacity and grow our milk pool even further."

Over 300 people were taken on exclusive tours through the factory, experiencing first-hand the processes involved in turning our farmers' milk into Stanhope cheese, which is then sent around Australia and to the world.

Local MP Steph Ryan was also amongst those enjoying the festivities on the day. "It was great to see so many people from the local community coming together to mark this milestone."

"The opening of the new cheese plant has injected over \$30 million into the local economy and has created around 30 new jobs; this is definitely worth celebrating.

"It was truly a great day in the heart of Victoria's dairy country," said Steph.

The event also showcased the Art Mural exhibition giving crowds an opportunity to see some of the 18,000 individual photographs captured in the massive 48 metre by five metre mosaic mural displayed on the wall of Fonterra's cheese plant.

Long-term Stanhope resident Bob Holschier is just one of the many faces featuring in the mural. "This mural will be of great benefit to the Stanhope community, as it will eventually attract visitors from far and wide.

"The Open Day was a day that brought people together to celebrate Fonterra's continued involvement in our local community, and we appreciate their commitment to our legendary town," said Bob.

