

GLOBAL DAIRY UPDATE AUSTRALIA



• European milk production decreased for the seventh consecutive month, while the US remains strong. The rate of decline in New Zealand production is easing.



• Proud to be a Chef winner for 2017 crowned.
• Now in its 18th year of mentoring budding chefs.



• US exports continue to grow with a seventh consecutive month of positive growth. EU exports declined for the first time in over two years.
• Steady growth in Asia continues while China imports continue to soften.



• Fonterra celebrates Stanhope community as construction enters final stretch.
• The countdown begins to the commissioning of our new cheese making facility in mid-2017.

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Global production

AUSTRALIA

7% ↓

Production change for the 12 months to December 2016

Australia production in December decreased 4% compared to the same month last year.

NEW ZEALAND

2% ↓

Production change for the 12 months to January 2017

Total New Zealand milk production for January was down 1% compared to the same month last year. This volume represents improved growing conditions through January.

EUROPEAN UNION

0%

Production change for the 12 months to December 2016

EU production continued to slide, with December volumes down 3% compared to the same month last year. French production was down 6% while Germany and the UK were both down 5%. These three countries represent nearly half of all EU production.

USA

2% ↑

Production change for the 12 months to January 2017

US production in January increased 2% compared to the same month last year, with farmers responding to favourable weather conditions and grain prices. This marks the fifth consecutive month of monthly production increases of at least 2%.

Global exports

AUSTRALIA

3% ↑

Export change for the 12 months to December 2016

Dairy exports for the 12 months to December were up 3%, or 25,000 MT, compared to the same period the previous year. Growth contributions from fresh milk, infant formula and whey powder, up a combined 27%, are offset to some extent by SMP, the second largest category, down 19%.

NEW ZEALAND

5% ↑

Export change for the 12 months to December 2016

Dairy exports for the 12 months to December were up 5%, or 151,000 MT, compared to the same period the previous year. The products contributing to this increase include infant formula up 80%, fresh milk up 41% and cheese up 9%. The primary offset to these gains was WMP, down 2%.

EUROPEAN UNION

8% ↑

Export change for the 12 months to November 2016

Dairy exports decreased 2% in November compared to the previous November. This was the first monthly decline in over two years and was well signalled by declining growth rates over the past quarter. Growth for the rolling 12 months continues to slow, but remains up 8%, or 374,000 MT, driven by fresh milk, up 14%, cheese up 13% and butter up 29%.

USA

3% ↑

Export change for the 12 months to December 2016

US dairy exports continued their strong run through to the end of 2016, with December volumes up 18% on the same period the previous year. After a brief period of decline, this is the seventh consecutive monthly increase in volumes.

Global imports

China dairy imports decreased 13%, or 40,000 MT, in January compared to the same month last year. This marked the second consecutive month of declines and was led by WMP, liquid milk and fresh dairy, down 10% and 23% respectively.

CHINA

12% ↑

Import change for the 12 months to January 2017

ASIA

5% ↑

Import change for the 12 months to November 2016

MIDDLE EAST & AFRICA

4% ↓

Import change for the 12 months to November 2016

OUR MARKETS

DAIRY COMMODITY PRICES



Global pricing

GDT Event 184, held 21 March, resulted in an increase of 1.7%.

SMP

6.1% ↓

Change vs. 12-month Rolling Average of USD 2,164/MT

USD **2,033**

March Average Price (USD/MT, FAS)

SOURCE: GlobalDairyTrade

WMP

3.0% ↑

Change vs. 12-month Rolling Average of USD 2,736/MT

USD **2,818**

March Average Price (USD/MT, FAS)

BUTTER

25.6% ↑

Change vs. 12-month Rolling Average of USD 3,742/MT

USD **4,700**

February Average Price (USD/MT)

SOURCE: Dairy Australia, January Pricing

CHEDDAR

15.4% ↑

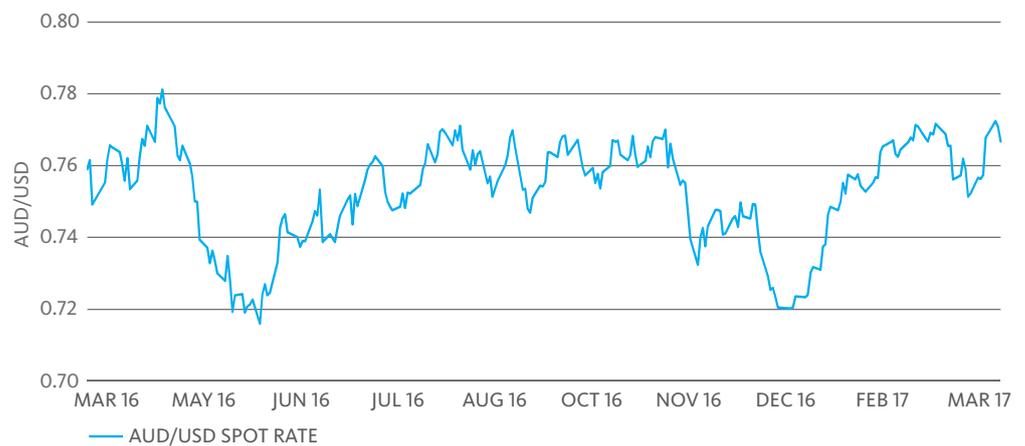
Change vs. 12-month Rolling Average of USD 3,467/MT

USD **4,000**

February Average Price (USD/MT)

Australian dollar trend

In mid-march the value of the Australian dollar increased as the United States dollar fell as a result of Federal Reserve announcing an interest rate increase. Following this announcement the Australian dollar has tracked near \$0.77 whilst the value of the United States dollar has fallen against a number of other currencies around the world.



SOURCE: news.com

SOURCE: Reserve Bank of Australia

Local factors affecting farming conditions



Hay

Low demand across southern regions continues. Most farmers have enough feed and grass in paddocks to sit out of the market for some time. Increased production on farm this year is likely to result in less hay traded for 2017. Growers report difficulty selling with a general oversupply of feed. Quality vetch is reportedly difficult to find, most hay sitting in paddocks has been damaged by rain. Hay traders don't expect a significant lift in market activity for a month and warn there may be little market for hay not stored during this period. Silage in many southern regions has been testing particularly poorly.

SOURCE: Dairy Australia

Grain

The 2016-17 winter crop harvest is largely completed and according to the ABARES' February report, exceeded all previous records. Wheat production increased approximately 45%, reaching 35.1 million tonnes. Barley and canola meal broke records in all mainland states, increasing yields by 56% and 41% respectively. Large stockpiles have kept wheat and grain prices low in all states with ASX January 2018 wheat futures trading 14% lower than the previous year, though slightly higher than last month, showing some possible signs of price recovery in the global commodity market.

SOURCE: Dairy Australia

Weather

Majority of Victoria recorded close to average rainfall and temperatures for February. In Tasmania, the north-east was relatively dry, parts of the Midlands and the north had less than 5 mm of rain for the month while frequent westerly winds ensured close to average rain in the west and south-west. Tasmania's total February rainfall was 29% below average. A warmer autumn is likely across most of Australia, drier than average outlooks are a result of higher than normal pressure forecast across the west and south, meaning fewer rain-bearing systems are likely to cross the coast.

SOURCE: Bureau of Meteorology,

OUR BUSINESS



Proud to be a Chef Winner for 2017 Crowned

Fonterra has unearthed Australia's next culinary superstar, with the winner of the 2017 Proud to be a Chef programme crowned at a gala dinner in Melbourne in March.

Giles Gabutina, an apprentice chef at one of Australia's top restaurants, the two-hatted Tetsuya's in Sydney, was recognised for his outstanding dessert, a pineapple, coconut, mint and lime sponge cake creation, winning the title and securing a culinary scholarship to further his career.

For the past 18 years, the Fonterra Proud to be a Chef programme has mentored budding chefs to give them a head start in the food industry. The programme is structured

so that chefs visit our suppliers' farms, our factories, and dine at Australia's best restaurants, helping them connect the Fonterra products used in haute cuisine back to our farmers at the farmgate.

The programme has produced a number of notable alumni including MasterChef Australia judge George Calombaris, and head chef at Melbourne's two-hatted Matteo's restaurant, Buddha Lo, with Buddha mentoring this year's finalists and imparting his wisdom to the next generation of master chefs.

Giles says the whole experience has given him the chance to grow both as a chef and individual, and become more confident in himself.

"I came into the Fonterra Proud to be a Chef programme wanting to learn as much as

I could, but I really was not expecting this. I put my heart into the four days and onto the plate. I am so thankful for the opportunity to work with such inspiring master chefs."

Jeff Dhu, Director of Foodservice said the Proud to be a Chef programme is an important part of what we do – it enables us to give back to our industry in a meaningful way and make a significant difference to the lives of these young apprentices.

"With an estimated 28,000 chefs and cooks in demand across the nation over the next four years, the Proud to be a Chef programme gives back to the hospitality industry through fostering the next generation of culinary talent.

"At the same time, we are familiarising them with our great dairy foods and



PROUD TO BE A CHEF WINNER GILES GABUTINA (CENTRE), WITH FONTERRA'S PETER WRIGHT, AND PROGRAMME MENTORS BUDDHA LO AND DANIEL WILSON.

brands such as Western Star™, Anchor™, and Perfect Italiano™," says Jeff.

First prize sees Giles receive a \$7,500 international culinary scholarship to develop his skills and achieve his dream of becoming a world-renowned pastry chef.

OUR COMMUNITY



Fonterra celebrates Stanhope community as construction enters final stretch

Anticipation is building in Stanhope as construction on Fonterra Australia's new multi-million dollar state-of-the-art cheese-making facility enters the final stretch. As the countdown begins to its commissioning in mid-2017, Fonterra has released a video celebrating the community making it happen.

Fonterra Stanhope Site Manager Jason Wright said the Stanhope site is indelibly linked to the town's identity and history, with a great sense of loss felt by the whole town when the previous hard cheese plant was destroyed by fire in

December 2014.

"The impact of the fire was felt by everyone, not just on site, but throughout the whole town. Stanhope was chosen as Australia's Legendairy Capital in 2015, and it truly is the heart of dairy country. It was the support of the townspeople that kept us going through the tough times, and we want to say thank you for that support.

"The town is absolutely buzzing at the moment – they can see the plant rising from the ashes and everyone wants to know how construction is progressing," said Jason.

To celebrate the Stanhope site's progress and recognise the support of the townspeople that rallied behind us to help make it happen, Fonterra has created a series of videos to

share the achievements and acknowledge the partnerships created since the project commenced more than 18 months ago.

"We hope these videos will show the community what's been going on behind the fences and give them a taste of what's to come."

The videos are just one of the ways Fonterra Stanhope is sharing the excitement with the community. After the new plant opens, it will feature a massive photo mosaic mural on the northern wall of the new cheese plant comprising images provided by the community, themed "Proud People, Proud Community".

"The new plant is a significant investment in northern Victoria, and demonstrates

our commitment to growing our industry and supporting our farmers and the town," said Jason.

When cheese starts rolling off the line later this year, the larger, modern facility will produce an additional 45,000 MT of mozzarella, cheddar, parmesan, and romano, destined for the domestic and export markets.

"I'm so proud to be part of this project, and can't wait to send Stanhope cheese to the world. I hope the Stanhope community feel the same way."

[View the video 'Stanhope cheese – the community making it happen' –](#)