

GLOBAL DAIRY UPDATE AUSTRALIA



Dairy for life



• Last 12 months New Zealand production down 1% after increase in March. Production in the US and EU remains stable.



• US exports rate of growth is declining. New Zealand and Australia exports up slightly for the year.
• Continued growth in Asia and Latin America, but some easing in China and Middle East & Africa this month.



• We have been on the road this week visiting each region and explaining our price announcement for next season and the reasons behind it.



• Helping women get fitted for work
• Fitted for Work – a not-for-profit organisation that supports women experiencing adversity get and keep work.

FARMGATE MILK PRICE UPDATE



During May we announced our forecast closing price range for the 2017/18 season of \$5.30 to \$5.70kgMS, six weeks ahead of the opening of next season. This is based on current currency exchange rates and commodity market conditions. We will also pay an additional 40 cents per kgMS taking the forecast full year range to \$5.70-\$6.10 per kgMS. Our forecast closing price for the current season remains at \$5.20. We will be reimbursing the interest charge of 0.85 of a cent on the Fonterra Australia Support Loans package to all current and retired suppliers, to be repaid by 31 July 2017.

YOUR LOCAL FONTERRA CONTACTS



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Global production

AUSTRALIA

8% ↓

Production change for the 12 months to February 2017

Australia milk production in February decreased 10% compared to the same month last year. Excluding the impact of leap year in 2016, production was down 7%.

Production for the 12 months to February was down 8% on the previous comparable period.

NEW ZEALAND

1% ↓

Production change for the 12 months to March 2017

New Zealand milk production in March was up 9% compared to the same month last year. This reflects improved growing conditions due to better than expected weather conditions in the latter part of the season.

Production for the 12 months to March was down 1% on the previous comparable period.

EUROPEAN UNION

1% ↓

Production change for the 12 months to February 2017

EU production in February decreased 4% compared to the same month last year. Production for the 12 months to February was down 1% on the previous comparable period. Across this period, Germany was down 2%, France down 4% and the UK down 5%.

USA

2% ↑

Production change for the 12 months to March 2017

US production in March decreased 2% compared to the same month last year. Monthly increases have remained around 2% for each of the last 10 months.

Production for the 12 months to March increased 2% on the previous comparable period.

Global exports

AUSTRALIA

2% ↑

Export change for the 12 months to February 2017

Dairy exports in February decreased 10%, or 6,000 MT, compared to February last year. SMP, liquid milk and cheese, which account for 80% of volumes were down a combined 12% for the month.

Exports for the 12 months to February were up 2% or 14,000 MT on the previous comparable period.

NEW ZEALAND

1% ↑

Export change for the 12 months to February 2017

Dairy exports in February decreased 12% or 34,000 MT compared to February last year continuing the recent run of monthly declines.

Exports for the 12 months to February were up 1% on the previous comparable period, led by infant formula and liquid milk, up a combined 40%. WMP was down 4%.

EUROPEAN UNION

5% ↑

Export change for the 12 months to January 2017

Dairy exports declined in January were flat relative to the same month the previous year. 6% declines in liquid dairy and SMP were offset by growth in WMP, cheese and infant formula, up 20%, 12% and 11% respectively.

Growth for the rolling 12-months has eased but remains up 5% on the previous comparable period.

USA

4% ↑

Export change for the 12 months to February 2017

US dairy exports increased 9% in February, or 14,000 MT, compared to February the previous year. This is the ninth consecutive month of increasing exports although the rate of growth has eased in the last quarter. The increase was driven by three of the larger product categories, SMP, whey powder and cheese, up a combined 20% or 18,000 MT.

Global imports

China dairy imports decreased 6%, or 13,000 MT, in March compared to March last year. Whey powder and infant formula were up 13% and 32% respectively. WMP and liquid milk were down a combined 24% or 27,000 MT.

CHINA

10% ↑

Import change for the 12 months to March 2017

ASIA

7% ↑

Import change for the 12 months to January 2017

MIDDLE EAST & AFRICA

3% ↓

Import change for the 12 months to January 2017

OUR MARKETS

DAIRY COMMODITY PRICES



Global pricing

GDT Event 188, held 16 May, resulted in an increase of 3.2%.

SMP

10.0% ↓

Change vs. 12-month Rolling Average of USD 2,212/MT

USD **1,990**

May Average Price (USD/MT, FAS)

SOURCE: GlobalDairyTrade

WMP

13.0% ↑

Change vs. 12-month Rolling Average of USD 2,897/MT

USD **3,273**

May Average Price (USD/MT, FAS)

BUTTER

21.0% ↑

Change vs. 12-month Rolling Average of USD 4,050MT

USD **4,900**

April Average Price (USD/MT)

SOURCE: Dairy Australia, April Pricing

CHEDDAR

4.9% ↑

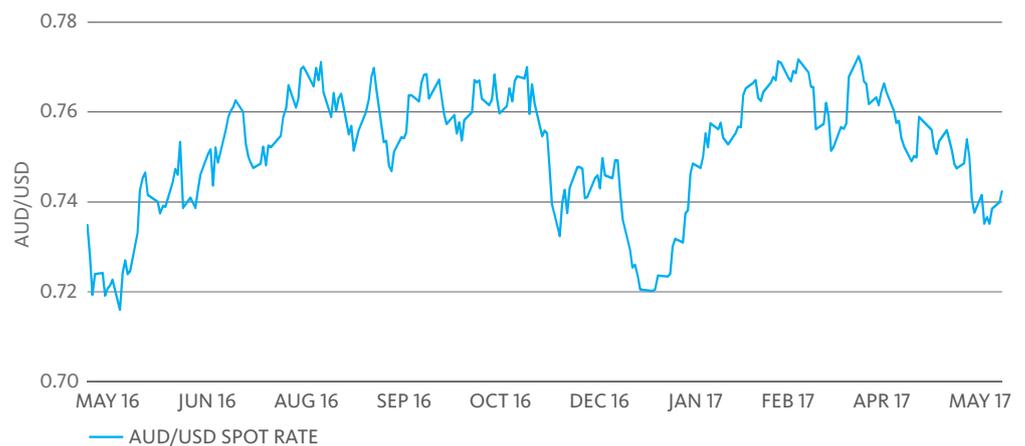
Change vs. 12-month Rolling Average of USD 3,575/MT

USD **3,750**

April Average Price (USD/MT)

Australian dollar trend

A relatively sharp fall in the value of the Australian dollar in early May was as a result of a slightly weaker CPI announcement, softer commodity prices and speculation the United States will lift interest rates in June. Through the month however, some of this decrease was regained when United States retailers announced weaker than expected earnings in mid-May.



SOURCE: news.com.au

SOURCE: Reserve Bank of Australia

Local factors affecting farming conditions



Hay

Minimal change in hay prices due to slow markets around the country. Both demand and prices seemed on the verge of increase in recent weeks (as expected at this time of year), but this has been quelled by rain across the eastern seaboard. There continues to be terrific supply of cereal hay in most regions and while the quality varies from farm to farm, most shedded feed is of better quality. Following a good autumn on mainland Australia much of the country's farmers will be buoyed by a positive outlook in terms of fodder security while hay traders and growers may have to endure this lull in trading for some months.

SOURCE: Dairy Australia

Grain

World demand for grain and wheat has slightly decreased during 2017, leaving larger-than-expected stockpiles on the world market. With record breaking yields across the world following favourable weather conditions, there is ample supply on the market which continues to press prices. After rain events in the United States crop disease and yield loss concerns are growing, resulting in a slight increase of the wheat future price.

SOURCE: Dairy Australia

Weather

Late April brought heavy rain to southern Australia but this month's rainfall was below average with large discrepancies between regions. Following three months of below average rainfall in Tasmania, April proved no exception, as areas continued to report dry conditions. The Bureau of Meteorology's climate outlook for May-July 2017 predicts below average rainfall and warmer than average temperatures for the remainder of autumn and beginning of winter. This forecast is in line with previous predictions, following the warmer than average April.

SOURCE: Bureau of Meteorology,

OUR BUSINESS



René Dedoncker, Managing Director Fonterra Australia, Matt Watt, General Manager Australia Milk Supply, and Tony Marwood Chairman Bonlac Supply Company, have been on the road this week visiting each region and explaining our price announcement for next season and the reasons behind it.

This gave the opportunity to meet many of our farmers and have conversations about what it means for you.

We've outlined some of the key areas of discussion.

Why is Fonterra not forgiving the Fonterra Australia Support Loan (FASL)?

Unlike the MSSP, our FASL was optional. Around 40% of our suppliers took out a loan, and there was significant variation in the amount borrowed.

There are farmers who did not take out a loan – some borrowed externally, others self-funded – and they were just as affected by last year's milk price revision. If we forgave the loan, only the 40% of farmers that took out the FASL would benefit and it would be inequitable for our total supply base.

If I take the 40 cents/kgMS as an advance and I have a FASL, do I have to use the advance payment to pay down my FASL?

Yes, in the first instance, when received as an advance it will be applied against your FASL

and any surplus amount will be paid to you. However, if you chose not to take an advance payment the 40 cents/kgMS will be paid monthly, and your FASL repayments will be deducted as per your existing repayment schedule. The 40 cents/kgMS will be included as a separate line item on your monthly statement.

Why did you decide to pay it on next season's volumes, rather than 2015/16?

Many made decisions after our price revision that impacted milk volumes – some dried off early or sold or culled cows, meaning that May and June 2015/16 are not a true reflection of regular milk volumes for those months.

After consultation with BSC and the Supplier Forum, paying the 40 cents/kgMS on next season's milk provides opportunity to increase production and capture more of the benefit of the additional payment.

Why is the 40 cent/kgMS additional payment available to new suppliers?

To be clear, our priority is to our current, returning, and

retired farmers. We believe that we can achieve most of our volume requirements through current and returning suppliers and expected seasonal growth. However, there will be a shortfall of volume to optimise our product mix, and to close that gap we will require new suppliers.

Prospective suppliers are put on a wait-list. As we work through current and returning suppliers, we will then work through the wait-list until our capacity is reached.

We do need to grow our milk pool. We have Stanhope going live soon, and to realise the benefit of higher global cheese prices, we need to have that factory filled. By rebalancing our product mix and moving your milk into cheese and away from powders, we have the ability to pay a sustainable milk price, and every farmer shares the benefits.

OUR COMMUNITY



Helping women get fitted for work



fitted for work

Our business has been collecting women's clothes for Fitted for Work – a not-for-profit organisation that supports women experiencing adversity get and keep work.

We've been encouraging our people to donate clean, interview appropriate clothes, accessories, shoes and handbags.

Michelle Strong in Human Resources has led this

community drive and commented that "Following an extended period of collecting donations for Fitted for Work, we found that the wait was certainly worth it."

"The donations that I gave last Friday didn't fit into the boot of my Forrester, there was overflow to the back seat of my car as well! We were gifted with lots of great quality clothes, shoes and handbags for interviews and work.

"Fitted for Work were very grateful for our donation, particularly given how much there was."

To find out more, visit www.fittedforwork.org –