

# GLOBAL DAIRY UPDATE AUSTRALIA



Dairy for life



• European milk production decreased in August for the third consecutive month and volumes remain down in New Zealand and Australia.

• Fonterra and infant food manufacturer Beingmate Baby and Child Food Company Limited officially commence their Darnum joint venture in Gippsland, Victoria.



• United States exports increased in June and July but remain down for the last 12 months while New Zealand and EU export growth for the last 12 months continues.

• Asia, China and Latin America import growth continues, while Middle East and Africa imports remain soft.



• Fonterra's Stanhope donates to Stanhope and District Men's Shed to make wooden toys for underprivileged children which will be given away as Christmas presents.

## FARMGATE MILK PRICE UPDATE



We are pleased to advise that we are increasing our farmgate milk price for the 2016/17 season with a **step-up of 22 cents per kg of butterfat and 55 cents per kg of protein**. This increase **brings our current, average farmgate milk price for the 2016/17 season to \$5.10/kgMS**, which will be backdated to 1 July 2016 and paid on 15 November 2016. This incorporates the interest payment on the Fonterra Australia Support Loans, which as advised in September, has been reduced to less than 1 cent/kgMS.

We've also **revised our forecast closing price to \$5.20/kgMS for the 2016/17 season**. Although the global market remains volatile, since the beginning of the season, global milk supply has continued to decline significantly while demand has remained relatively stable. This revised price reflects the strengthening global dairy prices.



## Global production

### AUSTRALIA

**4%** ↓

**Production change for the 12 months to August 2016**

Australian production in August, the second month in the 2016/17 production season, decreased 9% compared to the same month last year. Milk production in the current season has been impacted by the reduction in Australian milk prices to align with global dairy prices, together with unfavourable pasture conditions.

### NEW ZEALAND

**1%** ↓

**Production change for the 12 months to September 2016**

New Zealand milk production generally peaks around mid-October however, challenging weather conditions of late will impact peak milk volumes this season. For the 12 months to September, milk production is down 1% compared to the same period the previous year.

### EUROPEAN UNION

**3%** ↑

**Production change for the 12 months to August 2016**

EU production decreased for the third consecutive month in August, down 1% compared to the same month last year. This was led by the UK down 7%, Denmark down 6% and Italy, Germany and France down 2%.

### USA

**1%** ↑

**Production change for the 12 months to September 2016**

Milk production in September increased 2% compared to the same month last year. The US Department of Agriculture forecast milk production for 2016, is up 1.7% on last year, as cow numbers have steadied as a result of expected improved returns.

## Global exports

### AUSTRALIA

**6%** ↑

**Export change for the 12 months to July 2016**

Exports for the 12 months to July are up 6%, or 44,000 MT, compared to the same period the previous year. This increase was largely due to fluid and fresh dairy up 20%, cheese up 8%, together with solid growth in infant formula, up 236%, but from a low base of 6,000 MT.

### NEW ZEALAND

**6%** ↑

**Export change for the 12 months to August 2016**

Exports for the 12 months to August are up 6%, or 192,000 MT, compared to the previous year. This increase is largely due to fluid and fresh dairy up 41%, AMF up 16% and cheese up 13%, offsetting WMP which is down 3%.

### EUROPEAN UNION

**11%** ↑

**Export change for the 12 months to June 2016**

Increases were seen across all of the major dairy categories with the largest contributors being infant formula up 21%, cheese up 13% and fluid and fresh dairy up 5%.

### USA

**5%** ↓

**Export change for the 12 months to July 2016**

Exports for the 12 months to July are down 5%, or 109,000 MT, compared to the same period last year. This was driven by butter down 43%, whey powder down 20%, cheese down 17%, and fluid and fresh dairy down 7%.

## Global imports

China imports for the 12 months to August are up 28%, or 498,000 MT, compared to the same period last year. The largest contributions to China's growth have come from fluid and fresh dairy up 68%, infant formula up 45%, WMP up 16% and whey powder up 15%.

### CHINA

**28%** ↑

**Import change for the 12 months to August 2016**

### ASIA

**3%** ↑

**Import change for the 12 months to June 2016**

### MIDDLE EAST & AFRICA

**7%** ↓

**Import change for the 12 months to June 2016**

# OUR MARKETS

## DAIRY COMMODITY PRICES



### Global pricing

We have seen positive movement in GlobalDairyTrade auction prices through August and September, with a 26 per cent increase in the GDT price index since July.

#### SMP

**15.6%** ↑

Change vs. 12-month Rolling Average of USD 1,909/MT

USD **2,206**

October Average Price (USD/MT, FAS)

SOURCE: GlobalDairyTrade

#### WMP

**20.1%** ↑

Change vs. 12-month Rolling Average of USD 2,266/MT

USD **2,720**

October Average Price (USD/MT, FAS)

#### BUTTER

**18.8%** ↑

Change vs. 12-month Rolling Average of USD 3,242/MT

USD **3,850**

September Average Price (USD/MT)

SOURCE: Dairy Australia, September Pricing

#### CHEDDAR

**6.7%** ↑

Change vs. 12-month Rolling Average of USD 3,233/MT

USD **3,450**

September Average Price (USD/MT)

### Australian dollar trend

The Australian dollar has traded between 0.75 and 0.77 US cents for much of the season to date – above the 0.74 cents at opening. This has offset some of the commodity market gains.



SOURCE: Reserve Bank of Australia

### Local factors affecting farming conditions



#### Hay

The current outlook for the new season is uncertain for most types of fodder. The majority of growers are predicting extremely large crops given the favourable winter growing conditions. This will inevitably lead to softening of hay prices. Feed quality is a huge unknown, with heavy rain resulting in increased reports of crop damage, water-logging and flooding. Dry, warm weather is required to enable months of promising growth to be converted into quality product.

SOURCE: Dairy Australia

#### Grain

Australian wheat production estimates for 2016/17 are also forecast to be exceptionally high, with ABARES providing a provisional figure of 28.1 million tonnes. If this is realised, it would be the second-highest production on record after 2011/12. Recently, excessive rains in parts of eastern Australia have led to water-logging and disease losses, while frost across Western Australia has caused a significant amount damage to crops.

SOURCE: Dairy Australia

#### Weather

Heavy rain during September continued a sequence of wet months which began in May as the 2015-16 El Niño broke down. This was Australia's wettest period on record, with each of the five months ranking in the 10 wettest months of the last 117 years. Rainfall over the period was above average over most of Australia. A major influence on the climate during this period was the Indian Ocean Dipole, with abnormally warm waters between Western Australia and Indonesia.

SOURCE: Bureau of Meteorology

# OUR BUSINESS



## Fonterra and Beingmate begin Darnum nutritionals joint venture



Fonterra and Chinese infant food manufacturer Beingmate have officially commenced their Darnum joint venture in Gippsland, Victoria, with nutritional powders manufactured at Darnum for Beingmate to roll off the line very soon, destined for the Chinese market.

Fonterra Australia Managing Director René Dedoncker says that the joint venture is delivering on our multi-hub strategy to put more milk into higher value products to

ensure sustainable returns along the value chain.

“The Darnum joint venture is truly exciting. It creates a fully integrated global supply chain from the farm gate direct to China consumers, using our Australian milk pool, our nutritionals know-how and our manufacturing excellence.”

The joint venture sees Beingmate take a 51 per cent stake in Australia’s premier paediatric powder plant at

Darnum. Fonterra retains a 49 per cent stake and will control operations at the plant.

Through the joint venture, Fonterra will manufacture Beingmate’s full range of paediatric base powders, including infant formula, follow-on formula and growing-up milk powder, as well as infant-grade skim milk powder, with the first commercial batch of paediatric powders to roll off the Darnum line in the near future.

# OUR COMMUNITY



## The Stanhope team donates crates to Stanhope and District Men’s Shed to make wooden toys



Millions of dollars’ worth of cheese equipment has begun arriving into Stanhope – the legendary capital of Australia – that will form Fonterra’s new \$120 million state-of-the-art cheese plant.

With so much equipment comes the potential for a lot of waste material as the equipment is transported in large wooden crates inside shipping containers to keep it safe and stable.

Fonterra Australia Regional Operations Manager Jason Wright says; “Operating sustainably and doing the right thing for our community is very important for our business and our people at Stanhope.

We’ve been in discussions with the Stanhope and District Men’s Shed to see if they have any use for the large wooden crates for local projects. They’ve happily accepted the challenge and will recycle the crates to build toys for underprivileged children which will be given away as Christmas presents. A truly commendable initiative.”

Des Crichton from Stanhope and District Men’s Shed said, “Each year, too many children go without Christmas presents and getting all this recyclable material will mean we can make wonderful wooden toys, like cars, trains and dolls; and at the same time give our men meaningful work in the community.”

## Your local Fonterra contacts

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