

GLOBAL DAIRY UPDATE AUSTRALIA



- Production in New Zealand up on last year. US production growth remains steady, EU growth is easing and Australia is declining.



- Exports from Australia and the US continue to grow. European and New Zealand exports increased.
- Imports into Asia and China showed strong growth. Latin America increased but Middle East and Africa down.



- Western Star, Australia's favourite butter, has been judged Australia's Champion Butter for a ninth time at the Dairy Australia Grand Dairy Awards 2019.



- Diversity might not be the first thing that comes to mind when thinking of tanker operators, however our Tasmanian Farm Milk Collection team is shaking up the traditional image of its drivers with a crew that comes from all walks of life.

FARMGATE MILK PRICE UPDATE



Following our bi-monthly milk price review, we are increasing our farmgate milk price for the 2018/19 season by 7 cents per kilogram of milk solids (kgMS), comprising 5 cents per kg of butterfat and 9 cents per kg of protein. This brings our average farmgate milk price to \$6.05kgMS, which will apply from 1 July 2019 and be paid on 15 February 2019.

Production in New Zealand is up on last year following favourable weather, yet we are starting to see dry conditions. US milk volume growth remains steady.

There have been some positive signs in global conditions, with recent improvements in GlobalDairyTrade prices and the clearing of SMP stockpiles in Europe, however Australian production continues to decline due to drought and high input costs. This is leading to increased competition across our dairy regions, particularly in northern Victoria.

We know that rising costs for feed and water continue to be a challenge for our farmers, and we hope this price increase helps to ease some of the pressure for the remainder of the season.

CONTACT US



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Global production

AUSTRALIA

0% ↑

Production change for the 12 months to October 2018

Australia milk production decreased 6% in October compared to October last year. Drought, high input costs and increased cow cull rates, continues to severely impact milk production. Dairy Australia has forecast a milk production decline of 5% to 7% for the 2018/19 season.

NEW ZEALAND

2% ↑

Production change for the 12 months to December 2018

New Zealand milk production increased 4% in December compared to December last year. Favourable weather conditions supported peak collection with production returning to more usual production levels following two previous seasons that were impacted by weather.

EUROPEAN UNION

1% ↑

Production change for the 12 months to November 2018

EU milk production decreased 1% in November compared to November last year. In November The Netherlands experienced the largest monthly decline and France and Germany also continued to decline. Stronger milk production continues in Ireland.

USA

1% ↑

Production change for the 12 months to November 2018

US milk production was up 1% in November compared to last November. Margins continue to be squeezed with Class III milk below USD15.00 per hundredweight. The new Dairy Margin coverage programme may assist smaller farms but overall growth is expected to continue at current levels.

Global exports

AUSTRALIA

6% ↑

Export change for the 12 months to November 2018

Australia dairy exports increased 13%, or 9,000 MT, in November compared to last November. Infant formula, liquid milk, SMP and butter were up a combined 10,000 MT. This was off-set by a decline in cheese of 1,500 MT. For the 12 months to November liquid milk, cheese, and infant formula continued to comprise most of the growth, up a combined 35,000 MT.

NEW ZEALAND

1% ↑

Export change for the 12 months to November 2018

New Zealand dairy exports increased 13% in November compared to last November. WMP, fluid products, AMF, SMP, MPC and infant formula were up a combined 49,000 MT. Butter declined 9,000 MT. For the 12 months to November, fluid products, WMP, infant formula, AMF and butter were up a combined 114,000 MT. SMP, cheese and cultured products declined by 61,000 MT.

EUROPEAN UNION

1% ↑

Export change for the 12 months to October 2018

EU dairy exports increased 12% in October compared to last October. SMP, fluid products, cheese, lactose and WPC were up a combined 53,000 MT. Exports for the 12 months to October were up 73,000 MT. There was continued growth in a broad range of products, led by infant formula and SMP, offset by declines in fluid milk products and WMP.

USA

13% ↑

Export change for the 12 months to October 2018

US dairy exports increased by 5,000 MT, in October compared to October last year. Growth in SMP, WMP and AMF of a combined 15,000 MT, was the primary driver of the increase. For the 12 months to October exports were up 291,000 MT. The increase was across a broad range of products notably SMP, lactose, WPC and WMP, up a combined 231,000 MT.

Global imports

China dairy imports increased 7%, or 255,000 MT, for the 12 months to November compared to the same period last year. Strong demand out of China continued with imports across all key categories, except cheese, up for the period.

CHINA

7% ↑

Import change for the 12 months to November 2018

ASIA

5% ↑

Import change for the 12 months to October 2018

MIDDLE EAST & AFRICA

6% ↓

Import change for the 12 months to October 2018

OUR MARKETS

DAIRY COMMODITY PRICES



Global pricing

GDT Event 228, held 6 February resulted in an index increase of 6.7 per cent.

SMP

15.4% ↑

Change vs. 12-month Rolling Average of USD 1,995/MT

USD **2,303**

January Average Price (USD/MT, FAS)

SOURCE: Global Dairy Trade

WMP

7.7% ↓

Change vs. 12-month Rolling Average of USD 2,968/MT

USD **2,741**

January Average Price (USD/MT, FAS)

BUTTER

12.0% ↓

Change vs. 12-month Rolling Average of USD 5,454/MT

USD **4,800**

December Average Price (USD/MT)

SOURCE: Dairy Australia, December Pricing

CHEDDAR

2.3% ↓

Change vs. 12-month Rolling Average of USD 3,992/MT

USD **3,900**

December Average Price (USD/MT)

Australian dollar trend

The Australian dollar lost value against the US dollar throughout December. Increasing uncertainty over the progress of US-China trade discussions and weaker China economic data combined to see the Australian dollar close the calendar year three cents weaker against the US dollar.



SOURCE: news.com.au

SOURCE: Reserve Bank of Australia

Local factors affecting farming conditions



Hay

Rain through early summer in southern dairy regions extended pasture growth and resulted in good volumes of hay cut and stored on farm. Whilst carry-over stocks are low, the demand in Southern Australia is subdued, on the other hand Northern Australia is still in deficit and with below average summer crops, hay is moving from the south to meet demand. Accordingly, prices have eased slightly in most dairy regions but remain at elevated levels. Due to variable quality and some significant rainfall events around harvest, buyers are recommended to get quality and moisture tests before purchasing.

SOURCE: Dairy Australia

Grain

With the Australian winter harvest complete, the volume of grain harvested in eastern states and South Australia was well below average with Western Australia estimated to have produced approximately 60 per cent of the national crop. Wetter conditions at harvest led to an increased percentage of ASW and lower quality feed wheat with large volumes of the Western Australia crop making its way to eastern states to fill supply gaps. Global market sentiment is largely focussed around US-China trade negotiations and outcomes, regardless local prices remain relatively stable, albeit at historic highs driven by east coast demand and a below average outlook for the summer crop.

SOURCE: Dairy Australia

Weather

December was the hottest on record for Australia, with prolonged periods of extreme heat. Rainfall was below average across much of northern Australia but above average across the northeast coast and large areas of the southeast mainland. Water storage in the MDB is 10,788 GL, or 4 per cent of total capacity, which is 33 per cent less than the same time last year. The BOM's Feb19-Apr19 outlook shows there is a 20-40 per cent chance of receiving median rainfall across the majority of the east and west coast regions, including key dairy regions in southeast Australia. Temperatures across this period are forecast to be well above average across the entire country.

SOURCE: Bureau of Meteorology

OUR BUSINESS



Australia's favourite butter crowned 'champion butter' for seventh time

Western Star, Australia's favourite butter, has been judged Australia's Champion Butter for a ninth time at the Dairy Australia Grand Dairy Awards 2019 – an awards programme that recognises the 'best of the best' dairy produce made from Australian milk.

Western Star Original Salted Butter took the crown following a rigorous judging process that includes a blind tasting that assesses texture, smell, and appearance. Now Australia's most awarded butter, it was described by judges as "fresh and sweet with just the right

salt balance" and "perfect for cooking or simply spread on fresh bread."

Samir Suri, Production Manager at Fonterra's Cobden site – home of Australia's favourite butter for over 90 years – says the team is thrilled to have taken the title for a ninth time.

"We're so proud to have taken out the Champion Butter award for our Western Star Original Salted Butter – it's testament to the consistency of the butter we produce here in Cobden, the expert craft of our team, and of course, the quality of our farmers' milk," says Samir.

Andrew Sharp has been a butter maker at Fonterra's Cobden site for almost eight years and says it was a special moment to hear

of having taken out the title in a programme which had over 50 finalists.

"I've been making Western Star butter at Cobden for many years and I've always believed the butter we make is the best, so it's truly great to be recognised for it," says Andrew.

The Australian Grand Dairy Awards celebrated its 20th year this year, continuing its aim to raise awareness of the quality

and versatility of Australian dairy products.

As the most prestigious national dairy award programme in Australia, dairy producers must be awarded a gold medal in state-wide qualifying competitions held throughout the year. Australians can be confident that every spread of Western Star is the best butter they can buy.



OUR COMMUNITY



Transport team celebrates Tasmania's diversity

Diversity might not be the first thing that comes to mind when thinking of tanker operators, however our Tasmanian Farm Milk Collection team is shaking up the traditional image of its drivers with a crew that comes from all walks of life.

From young tradespeople starting out, to mums returning to work and semi-retired drivers looking to impart their wisdom to the next generation, a focus on flexibility has built a workforce that is representative of the broader Tasmanian community.

The team's commitment to diversity was recently recognised by the Tasmanian Transport Association, picking up the TasRail Workforce Diversity Award at the TTA Gala Dinner and Awards Night.

The award celebrates the

team's innovative programme, which is designed to increase diversity and create a strong succession plan for drivers.

Fonterra Milk Transport Manager – Tasmania Bryce Madill says they have achieved this through actively seeking to attract, develop, retain, and promote people from a range of backgrounds, and thinking differently about how they can tailor roles to the candidate.

"When we meet with people we think would be a great fit, we look at their needs as opportunities," says Bryce.

"For example, someone who may only be able to work a few days a week while they complete their studies might be learning skills that can be applied in our business, or someone who is semi-retired has a wealth of knowledge and experience that they can draw on to help develop younger members of the team.

"It's helped us to build a healthy,

diverse, and engaged workforce that reflects our community."

The team is also committed to providing a safe and inclusive work environment by providing flexible work arrangements for families, and supporting drivers looking to develop their careers by offering opportunities to work in other parts of the business.

"Milk collection is seasonal work by nature, with more milk produced on farm in the spring months," says Bryce.

"Previously we've relied on contractors and overtime to see us through that spring peak, however, we saw this as an opportunity to offer a 4-8-hour shift in addition to our existing full-time shifts, which can better suit people with young families or empty nesters looking to return to the workforce.

"We have an amazing Transport team here in Tassie, and I'm so proud of what we've been able to achieve together," says Bryce.



(L-R) EDDIE JOHNSON, COREY HARRIS (FMC MANAGER – SOUTHERN REGION), SARAH BROSANAN, MICHAEL KING, PETER MURDOCH, LINDSAY EUWINGTON, BRYCE MADILL (FLEET OPERATIONS – SYSTEMS MANAGER)