

OCTOBER 2018

GLOBAL DAIRY UPDATE AUSTRALIA



- Early season production in New Zealand stronger than last year. EU and US production growth is slowing and Australia is declining.



- Exports from New Zealand and the US continued to grow in August. European exports declined in June.
- Imports into Asia show steady growth. Middle East and Africa is up while Latin America declines.



- The Australian Consumer business has had another impressive year – achieving growth across key volume and value metrics.



- Fonterra helps local wildlife shelter save koalas – eight cuddly koalas recovering from illness will soon have new homes, thanks to the Fonterra Stanhope team.



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OUR MARKETS



Global production

AUSTRALIA

2%

Production change
for the 12 months to
August 2018

Australia milk production decreased 4% in August compared to August last year, driven by rising on-farm input prices, drought across parts of the country and cow cull rates increasing (up 33% year-on-year). The likelihood of an El Niño has lifted to 70% which will continue to pressure production this season.

NEW ZEALAND

1%

Production change
for the 12 months to
September 2018

New Zealand milk production increased 6% in September compared to last September. Season-to-date, (about 20% of seasonal production), is up almost 6% driven by favourable weather although some regions are beginning to dry heading into summer. If conditions prevail, early season rate of growth will moderate as the season progresses.

EUROPEAN UNION

3%

Production change
for the 12 months to
August 2018

EU milk production saw no growth in August compared to August last year. The Netherlands had the largest monthly decline and on an annualised basis, has remained flat since mid-2016. Growth for the 12 months to August slowed but remained surprisingly resilient in the face of recent extreme heat.

USA

1%

Production change
for the 12 months to
September 2018

US milk production was up 1% in September compared to September last year. The US has seen relatively steady production growth. Of note is the prior months' downward revision of cow numbers. Margins have been squeezed and the latest downturn in cow numbers suggests moderation in milk volume growth in coming months.

Global exports

AUSTRALIA

4%

Export change for the 12
months to August 2018

Australia dairy exports increased 7% in August compared to August last year. Growth in most categories was offset by declines in liquids, WMP and other powders. For the 12 months to August liquid milk, cheese, and infant formula continue to drive growth, up a combined 44,000 MT. Exports continue to grow on an annualised basis, reaching 762,000 MT, the highest level in the last 10 years.

NEW ZEALAND

1%

Export change for the 12
months to August 2018

New Zealand dairy exports increased 6%, or 7,000 MT, in August compared to August last year driven by AMF and butter. Declines in SMP and cheese dampened the overall increase. For the 12 months to August, liquid milk and infant formula continued strong growth, up 72,000 MT while volumes across WMP, AMF, cheese and SMP were down a combined 83,000 MT.

EUROPEAN UNION

2%

Export change for the 12
months to June 2018

EU dairy exports decreased by 12% in June compared to June last year, with declines in liquid milk and SMP, down a combined 40,000 MT. For the 12 months to June, continued growth in SMP and infant formula remained the driver, up a combined 159,000 MT. Exports continue to grow on an annualised basis and have just eased back from a record peak in April of 5.4 million MT.

USA

11%

Export change for the 12
months to August 2018

US dairy exports increased 11% in August compared to August last year, driven by growth in SMP and lactose of a combined 18,000 MT. Growth for the 12 months to August was driven by the five largest export categories, SMP, lactose, cheese, whey powder and WPC and WPI, up a combined 200,000 MT. Exports reached a record 2.4 million MT on an annualised basis through August.

Global imports

China has suspended trade data, citing system technical issues. Based on exports to China, we estimate June volumes grew 15% compared to the previous comparable period.

CHINA

17%

Import change for the 12
months to March 2018

ASIA

3%

Import change for the 12
months to June 2018

MIDDLE EAST & AFRICA

5%

Import change for the 12
months to June 2018

OUR MARKETS

DAIRY COMMODITY PRICES



Global pricing

GDT Event 222, held 16 October resulted in an index decrease of 0.3 per cent.

SMP

3.7% ↑

Change vs. 12-month Rolling Average of USD 1,908/MT

USD 1,979

October Average Price (USD/MT, FAS)

SOURCE: Global Dairy Trade

WMP

9.0% ↓

Change vs. 12-month Rolling Average of USD 3,011/MT

USD 2,741

October Average Price (USD/MT, FAS)

BUTTER

10.1% ↓

Change vs. 12-month Rolling Average of USD 5,675/MT

USD 5,100

September Average Price (USD/MT)

SOURCE: Dairy Australia, September Pricing

CHEESE

0.9% ↓

Change vs. 12-month Rolling Average of USD 4,038/MT

USD 4,000

September Average Price (USD/MT)

Australian dollar trend

The Australian dollar remained within a range of US\$0.70 to US\$0.72 against the US dollar through October. The US Federal Reserve is expected to raise US domestic rates at its December meeting however while Australian inflation remains below two per cent, the RBA is expected to keep Australian rates on hold. This is limiting any gains in the Australia dollar against the US dollar.

SOURCE: news.com.au



SOURCE: Reserve Bank of Australia

Local factors affecting farming conditions



Hay

Demand remains robust as farmers look to secure new season hay, but given low inventory, seasonal conditions and outlook to date, demand is expected to exceed supply. While failed crops are being cut for hay and silage, providing some liquidity and price stability, current pricing remains at elevated levels with reported average prices of \$532/t for Lucerne and \$365/t for pasture hay in September. Alternative feeds such as canola hay/silage, sorghum stubble and cane tops are becoming increasingly available, as such, buyers are being cautioned to get feed tests due to variable quality

SOURCE: Dairy Australia

Grain

The local feed grain industry continues to drive demand in the domestic market. After record or near record grain prices, September's unfavourable weather conditions continued upward pressure on local markets. The Australian Bureau of Agricultural and Resource Economics (ABARES) revised its 18/19 winter crop forecast to approximately 15 per cent below its September forecast of 33.2 million tonnes. Western Australia is bucking the trend, with crop production expected to increase by three per cent this season to produce over 50 per cent of Australia's winter crop. ASX wheat and barley futures have both firmed this month with Australian eastern wheat up \$23/t and barley up \$24/t

SOURCE: Dairy Australia

Weather

National rainfall in September was the lowest on record, with particular rainfall deficiencies across southern Australia including WA. Eastern states also had limited rainfall, with some respite for farmers in eastern NSW and southern QLD. Victoria had its second lowest monthly rainfall, averaging 22mm, only 0.5mm off the lowest recorded in 1914. Temperatures were above average in September. These weather patterns are forecast to continue with lower-than-median rainfall and higher-than-median temperatures expected until the end of 2019. BoM has updated its ENSO outlook to El Niño Alert, indicating in a 70 per cent chance of El Niño occurring in 2018.

SOURCE: Bureau of Meteorology

OUR BUSINESS



Australian Consumer business hits its stride

The Australian Consumer business has had another impressive year – achieving growth across key volume and value metrics.

Fonterra continues to hold the #1 position in butter and spreads through Western Star, and is the largest branded cheese business in the country.

Sales & Marketing Director Kiril Simonovski says that after a successful turnaround, it's satisfying for the team to see how far the business has come.

"A few years ago we had to make some tough choices supported by the Fonterra Management Team and Board, including divesting

our loss-making yoghurts and dairy desserts business, which has enabled us to focus on our core categories of cheese and spreads where we can win.

"Now, through our portfolio of leading brands, we're achieving success by playing to our strengths.

"In the last financial year, we've extended our leadership in cheese and spreads, expanded into fresh cream, milk powders and supplements through the Western Star, Australian Dairies and Bodiology brands, as well as launched into new channels such as Pharmacy."

Kiril says that key to the transformation is listening to its consumers and customers, and looking

for opportunities around emerging trends.

"We've seen significant improvement in customer engagement over the past 12 months. We're ranked the #1 supplier in dairy and #9 overall across all suppliers according to market research firm The Advantage Group. We also took out the prestigious 2018 Metcash Supplier of the Year (>\$50m turnover) and Foodland Dairy Supplier of the Year.

"This was supported by our field sales team which delivered a strong performance, achieving record sales through face-to-face selling with independent grocery customers.

"This strong momentum culminated in Fonterra



being ranked in the top 10 fastest growing manufacturers in grocery for 2018 by data analyst firm IRI MarketEdge, second only to The a2 Milk Company.

"Our focus now is to continue to drive new channel and customer growth, consolidating our position in select adjacent categories such as milk powders and supplements, as well as extending our branded leadership in cheese and spreads," Kiril concludes.

OUR COMMUNITY



Fonterra helps local wildlife shelter save koalas

Eight cuddly koalas recovering from illness will soon have new homes, thanks to the Fonterra Stanhope team.

The Stanhope site, which is undergoing an expansion of its cheese plant, has donated leftover materials to a local volunteer organisation to help build shelters as part of its Koala Rescue Project.

The Dutch Thunder Wildlife Shelter has been looking after native fauna for six years, and the Koala Rescue

Project helps to reduce the threat to the local koala population by building quarantine shelters for sick koalas.

Fonterra's Stanhope Site Manager Jason Wright says that the site has been a hive of activity for over 12 months, with a 200-strong team of contractors making sure the factory is on track to double its cheese processing capability next year.

"With an expansion of this size and the amount of equipment being used, there is always the potential for a lot of waste.

"We're really focussed on reducing waste where

possible, so when the Dutch Thunder Wildlife Shelter approached us for any recycled materials to help build shelters at their centre, we leapt at the opportunity.

"For example, there was around 200 metres of panel left over from our temporary coolroom. These panels are fully insulated and will form a great base for the shelters," says Jason.

James Leonard from the Dutch Thunder Wildlife Shelter says that over the past few years, there has been a huge increase in the number of koalas dying in the local area – mainly from sarcoptic mange.

"We've had over 100 koalas infected in the last 12 months – that's an average of one every four days.

"With the number of cases increasing each year, there are concerns that we may lose the local koala population. "We'd love for the community to get behind the project, either by donating their time or materials to build more shelters," says James.

If you would like to get involved in the project, or know of anyone who may be able to assist, reach out to the team at dutchthunderwildlife@gmail.com.