

GLOBAL DAIRY UPDATE AUSTRALIA



• Strong production continues in New Zealand and the US. Slowing production in Australia and Europe.



• Strong export growth in New Zealand, Australia and the US in July. European exports weaken in May.
• Imports in Asia show continued strong demand. Middle East and Africa remain flat while Latin America declines.



• Our Australian Foodservice business, the long-trusted partner of thousands of foodservice businesses across Australia, has now aligned with our global foodservice brand – Anchor Food Professionals.



• Bridging the gap between food waste and food insecurity: Fonterra marks 2.5 million kilos of dairy donated to hunger relief.



Following our bi-monthly price review, we are increasing our farmgate milk price for the 2018/19 season by 13 cents per kilogram of milk solids (kgMS), comprising 9 cents per kg of butterfat and 18 cents per kg of protein. This brings our average farmgate milk price to \$5.98kgMS.

Given the current challenges with rising costs for feed and water, we know cashflow is critical and that receiving this increase now, rather than later in the season, will help you make important farm input decisions and plan for the remainder of the year.

We have also revised our forecast closing average milk price range to \$5.98 to \$6.10kgMS for 2018/19, down from \$6.20kgMS. A weaker currency has only partially offset an increase in production in some other dairy-producing countries, which is putting downward pressure on the upper end of the forecast range announced in May.

While it's disappointing to have a reduction in the forecast closing price range, it's important that we provide our farmers with clear, early signals on how the market is likely to impact the farmgate milk price.

We will continue to monitor currency and global dairy prices closely and keep you updated throughout the season with the latest market conditions.

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Global production

AUSTRALIA

2% ↑

Production change for the 12 months to July 2018

Australia milk production decreased 4% in July compared to July last year, driven by rising on-farm input prices, droughts, and increased cow cull rates (July up 14% y-o-y). The likelihood of an El Niño developing remains at 50% which will continue to pressure production this season.

NEW ZEALAND

0%

Production change for the 12 months to August 2018

New Zealand milk production increased 5% in August compared to August last year, driven by favourable weather conditions in Taranaki, Central Districts, Canterbury, Southland and Otago. Some of this increase has been reduced by heavy rains in Bay of Plenty.

EUROPEAN UNION

3% ↑

Production change for the 12 months to July 2018

EU milk production increased 1% in July compared to July last year as conditions became more favourable. Growth for the month of July was predominantly driven by Germany, France and Spain up 3%, 2% and 4% respectively.

USA

1% ↑

Production change for the 12 months to July 2018

US milk production was up 1% in August compared August last year, despite the hot and humid weather conditions which had the potential to slow growth. An improvement in cow numbers regardless of heavy slaughter rates sets the US up for continued growth into autumn.

Global exports

AUSTRALIA

5% ↑

Export change for the 12 months to July 2018

Australia dairy exports increased 4% in July compared to July last year. This growth was spread across most categories, up a combined 10,000 MT, though offset by declines in butter, SMP, cultured products, other powders and caseinate of 8,000 MT. For the 12 months to July, liquid milk and infant formula continued to comprise the majority of growth, up a combined 45,000 MT

NEW ZEALAND

2% ↓

Export change for the 12 months to July 2018

New Zealand dairy exports increased 6% in July compared to July last year driven by WMP and butter, up a combined 32,000 MT. Declines in SMP of 16,000 MT dampened this increase. For the 12 months to July, WMP, AMF, cheese and SMP, declined a combined 116,000 MT while liquid milk and infant formula continued strong growth, up 76,000 MT.

EUROPEAN UNION

4% ↑

Export change for the 12 months to May 2018

EU dairy exports decreased by 6% in May, compared to May last year, driven by declines in liquid milk and SMP, down a combined 30,000 MT. This was partially offset by gains in infant formula, up 6,000 MT. For the 12 months to May exports were up 4%. Continued upside in SMP and infant formula remain the primary drivers behind growth, up a combined 222,000 MT.

USA

10% ↑

Export change for the 12 months to July 2018

US dairy exports increased by 12% in July compared to July last year, growth in SMP and lactose of a combined 17,000 MT, the primary driver. Growth for the 12 months to July was driven by the five largest export categories, SMP, lactose, cheese, whey powder and WPC and WPI, up a combined 185,000 MT.

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

2% ↑

Import change for the 12 months to May 2018

MIDDLE EAST & AFRICA

4% ↑

Import change for the 12 months to May 2018

OUR MARKETS

DAIRY COMMODITY PRICES



Global pricing

GDT Event 221, held 2 October resulted in an index decrease of 1.9%.

SMP

5.1% ↑

Change vs. 12-month Rolling Average of USD 1,897/MT

USD **1,993**

September Average Price (USD/MT, FAS)

SOURCE: Global Dairy Trade

WMP

7.9% ↓

Change vs. 12-month Rolling Average of USD 3,035/MT

USD **2,795**

September Average Price (USD/MT, FAS)

BUTTER

2.7% ↓

Change vs. 12-month Rolling Average of USD 5,758MT

USD **5,600**

August Average Price (USD/MT)

SOURCE: Dairy Australia, August Pricing

CHEDDAR

1.3% ↑

Change vs. 12-month Rolling Average of USD 4,046MT

USD **4,100**

August Average Price (USD/MT)

Australian dollar trend

The Australian dollar eased towards US\$0.72 at the beginning of October, compared to US\$0.73 in the last GDU at the end of August. The RBA's decision to hold rates at record-low levels was widely expected by the market, with falling house prices and stubbornly-low inflation. Ongoing concerns about global trade with China, and tighter US monetary policy, are also expected to contain the AUD at lower levels in the near term

SOURCE: news.com.au



SOURCE: Reserve Bank of Australia

Local factors affecting farming conditions



Hay

The continued dry and warm weather conditions across large regions of Australia combined with diminishing supply of carryover fodder has led to surging demand and prices. Reports suggest that hay for immediate and future delivery is increasingly scarce, with lucerne and pasture hay firming to an average price of \$498/MT and \$215m/MT respectively in July. BOM's three-month outlook indicates below average rainfall and if this prevails it will continue to pressure markets. This is leading to some cereal and oilseed crops being cut early for hay or silage which will provide some additional short-term supply to fodder markets.

SOURCE: Dairy Australia

Grain

Grain prices continue to climb as supply tightens. Average spot prices for wheat and barley ex-Melbourne were reported at \$397/MT this August, an increase of \$75 from July and well above the 5-year average. Recent rainfall in NSW and QLD was welcomed but did little to improve already stressed crops. Further south, crops in Victoria and SA are holding but need more rain to yield well. Locally, strong demand and unfavourable weather is keeping domestic grain values at elevated levels. The international market slightly softened over the past week with the Russian government not taking action to limit wheat exports this year.

SOURCE: Dairy Australia

Weather

August was a particularly dry end to winter. Rain deficiencies continued across eastern states and central Western Australia while the majority of Tasmania and areas in northern Australia recorded above average falls. After an exceptionally dry year to date, there looks to be little let-up with the BOM predicting average to below-average rainfall nationally from September to November. High day-time temperatures and increased winds have resulted in high evaporation and below average soil moisture. This is forecast to persist over most of the mainland this spring. With clear skies and low rainfall, frost is quite likely as seen in the past month.

SOURCE: Bureau of Meteorology

OUR BUSINESS



Anchor Food Professionals launches in Australia



Our Australian Foodservice business, the long-trusted partner of thousands of foodservice businesses across Australia, has now aligned with our global foodservice brand – Anchor Food Professionals.

While the name may be new, Anchor Food Professionals will still include such popular, dairy-focused foodservice brands as Perfect Italiano, Western Star, Mainland, Anchor and Bega.

Australia's Director of Foodservice, Jeff Dhu, says that changing diets, eating habits and lifestyles mean that more than 50 per cent of all food and beverage in Australia is consumed out of home.

"Foodservice is one of the largest industries in the world and is predicted to be worth US\$3 trillion globally by 2021.

"This presents a great opportunity for us, and Anchor Food Professionals is well positioned to capture this demand and work with customers to keep up with this growth."

The Australian Foodservice business reached record domestic sales volumes last financial year, secured critical new business wins and picked up Food Supplier of the Year at the Foodservice Suppliers Association Australia Awards.

Jeff said the team is gearing up for another big year, and is excited about the move to the Anchor Food Professionals brand and the opportunities it presents.

"The strength of the brand not only represents the world-class dairy products that we make for restaurants, cafés and quick service eateries across Australia, it also signifies the deep expertise of our people and the focus on performance and business solutions that we bring to the table," says Jeff.

OUR COMMUNITY



Bridging the gap between food waste and food insecurity: Fonterra marks 2.5 million kilos of dairy donated to hunger relief

Fonterra is playing its part to bridge the gap between food waste and food insecurity as it marked its latest donation milestone with Foodbank, at Fonterra's Bayswater site. This comes as Australia wastes around \$20 billion worth of food each year, despite 3.6 million Australians experiencing uncertainty about where their next meal is coming from.

To help combat hunger in Australia, Foodbank works closely with farmers, retailers and food manufacturers like Fonterra, to redirect food and groceries away from landfill to a network of charities, into the kitchens of those who need it most. As Foodbank's exclusive fresh milk supplier for Victoria, Fonterra donates

100,000 litres of milk each year, as well as edible but unsaleable food that would otherwise go to waste.

René Dedoncker, Managing Director Fonterra Australia, says it's rewarding to reach this 2.5 million kilo donation milestone with Foodbank, as they work together to help address this important issue.

"Our relationship with Foodbank – and the commitment of our people to the cause – goes to show how food businesses can make a real, tangible difference to the communities in which we operate," says Mr Dedoncker.

"Dairy is one of the key staples sought after by welfare agencies and we don't want to see any of it go to waste, simply because it can't be sold due to having a smudged label or damaged packaging.

"Through our partnership with Foodbank, we're able to bring the goodness of dairy to all Australians, even the most vulnerable, while reducing

potential waste at our sites that would otherwise end up in landfill."

Brianna Casey, Foodbank CEO, says as the largest food rescue organisation in Australia, it relies on donations from companies like Fonterra to help provide hunger relief to the 3.6 million Australians – or 1 in 6 – experiencing food insecurity at some point in the year.

"It's not that there is not enough food in our country, but the food isn't getting to the right places, at the right time," says Ms Casey.

"We work with partners like Fonterra to help bridge this gap

to ensure their wonderful, fresh produce and manufactured goods go to as many Australians as possible who are forced to choose between paying bills or buying food," says Ms Casey.

In 2017, Fonterra contributed the equivalent of nearly 262,000 meals. This latest donation milestone of 2.5 million kilos of food equates to over 4.3 million meals.

Fonterra's staff also regularly volunteer their time to help at Foodbank Victoria's Yarraville warehouse.

