

GLOBAL DAIRY UPDATE AUSTRALIA



FARMGATE MILK PRICE UPDATE



• Production growth in New Zealand and the US is easing. EU growth and Australia production is declining.



• New Zealand exports increased in January. Exports from Australia and the EU continue to grow. US exports begin to ease.



• Imports into Asia and China show strong growth. Latin America increased but the Middle East and Africa region is declining.



• Tough seasonal conditions impacting Australia's Ingredients business.

Following our March price review, we are maintaining our current average milk price of \$6.05 per kilogram of milk solids (kgMS).

We have seen improved market conditions recently, as tightening supply against solid demand has led to improved commodity pricing.

Currency continues to trade in a range of between USD:AUD \$0.70 to \$0.72.

However, drought conditions and heightened competition for milk have led to lower milk volumes which is impacting our business performance. Lower volumes means we have had limited ability to capture additional value to pass through to farmers.

Conditions however, are supportive for next season's milk price.



CONTACT US



• Fonterra's Director of Foodservice rides for mental health.

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Global production

AUSTRALIA

3% ↓

Production change for the 12 months to January 2019

Australia milk production decreased 11% in January 2019 compared to January last year. High input costs, increased cow cull rates, and farm exits continue to severely impact milk production. Dairy Australia has forecast a milk production decline of between 7% and 9% for the season.

NEW ZEALAND

4% ↑

Production change for the 12 months to February 2019

New Zealand milk production in February was broadly flat compared to last February. Dry conditions continued for most of February. Soil moisture has dropped to below normal, impacting key North Island dairy regions. Drought conditions prevail in the upper South Island but dairy regions in the lower part of the South Island have not been greatly impacted.

EUROPEAN UNION

0% ↑

Production change for the 12 months to January 2019

EU milk production decreased 1% in January compared to January last year, the fifth consecutive monthly decline on a year-on-year basis. Austria, The Netherlands, France and Germany saw negative monthly growth offset by growth in Poland, UK, Denmark and Belgium. Ireland was broadly flat after an extended period of strong growth.

USA

1% ↑

Production change for the 12 months to February 2019

US milk production was up less than 1% in February compared to last February. Cow numbers continue to decline with the small monthly growth on a year-on-year basis, driven by increased yield per cow. Margins continue to be squeezed and in many cases were negative in the last quarter of 2018. Growth is likely to remain constrained until margins improve.

Global exports

AUSTRALIA

8% ↑

Export change for the 12 months to January 2019

Australia dairy exports increased 32%, or 16,000 MT, in January compared to last January. Growth was due to SMP, infant formula, fluid products and whey powder up a combined 18,000 MT, offset by a decline in WMP of 3,000 MT. Infant formula, SMP, fluid products and whey powder make up most of the 12-month growth to January, up a combined 55,000 MT.

NEW ZEALAND

2% ↑

Export change for the 12 months to January 2019

New Zealand dairy exports increased by 16%, or 51,000 MT, in January compared to January last year, driven by WMP, up 27,000 MT. AMF, fluid products, and butter were up a combined 22,000 MT. For the 12 months to January, exports were up 51,000 MT, on the previous 12 months driven by WMP, AMF, fluid products, butter and SMP.

EUROPEAN UNION

1% ↑

Export change for the 12 months to December 2018

EU dairy exports increased by 4%, or 15,000 MT in December compared to last December. Increases in SMP, lactose, whey powder, and WPC were offset by declines in WMP, cultured products, fluid products and cheese. For the 12 months to December, infant formula alone rose 46,000 MT to 586,000 MT and growth continued in infant formula, SMP, and lactose.

USA

9% ↑

Export change for the 12 months to December 2018

US dairy exports declined by 18%, or 36,000 MT, in December compared to the same period last year. This was primarily driven by whey powder, SMP, lactose and WPC, down a combined 37,000 MT. Although SMP was down in December compared to the same period last year, it was up 108,000 MT, for the 12 months to December.

Global imports

China dairy imports increased 17%, or 64,000 MT in January compared to January 2018 driven by increases across WMP, SMP, and infant formula, up a combined 64,000 MT. WMP imports reached a record peak of 182,000 MT.

CHINA

6% ↑

Import change for the 12 months to January 2019

ASIA

6% ↑

Import change for the 12 months to December 2018

MIDDLE EAST & AFRICA

5% ↓

Import change for the 12 months to December 2018

OUR MARKETS

DAIRY COMMODITY PRICES



Global pricing

GDT Event 232, held 19 March resulted in an index increase of 1.9 per cent.

SMP

16.4% ↑

Change vs. 12-month Rolling Average of USD 2,090/MT

USD **2,433**

March Average Price (USD/MT, FAS)

SOURCE: Global Dairy Trade

WMP

10.1% ↑

Change vs. 12-month Rolling Average of USD 2,953/MT

USD **3,252**

March Average Price (USD/MT, FAS)

BUTTER

8.6% ↓

Change vs. 12-month Rolling Average of USD 5,358/MT

USD **4,900**

February Average Price (USD/MT)

SOURCE: Dairy Australia, February Pricing

CHEDDAR

0.0%

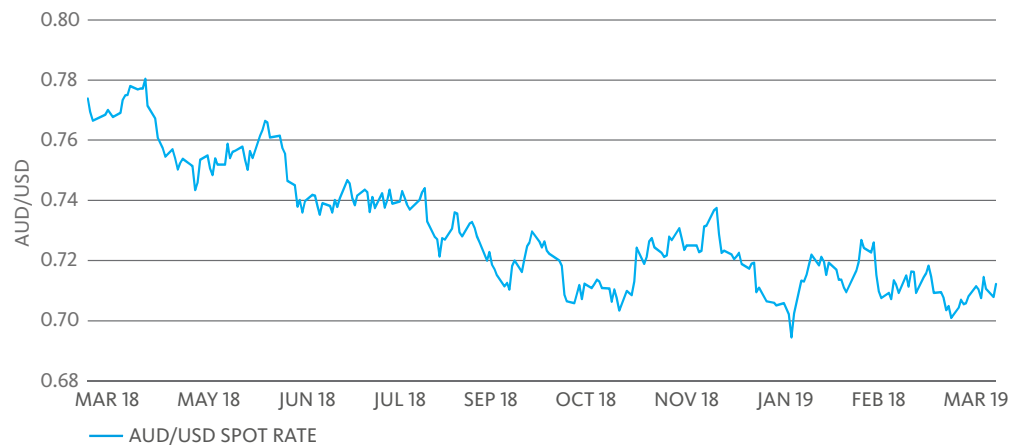
Change vs. 12-month Rolling Average of USD 4,000/MT

USD **4,000**

February Average Price (USD/MT)

Australian dollar trend

The Australian dollar remained range bound between US\$0.70 and US\$0.72 against the US dollar for March. An undefined extension of the negotiation period for the US-China trade and tariff discussions, and a continuation of a data-driven approach to monetary policy updates from both central banks resulted in a relatively stable cross rate.



SOURCE: news.com.au

SOURCE: Reserve Bank of Australia

Local factors affecting farming conditions



Hay

As summer draws to a close, the March-May outlook indicates warmer and dryer than average conditions. With little relief to the supply/demand equation, hay and fodder prices remain stable at elevated prices. Whilst animal numbers continue to decline, demand remains strong throughout Darling Downs, Gippsland and north coast NSW. Tasmania experienced the largest price reduction due to good rainfall and feed availability. While winter and summer crop stubble is increasing fodder in the supply chain, demand is expected to exceed supply across a majority of the country as lower than average rainfall throughout March impacts feed availability.

SOURCE: Dairy Australia

Grain

On the back of relatively high international cereal stocks and confidence in the northern hemisphere planting season, wheat prices have softened. Sentiment in the domestic market followed with a lack of buyer interest contributing to a reduction in price for both wheat and feed barley across all dairy regions. Even with recent price decreases, buyers have not rushed back into the market, preferring to wait and see where offshore and domestic markets land. ASX futures are down \$19 and \$31 for wheat and barley respectively. For barley this is \$5 less than the same time last year, while wheat is tracking \$33 higher.

SOURCE: Dairy Australia

Weather

Despite significant rainfall in large parts of QLD, February rainfall was below average nationally. Much of WA and NSW recorded little rain while northeast NSW and southeast QLD received very much below average rain. TAS was well above average with VIC dairy regions largely having average rainfall. Hot conditions persisted, with February 2019 the fourth warmest February on record. The March-May outlook, whilst variable, indicates eastern Australia is more likely to receive lower than average rainfall, whilst southern VIC, TAS and WA are likely to receive average to above average rainfall. All forecasts consistently point to higher than average temperatures.

SOURCE: Bureau of Meteorology

OUR BUSINESS



Tough seasonal conditions impacting Australia's Ingredients business

Tough seasonal conditions in Australia are having a profound impact on the country's milk production, with drought leading to declining volumes and intense competition for milk between processors.

This has impacted the performance of our Australian Ingredients business for the first-half. Lower milk collections mean that some factories are being underutilised, and we have had limited ability to capture additional value of higher commodity prices to pass through to farmers.

However, our Ingredients business continues to

experience strong demand domestically and across key export markets, particularly Japan, Indonesia and most recently in Korea. The business has secured new domestic supply agreements with a range of partners including Kalbe Nutritionals in Indonesia.

Despite the challenges our Australian business is facing, the Consumer and Foodservice businesses are performing well.

We remain the largest player in the cheese and spreads categories, holding the #1 branded position within Woolworths and Coles and Independent supermarkets

with Western Star, Perfect Italiano, Bega and Mainland. This represents a commanding market share of 26 per cent for the branded chilled spreads portfolio and 19 per cent for cheese.

Foodservice has achieved solid growth and has been awarded Supplier of the Year by Food Service Suppliers Association Australia and key customer PFD – which distributes products to over 55,000 businesses across Australia, including our Anchor Food Professionals cheese, cream and butter.

René Dedoncker says that now, more than ever, we need to think differently, be

innovative, be agile and make responsible decisions that keep our business resilient for the long term.

“We're doing a lot of work to make sure we're running our business as efficiently as we can, and striking the right balance between our product mix and our milk volumes.

“There's a lot of work to be done, and we must stay committed to a successful and sustainable business that has strong brands and customers relationships so that we can continue to deliver a competitive milk price to our farmer suppliers.”

OUR COMMUNITY



Fonterra's Director of Foodservice rides for mental health

Suicide in Australia is the leading cause of death in people aged 15 to 44, with eight Australians on average dying by suicide every day.

Social enterprise PukaUp, founded by former AFL star Wayne Schwass, is out to break down the stigma around mental health by forming a team to hit the road as part of 2019 Grand Victorian Bike Tour and sparking the discussion about mental health with Victorian communities, and one of our people went along for the ride.

Thirty-four cyclists slipped on the Lycra, strapped on their cleats, and jumped on their bikes for a ten-day tour of eight Victorian towns, traversing over 1,800 kilometres of

terrain. The physically and emotionally taxing challenge was tackled with one goal in mind – igniting the discussion around mental health among regional communities.

Avid cyclist and Director Foodservice Jeff Dhu channelled his inner Cadel Evans, jumping at the opportunity to join the Tour and learn how he can better support people to open up about mental health.

“We all face challenges to our mental health, and I wanted to learn more about the issue and how I could help myself and others facing these challenges,” says Jeff.

Tackling 180 to 200 kilometres a day to get to the next town was

physically demanding, but Jeff says meeting people and raising awareness of this important issue with regional communities made the journey worth the callused hands and tight hamstrings.

“Igniting the conversations through the engagement we had with locals, at coffee stops, lunch breaks or forums and talking about the issue of mental awareness was the main highlight of mine.

“The impact we were making in asking people to sign the truck to buy into our message was inspiring.”

Jeff is recovering well from his ride, and is already looking forward to next year, keen to spread the word and share PukaUp's positive and hopeful message

even further.

“While I was lucky to be a part of such a great initiative, I'm very grateful for the opportunity to participate on behalf of Fonterra,” says Jeff.

If you're struggling and need someone to talk to, remember that you can access the confidential and professional counselling, and psychological services via our Global Employee Assistance Program (EAP). You can contact the EAP Counselling Line 24/7 on 1300 687 327.

