

GLOBAL DAIRY UPDATE AUSTRALIA



• Early season New Zealand production assisted by favourable weather conditions. Australian production decreased in June over previous period.



• Fonterra's growing Stanhope cheese plant has just reached another key milestone. Last month, large pieces of cheese-making equipment arrived at site and were put into place by a nearly 200-strong team of contractors.



• Exports down in New Zealand and Australia for June. Growth continues in Europe and the US.
• Latin America, Asia and Middle East and Africa imports record double-digit growth in April.



• Kitted out with raincoats, boots, spades and a willingness to get their hands dirty, over 20 of Fonterra's staff headed along to Fonterra's Darnum site on Friday to plant 1,000 native trees and shrubs as part of its environmental sustainability programme.

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Global production

AUSTRALIA

3% ↑

Production change for the 12 months to June 2018

Australia milk production decreased 1% in June compared to June last year due to rising costs and scarcity of key on-farm inputs such as water, cereals and fodder, the costs of which are now trending substantially above long-term averages.

NEW ZEALAND

0%

Production change for the 12 months to July 2018

New Zealand milk production increased 6% in July, compared to July last year on the back of favourable weather conditions in some parts of the country for milk production and calving. Production growth was also supported by an increase in farms participating in winter milking.

EUROPEAN UNION

3% ↑

Production change for the 12 months to June 2018

EU milk production increased 1% in June compared to June 2017, but is facing above average temperatures and water restrictions across some parts of Europe. While there was growth in June, there are signs of hot weather impacting Germany and other dairy producing areas.

USA

1% ↑

Production change for the 12 months to June 2018

US milk production increased 1% in June, compared to June last year. This was driven by a combination of higher production per cow, along with an increase in milking cows compared to the same period last year.

Global exports

AUSTRALIA

5% ↑

Export change for the 12 months to June 2018

Australia dairy exports decreased 5%, in June compared to June 2017 due to declines in SMP and liquid milk, down a combined 6,000 MT. This was offset by gains in cheese and infant formula, up 3,000 MT. Liquid milk and infant formula comprised the majority of growth for the 12 months to June, up a combined 40,000 MT while WMP and butter continued to decline, down 11,000 MT.

NEW ZEALAND

2% ↓

Export change for the 12 months to June 2018

New Zealand dairy exports decreased 16% in June compared to June last year driven by WMP, down 42,000 MT. Growth in AMF and infant formula continued, up a combined 9,000 MT. For the 12 months to June, lower volumes across WMP, AMF, cheese and SMP, of a combined 104,000 MT, were offset by gains in liquid milk and infant formula, up a 76,000 MT.

EUROPEAN UNION

7% ↑

Export change for the 12 months to April 2018

EU dairy exports increased by 2% in April compared to April last year. Growth was primarily in infant formula and liquid milk, up a combined 11%. A decline in whey powder of 3,000 MT softened this increase. Exports for the 12 months to April were up 333,000 MT driven by growth across the largest categories, liquid milk, cheese, SMP, infant formula and whey, up 364,000 MT.

USA

9% ↑

Export change for the 12 months to June 2018

US dairy exports increased by 15%, or 30,000 MT, in June on the back of strong production. For the 12 months to June growth continued to be seen across most categories, especially SMP and lactose, which grew by 41,000 MT and 38,000 MT respectively. This wide-spread growth was partially reduced by declines in liquid milk, down 10,000 MT.

Global imports

China has suspended trade data, citing system technical issues. Based on exports to China, we estimate April volumes grew 19% 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 April 2018

MIDDLE EAST & AFRICA

5% ↑

Import change for the 12 months to April 2018

OUR MARKETS

DAIRY COMMODITY PRICES



Global pricing

GDT Event 218, held 21 August resulted in a decrease of 3.6%.

SMP

3.7% ↑

Change vs. 12-month Rolling Average of USD 1,892/MT

USD **1,962**

August Average Price (USD/MT, FAS)

SOURCE: Global Dairy Trade

WMP

4.6% ↓

Change vs. 12-month Rolling Average of USD 3,061/MT

USD **2,921**

August Average Price (USD/MT, FAS)

BUTTER

3.4% ↑

Change vs. 12-month Rolling Average of USD 5,800MT

USD **6,000**

July Average Price (USD/MT)

SOURCE: Dairy Australia, July Pricing

CHEDDAR

2.6% ↑

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

USD **4,150**

July Average Price (USD/MT)

Australian dollar trend

The Australian dollar held at 0.7300 to the end of August. Market expectations remain for the Federal Open Market Committee to raise US rates twice more this calendar year. The RBA continues to monitor economic indicators – including inflation and jobs growth – and to date has signalled no interest rate increases or decreases.



SOURCE: news.com.au

SOURCE: Reserve Bank of Australia

Local factors affecting farming conditions



Hay

Unusually dry and warm weather conditions across large regions of Australia combined with diminishing supplies of carryover fodder have led to a surge in demand and pricing. Reports suggest that hay is getting continually harder to source for immediate and future delivery with lucerne and pasture hay firming to an average price of \$498/t and \$215m/t respectively in July. There was some rainfall that provided much needed respite however much more is needed to soften soils and swing the markets. BoM forecasts suggest that September will remain drier and warmer than usual.

SOURCE: Dairy Australia

Grain

The international grain market continues to mirror the strong domestic price. July has seen multiple reports indicating lower global grain production which in turn has firmed prices. USDA released their World Supply and Demand Estimates which indicated a decline in global wheat stocks, the first time in six years that the projection has pointed to a decline. Locally, the climate is currently the biggest influence on the market with the majority of Australia experiencing dry conditions including severe drought in eastern states. The ASX futures have firmed this month with both wheat and barley seeing strong increases, up 22% and 27% since this time last month.

SOURCE: Dairy Australia

Weather

Rain deficiencies continued across large regions of mainland Australia with NSW experiencing its fifth-driest July on record. In south west Victoria, parts of Gippsland recorded average to above average rainfalls with Tasmania rainfall 47% above the average. BoM's seasonal outlook to November suggests most of mainland Australia is likely to continue to experience warmer and drier conditions than average with Tasmania receiving average rainfall and slightly warmer temperatures. The ENSO outlook remains at El Niño watch indicating a 50% chance of this event occurring, this is about double the normal chance.

SOURCE: Bureau of Meteorology

OUR BUSINESS



A rainbow welcomes Fonterra's new cheese-making equipment to Stanhope site.

Fonterra's growing Stanhope cheese plant has just reached another key milestone. Last month, large pieces of cheese-making equipment arrived at site and were put into place by a nearly 200-strong team of contractors.

The new equipment arrived as a rainbow stretched over the Stanhope sky, with the team taking it as a blessing for the remaining construction to come.

The delivery is part of the site's cheese expansion, which is on track to start

making cheese from next year, doubling the site's cheese processing capability to 80,000 metric tonnes.

Three new milk silos have been installed and several more of the big vessels will be arriving soon for whey processing.

Cheese-making vats have also been installed, which turn your milk into curd and whey, and a cheddaring machine which develops and knits the curd into our much-loved tasty cheddar.

Fonterra Stanhope Site Manager, Jason Wright,

says that the expansion is like a giant jigsaw puzzle, with teams working on over 20 different project fronts across the site, all working together to create one piece, readying the site so that it can send more of Stanhope's cheese to the world.

"On the day we were set to move the cheese vats in, we were greeted with a rainbow and I'm taking it as a blessing, even if we did have to postpone until the rain quietened down!" says Jason.

"A lot of work has gone into getting us to this stage,

with our contractors already clocking over 30,000-man hours on this expansion and we're just over the halfway mark. They're pulling out all the stops to get us up and running, and this is a real testament to the team."

This expansion is being built on the back of unmet global demand for dairy which is growing year on year. It won't be long until this new cheese plant is up and running, and more of Stanhope's tasty cheese is enjoyed by Australians and the rest of the world.



New equipment arrived as a rainbow stretched over the Stanhope sky



The first lot of new silos going into place at Fonterra's Stanhope site

OUR COMMUNITY



Fonterra staff plant 1,000 trees at Darnum

Kitted out with raincoats, boots, spades and a willingness to get their hands dirty, over 20 of Fonterra's staff headed along

to Fonterra's Darnum site on Friday to plant 1,000 native trees and shrubs as part of its environmental sustainability programme.

This is an essential part of Fonterra's sustainability efforts to protect and improve Australia's environment and is especially important in places where we operate, with Gippsland being an example of this.

the environment.

"It was a fantastic day, a lot of trees were planted and everyone seemed to really enjoy themselves, despite the heavy rain. Some of our teams even brought their family along to lend a hand.

Fonterra's Regional Operations Manager – East, Andrew Nooy says it was great seeing so many of the team getting involved and giving back to

"There were several green thumbs amongst the team and I think they were glad to be able to get out of the office and show off some of their skills to their peers," says Andrew.

