

# GLOBAL DAIRY UPDATE AUSTRALIA



## FARMGATE MILK PRICE UPDATE



- Fonterra's milk collection across Australia for the 2017/18 season reached 153 million kgMS, 30 million kgMS higher than the 2016/17 season.



- US and European exports up. New Zealand exports slightly down and Australian exports flat in May.
- In March import demand grew in all regions except Latin America and Middle East and Africa.



- Fonterra transforms milk collection with new tankers and new jobs.



- Fonterra Grass Roots Fund supports 50 initiatives across Victoria and Tasmania.

Following our July Price review, we are holding our current average milk price of \$5.85 per kilogram of milk solids (kgMS) and maintaining our forecast closing average range of \$5.85 to \$6.20/kgMS for the 2018/19 season.

We want to re-state our confidence in our \$5.85/kgMS opening price given the current market and strength of our business.

Since our opening price announcement we have seen some decline in GlobalDairyTrade events, balanced by further depreciation in the Australian dollar. As it is early in the season, the upper-end of our forecast closing range is still achievable.

Our pricing remains market-led, sustainable and is another step towards pricing simplicity.

We encourage you to use the Farm Source online income estimator to assist you with budget planning and to ensure you're best placed to make informed decisions

## CONTACT US



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## Global production

### AUSTRALIA

**3%** ↑

Production change for the 12 months to May 2018

Australia milk production increased 3% in May, compared to May last year, despite variable winter conditions across key regions. Production for the 12 months to May was up 3% compared to the previous period, driven by continued growth in south east Australia.

### NEW ZEALAND

**0%**

Production change for the 12 months to June 2018

New Zealand milk production increased 11% in June compared to June last year. June is only a small portion of full season milk production. The increase partly represents improved conditions at the start of the season. In the early part of the season, supply is also supported by winter milking.

### EUROPEAN UNION

**3%** ↑

Production change for the 12 months to May 2018

EU milk production increased 2% in May, compared to May last year, driven by better than expected weather conditions. European growth continues to be driven by Germany, up 3%. Italy, France and the United Kingdom were up 8%, 2% and 4% respectively.

### USA

**1%** ↑

Production change for the 12 months to May 2018

US milk production increased 1% in May, compared to May last year. The US continues to increase production per cow, averaging 931kg, up 7kg relative to the prior comparable period.

## Global exports

### AUSTRALIA

**6%** ↑

Export change for the 12 months to May 2018

Australia dairy exports were flat in May compared to May 2017. Growth in liquid milk and infant formula of 3,000 MT, was offset by a decline in SMP and WMP of 3,000 MT. For the 12 months to May liquid milk, SMP and infant formula comprised the majority of growth, adding a combined 60,000 MT, though dampened by declines in butter, WMP and whey powder, down a combined 16,000 MT.

### NEW ZEALAND

**1%** ↑

Export change for the 12 months to May 2018

New Zealand dairy exports decreased 3% in May compared to May 2017. AMF and infant formula grew 7,000 MT and 6,000 MT, respectively. This was offset by a decline in WMP of 20%. For the 12 months to May, growth was driven by liquid milk, up 50,000 MT, and WMP and infant formula up 62,000 MT. Growth was offset by a combined decline in cheese and AMF of 54,000 MT.

### EUROPEAN UNION

**7%** ↑

Export change for the 12 months to February 2018

EU dairy exports increased by 4% in February compared to February 2017. Growth was across most categories, particularly infant formula and SMP, up a combined 19,000 MT, while the largest category, liquid milk, declined 12,000 MT. For the 12 months to February, SMP continued to drive growth, up 40%, or 225,000 MT. Caseinate and butter were down a combined 53,000 MT, or 23%.

### USA

**8%** ↑

Export change for the 12 months to May 2018

US dairy exports increased by 15% in May as US milk production growth continued. SMP, lactose and WPC and WPI remain the primary growth categories adding 27,000 MT over May last year. For the 12 months to May growth highest in cheese, SMP and lactose, adding 37,000 MT, 34,000 MT and 33,000 MT respectively. Liquid milk and casein, declined a combined 10,000 MT.

## Global imports

China dairy imports increased 3% in March compared to March last year, driven by a combined 22% growth in liquid milk, butter and lactose imports. Declines in WMP of 6,000 MT partially offset the gains made. Strong demand out of China continues with infant formula, WMP and SMP up a combined 220,000 MT for the 12 months to March.

### CHINA

**17%** ↑

Import change for the 12 months to March 2018

### ASIA

**1%** ↑

Import change for the 12 months to March 2018

### MIDDLE EAST & AFRICA

**1%** ↑

Import change for the 12 months to March 2018

# OUR MARKETS

## DAIRY COMMODITY PRICES



### Global pricing

GDT Event 216, held 17 July resulted in a decrease of 1.7%.

#### SMP

**2.3%↑**

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

USD **1,936**

July Average Price (USD/MT, FAS)

SOURCE: Global Dairy Trade

#### WMP

**4.6%↓**

Change vs. 12-month Rolling Average of USD 3,080/MT

USD **2,939**

July Average Price (USD/MT, FAS)

#### BUTTER

**3.3%↑**

Change vs. 12-month Rolling Average of USD 5,808MT

USD **6,000**

June Average Price (USD/MT)

SOURCE: Dairy Australia, June Pricing

#### CHEDDAR

**2.7%↑**

Change vs. 12-month Rolling Average of USD 4,042MT

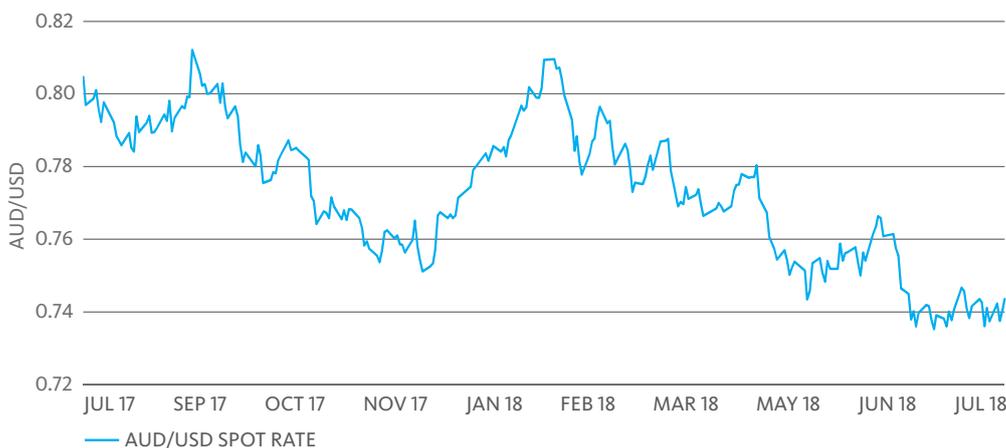
USD **4,150**

June Average Price (USD/MT)

### Australian dollar trend

The Australian dollar maintained a tight range between 0.7350 and 0.7450 against the US dollar during July. 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

There is limited supply of hay in Australia and demand remains strong as feed is delivered throughout Australia to regions in need. Carry-over stocks are selling quickly and lucerne, vetch and straw are increasingly depleted across southern regions. Rainfall during the month provided some relief, however subsoils are still dry in most of the country and cold weather and frosts slowed pasture growth in eastern states. More widespread rain is necessary to turn the market around. As a result of increased demand and limited supplies, hay prices continued to firm through June to July

SOURCE: Dairy Australia

#### Grain

Weather has been a major driver of global grain prices this month. Below average rain in Russia and the Black Sea region resulted in a downwards revision of global production forecasts. In Brazil, corn production is suggested to be lower than previously estimated. This has supported international grain prices. In Australia, dry weather led to price growth and as the east coast continues to go without any substantial rain, prices are likely to remain strong. Some growers are still holding on to grain, further reducing supply. However, some reports indicate southeast Australian growers have started to sell grain, which could alleviate some market pressure.

SOURCE: Dairy Australia

#### Weather

Following an unusually dry, warm autumn, rainfall in June was below average. South, eastern mainland and regions of western Australia reported dry conditions while Tasmania and the east coast received average rainfall. Temperatures have been above average across the country. BOM's seasonal outlook (August-October) forecasts drier than average conditions and below average rainfall across south-eastern and the majority of Australia whilst Tasmania is set to receive average rainfall. BOM suggests temperatures will be warmer than usual in eastern Australia and have updated the ENSO outlook to El Niño watch, indicating a 50% likelihood of an El Niño forming in spring.

SOURCE: Bureau of Meteorology

# OUR BUSINESS



## Fonterra transforms milk collection with new tankers and new jobs

**37,000 litres – enough to fill 148,000 glasses of milk. That’s how much milk one of Fonterra’s new ‘Truck and Dog’ tankers can hold!**

The new state-of-the-art milk tanker is transforming farm milk collection for Fonterra Australia, creating new jobs in the regions, improving efficiency from farm-to-factory, and reducing the number of trucks on country roads.

A jump in the amount of milk Fonterra collects means that more people and bigger trucks are needed to handle the growth. The first of 14 new tankers collectively capable of holding over 500,000 litres of milk have begun hitting the road, replacing older and smaller milk tankers and improving the efficiency of farm milk collection, while 26 new drivers have come on-board across Fonterra’s four regions, boosting local jobs at Darnum, Cobden, Tongala,

and Wynyard.

Fonterra General Manager of Logistics and Distribution Justin Ryan says the fleet upgrade includes two new types of tanker – a 26-metre tanker capable of carrying 43,000 litres, or 26 per cent more milk than the previous tankers, and the “Truck and Dog” tanker – a truck and trailer that can carry 27 per cent more milk than the tankers it replaces. Both trucks have a smaller turning circle than other truck and trailer units, meaning they can access even more farms and local roads.

“We’ve also created 26 new jobs in the Farm Milk Collection team, based at our regional Farm Milk Collection depots. The new drivers boost our existing team of drivers and ensure we’re providing a consistently high level of service to our farmers during the seasonal peak,” says Justin.

“Over the past eighteen

months we’ve had over 20 per cent growth in the volume of milk we collect, and our new drivers and the upgraded fleet have been crucial to supporting that growth.”

Fonterra Farm Milk Collection operator Leon McLaren has seen a lot of change over his more than 30 years collecting milk in Tasmania’s North West, and says the new, state-of-the-art tankers are a big leap forward in terms of efficiency and safety, compared to the trucks he drove when he first started out.

“The ‘Truck and Dogs’ are much easier to manoeuvre in and out of farms, and the braking is much better too – I love jumping behind the wheel!” says Leon.

As well as creating new jobs in regional Victoria and Tasmania, the upgraded fleet is also helping to improve efficiency, with the new trucks now able to collect greater volumes of

milk – meaning fewer trucks on the road.

“The new fleet has helped us to lift our payload – the amount of milk we can carry – by an average of eight per cent, meaning fewer vehicle movements on the rural and regional roads on which we collect milk,” says Justin.

“This number is expected to rise to a 30 per cent improvement once the fleet upgrade is complete, improving traffic flows and reducing wear and tear on rural roads.”



FONTERRA FARM MILK COLLECTION OPERATOR LEON MCLAREN WITH HIS ‘TRUCK AND DOG’

# OUR COMMUNITY



## Fonterra Grass Roots Fund supports 50 initiatives across Victoria and Tasmania

This year, Fonterra has supported over 50 initiatives across Victoria and Tasmania – with a vast number of local communities to benefit. Check out some of the worthy 2018 recipients. Applications for 2019 will open early next year – we’ll keep you posted on how to apply for a grant for your community.

