

GLOBAL DAIRY UPDATE AUSTRALIA



FARMGATE MILK PRICE UPDATE



• Significant monthly production declines in New Zealand and Australia. Monthly production eased in the US and holding at current levels in EU.



• Exports from New Zealand and the EU continue to grow. Australia and US exports decline.



• Imports into Asia and China show strong growth. Latin America and Middle East & Africa down.

As part of our bi-monthly price review, we are maintaining our current average milk price at \$6.05/kgMS for the 2018/19 season. The majority of our milk is contracted for this season and lower milk volumes mean we have limited ability to capture the market upside for the remainder of this season. However, we will run a final reconciliation at the end of June.

We have also announced that our opening price for the 2019/20 season will be an average farmgate milk price of \$6.60/kgMS. The broader global supply and demand picture is positive, with demand expected to remain strong across key trading partners and a favourable exchange rate. Importantly, it's a competitive milk price for our Australian farmers that enables us to maintain a sustainable model in Australia and deliver a return on investment for our business.

We will provide farmers with more information about our pricing offer at our supplier meetings in June.



CONTACT US



• The closure of our Dennington site.

Farm Source Service Centre

+1800 266 674



Global production

AUSTRALIA

5% ↓

Production change for the 12 months to March 2019

Australia milk production decreased 10% in March compared to March last year. This is the lowest March production in the last 20 years. Continued drought conditions and high input costs continue to put pressure on Australian milk production because of reduced supplemental feeding, increased cow cull rates and farm exits.

NEW ZEALAND

2% ↑

Production change for the 12 months to April 2019

New Zealand milk production was down 10% in April compared to the same period last year. Dry conditions continued across most of the North Island and parts of the South Island. Soil moisture was below normal for most of the North Island and a large part of the South Island.

EUROPEAN UNION

0% ↑

Production change for the 12 months to March 2019

EU milk production increased 1% in March compared to last March. Strong growth continued in the UK but it exports very little outside of the EU. Ireland growth continued with March up 11% compared to last year. Key exporting countries where production declined were Austria, France and The Netherlands, at 4%, 1% and 2%, respectively.

USA

1% ↑

Production change for the 12 months to April 2019

US milk production increased 0.2% in April, compared to April last year. Milk per cow continues to increase but the continued drop in cow numbers continues to limit growth. Low profitability is leading to an increase in culling which is expected to continue to impact growth over the next few months.

Global exports

AUSTRALIA

5% ↑

Export change for the 12 months to March 2019

Australia dairy exports decreased 3% in March compared to last March. WMP, SMP and cheese were down a combined 8,200 MT, offset by an increase in infant formula and fluid milk products, up 6,000 MT. Infant formula, fluid milk products, and whey powder make up most of the current growth in Australian exports for the 12 months to March.

NEW ZEALAND

5% ↑

Export change for the 12 months to March 2019

New Zealand dairy exports increased 27% in March compared to March last year. WMP, fluid milk products, and cheese were up 63,000 MT. Aside from a slight decline in butter and casein, all other products were up for the month. For the 12 months to March, WMP, fluid milk products, and AMF were up a combined 187,000 MT, offset by SMP.

EUROPEAN UNION

1% ↑

Export change for the 12 months to February 2019

EU dairy exports increased by 5% in February compared to last February. SMP and fluid milk products were up a combined 30,600 MT, offset by declines in whey powder and WMP. For the 12 months to February SMP, lactose and infant formula were up a combined 150,400 MT, offset by a decline in WMP, fluid milk products and butter.

USA

3% ↑

Export change for the 12 months to March 2019

US dairy exports declined 10% in March compared to last March. SMP, whey powder, lactose, WMP and WPC were down 25,200 MT, cheese was up 3,700 MT. The US/China trade dispute and African Swine flu impacting the China hog industry has led to a downturn in whey imports by China.

Global imports

China dairy import volumes increased 11%, or 22,700 MT, in March compared to March last year. This was driven by increases in WMP and fluid milk products up a combined 35,300 MT but partially offset by whey powder, down 13,400 MT.

CHINA

8% ↑

Import change for the 12 months to March 2019

ASIA

7% ↑

Import change for the 12 months to February 2019

MIDDLE EAST & AFRICA

7% ↓

Import change for the 12 months to February 2019

OUR MARKETS

DAIRY COMMODITY PRICES



Global pricing

GDT Event 236, held 21 May resulted in an index decrease of 1.2 per cent.

SMP

15.8% ↑

Change vs. 12-month Rolling Average of USD 2,180/MT

USD **2,525**

May Average Price (USD/MT, FAS)

SOURCE: Global Dairy Trade

WMP

9.0% ↑

Change vs. 12-month Rolling Average of USD 2,950/MT

USD **3,214**

May Average Price (USD/MT, FAS)

BUTTER

5.1% ↑

Change vs. 12-month Rolling Average of USD 5,329/MT

USD **5,600**

April Average Price (USD/MT)

SOURCE: Dairy Australia, April Pricing

CHEDDAR

6.4% ↑

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

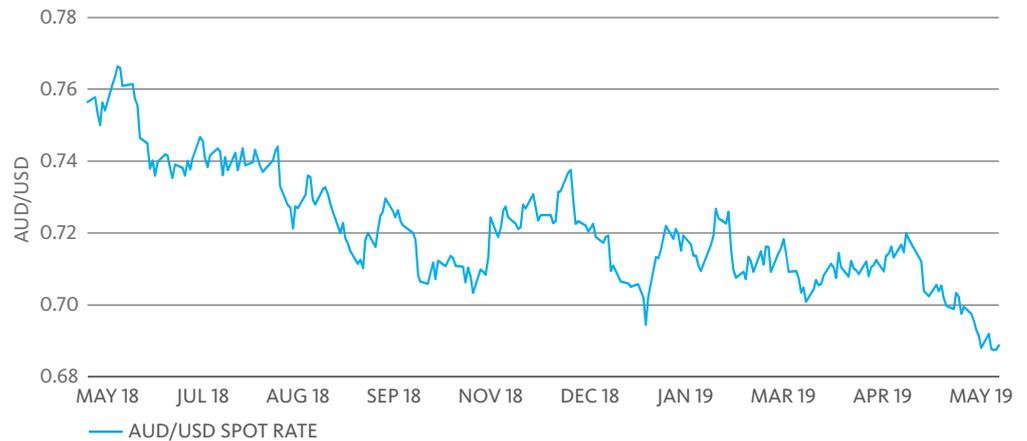
USD **4,300**

April Average Price (USD/MT)

Australian dollar trend

The AUD was valued at US\$0.69 at the end of May. During the month, the Reserve Bank of Australia Governor announced the RBA Board would consider a case for lowering interest rates at its 4 June meeting. This was a change from previous neutral guidance and markets revalued the AUD down. Some Australian banks brought forward their forecast of the timing and number of RBA rate cuts in 2019.

SOURCE: news.com.au



SOURCE: Reserve Bank of Australia

Local factors affecting farming conditions



Hay

Demand for fodder picked up slightly last month although prices have remained relatively steady in most dairy regions throughout April. With little to no carryover stock from 2018, national supply remains low which may be an issue in the coming months. Reports suggest many farmers are only supplying long-term customers due to limited stocks. Recent rain has provided much needed relief and promoted some pasture growth but follow-up rain is required to establish a feed-base and fodder harvest for the 2019 season. The radar will be followed closely this month as timely rain will play a major factor in production and prices for the new season ahead.

SOURCE: Dairy Australia

Grain

Domestic wheat values have continued to ease in most regions in April with significant decreases in WA and SA. Global grain prices weighed on the local market as International Grain Council estimates show a 2 per cent increase in 2019/20 international grain stocks. This, combined with recent rain in NSW, continued to bring local prices down on the east coast. Looking ahead, follow-up rain will be a key driver of prices and production for current and new season feed. Recent price drops in the physical market have been reflected in the ASX futures too, with eastern Australian wheat decreasing by \$19/tonne and barley down \$10/tonne from the month prior.

SOURCE: Dairy Australia

Weather

April rainfall was recorded in central QLD stretching into small parts of NSW. Eastern NSW, VIC and parts of SA missed this rain, recording below average to very much below average. VIC had the largest deficiencies receiving an overall average of 10.8mm, 79 per cent below the mean. TAS had average rainfall across most of the state apart from the east coast. Monthly temperatures have continued to remain above average after the warmest start to the year (Jan-Apr). The May-July outlook suggests no real indication to wetter or drier conditions on the eastern states. Thankfully at the time of writing much needed, albeit late rain, had arrived in May!

SOURCE: Bureau of Meteorology



CLOSURE OF OUR DENNINGTON SITE

This month we made the difficult decision to close our Dennington site in South West Victoria, with the site to cease operations by the end of November 2019.

This decision comes amid a review of our business following significant changes, including a declining milk pool, in the Australian industry. It coincides with a global review of Fonterra Co-operative's asset portfolio which saw the unwinding of our Darnum joint venture with Beingmate earlier this year.

The Dennington factory is over 100 years old and was acquired by our business from Nestlé in 2005.

The closure will affect 98 Dennington employees, and our immediate focus is on the wellbeing of these people and their families, and providing them the support they need now and in the months ahead.

Managing Director Fonterra Australia René Dedoncker says that the decision to close the site, although difficult, is a responsible decision for the long-term.

"We know this is very tough for our people, and we will do the right thing by them," says René.

Australian dairy continues to feel the impact of the ongoing drought and industry structural change. The Australian milk pool has reduced by one billion litres this season, and coupled with excess processing capacity across the industry, this has resulted in heightened competition for milk and the underutilisation of manufacturing assets across the industry.

"In this current operating environment, it's more important than ever that we put our farmers' milk into the highest returning products to ensure we can run a sustainable business that is here for the long-term," says René.

"The Dennington factory is under-utilised and the unfortunate reality is, the site is not viable in a low-milk-pool environment and we need to remove capacity.

"While this is terribly difficult news to share, it is a responsible decision that consolidates our manufacturing in Western Victoria, making our three regional Victorian milk processing sites at Cobden, Darnum, and Stanhope more efficient.

"Following the closure of Dennington, milk currently processed at Dennington will be relocated to our Cobden manufacturing plant.

"Coupled with our two Tasmanian factories and secondary processing plant at Bayswater, this gives us the right asset footprint to ensure both our farmers' milk and manufacturing facilities are efficient with milk going into higher returning products," says René.