

AUSTRALIA GLOBAL DAIRY UPDATE



OUR MARKETS



Production

The EU in April had the lowest rate of production increase since early 2015. However, production for the 12 months to April increased 4% largely from Ireland & the Netherlands.

US milk production slowed to a 1% increase over the last 12 months to May 2016.

In Australia, production for May decreased 6% compared to May 2015.

In New Zealand, production for the 12 months to May, was down 2%. Favourable conditions across many dairying regions supported late-season milk production.

Exports

EU exports increased 10% in March compared to March 2015, largely in fresh milk and cheese.

In April, the US decreased 20% (42,000 MT) compared to April 2015. Significant decreases across all major dairy categories were a result of strong domestic demand.

Australia and New Zealand exports increased, mainly in whey, infant formula and fresh milk categories.

Imports

China imports increased 47,000 MT in May compared May 2015. Significant increases were seen across milk, infant formula and whey powder.

Asia and the Middle East decreased in March by 8% and 17% respectively, largely in milk powders.

Global production

AUSTRALIA

1% ↓

Production change for the 12 months to May 2016

NEW ZEALAND

2% ↓

Production change for the 12 months to May 2016

EUROPEAN UNION

4% ↑

Production change for the 12 months to April 2016

USA

1% ↑

Production change for the 12 months to May 2016

Global exports

AUSTRALIA

6% ↑

Export change for the 12 months to April 2016

NEW ZEALAND

4% ↑

Export change for the 12 months to May 2016

EUROPEAN UNION

11% ↑

Export change for the 12 months to March 2016

USA

8% ↓

Export change for the 12 months to April 2016

Global imports

CHINA

23% ↑

Import change for 12 months to May 2016

ASIA

4% ↑

Import change for 12 months to March 2016

MIDDLE EAST & AFRICA

4% ↓

Import change for 12 months to March 2016



SOURCE: Government milk production statistics/GTIS trade data/Fonterra analysis.

OUR MARKETS

DAIRY COMMODITY PRICES



Global Pricing

Prices were down 0.4% at the conclusion of the GDT event on 15 June.

Although overall prices remained stable, SMP prices hit USD1,900 for the first time since December 2015.

Cheddar prices are at their lowest since August 2009 compounded by US stockpiles at their highest levels since 1984.

Based on these indicators, our opening price and full year forecast currently remain unchanged, with a watch on currency.

BUTTER

3.3% ↓

Change vs. 12-month Rolling Average of USD 3,150/MT

USD **3,050**

June Average Price (USD/MT)

SOURCE: Dairy Australia

CHEDDAR

5.3% ↓

Change vs. 12-month Rolling Average of USD 3,213/MT

USD **3,050**

June Average Price (USD/MT)

SMP

3.4% ↑

Change vs. 12-month Rolling Average of USD 1,821/MT

USD **1,884**

June Average Price (USD/MT, FAS)

SOURCE: GlobalDairyTrade

WMP

0.3% ↑

Change vs. 12-month Rolling Average of USD 2,154/MT

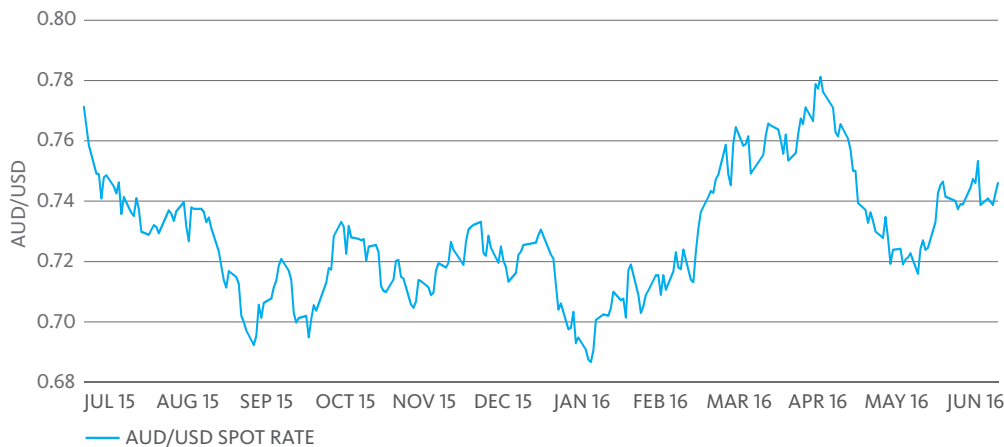
USD **2,162**

June Average Price (USD/MT, FAS)

Australian dollar trend

The Australian dollar is a major driver of the farmgate milk price. A \$0.01 movement has an impact of \$0.05-\$0.07 per kgMS, on milk price on a full-year basis.

June's monthly high was \$0.76 and the dollar is back to levels seen prior to RBA's recent interest rate cut (3 May). Our forecast is based on the Australian dollar holding at around \$0.74 cents to the US dollar.



SOURCE: Reserve Bank of Australia

Local factors affecting farming conditions



Hay

Demand is easing across south-eastern Australia due to lower farm gate prices and increasing pasture availability. Small volumes of hay remain with quality marginal. Consequently, short-term prices remain firm. The strong start to the winter crop season indicates a potential increase in availability. If supported by lower dairy farm demand, hay prices are likely to ease.

SOURCE: Optimum Futures

Grain

Grain producers in North America are expecting a significant increase in production. Demand for access to storage facilities has increased in anticipation of a good harvest. As a result of predicted volumes, the world market is easing. Locally, feed quality grain has softened \$30 in two weeks.

SOURCE: Optimus Futures

Weather

Current modelling predicts above-average rainfall and cooler-than-average daytime temperatures for southern Australia, with conditions anticipated to persist through to spring. It is unknown at this stage if a La Niña pattern will develop, though climate models suggest it unlikely to reach levels seen in most recent event in 2010-2012 – one of the strongest La Niña events on record.

SOURCE: Australia Bureau of Meteorology