

GLOBAL DAIRY UPDATE AUSTRALIA



- Production flat to declining in New Zealand, Australia and the EU, steady growth in the US.



- Strong demand and growth in milk pool enables step-up.
- Improved market conditions and the strength of the Australian business supported this step-up.



- Dairy export growth from the US, some growth in EU exports.
- Strong import growth in Latin America continues while some easing of imports into Asia.



- Fonterra Stanhope will open its doors to the community.
- The rebuild and expansion has been an incredible journey which has given us the opportunity to celebrate Stanhope, its broader communities and Fonterra's place in it.

FARMGATE MILK PRICE UPDATE



Following our July price review, we will be increasing our farmgate milk price for the 2017/18 season with a step-up of 20 cents per kgMS.

This increase brings our current, average farmgate milk price for the 2017/18 season to \$5.50/kgMS.

Our additional payment of 40 cents per kgMS is payable on top of our revised price, and brings the total cash paid to \$5.90 per kgMS. More details in the Our Business section.

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Global production

AUSTRALIA

8% ↓

Production change for the 12 months to April 2017

Australia production in April decreased 6% compared to the same month last year.

Production for the 12 months to April was down 8% compared to the same period the previous year.

NEW ZEALAND

1% ↓

Production change for the 12 months to May 2017

New Zealand milk production in May was down 1% compared to the same month last year.

For the 12 months to May, milk production was down 1% compared to the same period the previous year.

In New Zealand, volumes decrease at this time of year due to seasonality of supply.

EUROPEAN UNION

2% ↓

Production change for the 12 months to April 2017

EU production in April was flat compared to April last year. Ireland and Poland were up 12% and 4% respectively, while Germany and France, the two biggest producers in Europe, were down 3% and 1% respectively.

Production for the 12 months to April was down 2% compared to the same period the previous year.

USA

2% ↑

Production change for the 12 months to May 2017

US production in May increased 2% compared to the same month last year.

Monthly volumes have been increasing at a rate of 2% for the past eleven months.

Milk production for the 12 months to May increased 2% compared to the same period the previous year.

Global exports

AUSTRALIA

1% ↓

Export change for the 12 months to April 2017

Australia dairy exports in April decreased 7% compared to the same month last year.

Liquid milk and cheese were up a combined 12% or 4,000 MT for the month, offset by declines in SMP, WMP and whey powder, down 27% or 6,000 MT.

NEW ZEALAND

3% ↑

Export change for the 12 months to April 2017

New Zealand dairy exports decreased 2% or 6,400 MT in April compared to April last year. Decreases were seen in WMP and SMP, down a combined 11% or 16,000 MT. This was partially offset by an increase in cheese and liquid milk, up a combined 21% or 9,500 MT.

EUROPEAN UNION

3% ↑

Export change for the 12 months to March 2017

EU dairy exports in March increased 6% or 28,000 MT compared to March last year. A 15% decline in liquid milk was offset by growth in SMP, WMP and cheese, up 31%, 28% and 10% respectively. Growth for the 12 months to March has eased in recent months but remains up 3%, or 168,000 MT, on the previous comparable period.

USA

11% ↑

Export change for the 12 months to April 2017

US dairy exports increased 15% in April, or 24,000 MT, compared to April last year. This was the tenth consecutive month of increasing exports.

Growth was largely driven by SMP, up 22% or 10,000 MT, and whey powder, up more than 30% for the second consecutive month.

Global imports

China dairy imports were flat in May compared to May last year. Gains in infant formula and SMP, up 37% and 39% respectively, were offset by declines in WMP and liquid milk, down a combined 20% or 20,000 MT. For the 12 months to May, whey powder and liquid milk were up a combined 76,000 MT, while infant formula was up 25% or 49,000 MT.

CHINA

7% ↑

Import change for the 12 months to May 2017

ASIA

6% ↑

Import change for the 12 months to March 2017

MIDDLE EAST & AFRICA

3% ↓

Import change for the 12 months to March 2017

OUR MARKETS

DAIRY COMMODITY PRICES



Global pricing

GDT Event 192, held 18 July resulted in an increase of 0.2%.

SMP

8.5% ↓

Change vs. 12-month Rolling Average of USD 2,248/MT

USD **2,057**

July Average Price (USD/MT, FAS)

SOURCE: GlobalDairyTrade

WMP

1.7% ↑

Change vs. 12-month Rolling Average of USD 3,060/MT

USD **3,113**

July Average Price (USD/MT, FAS)

BUTTER

29.7% ↑

Change vs. 12-month Rolling Average of USD 4,471MT

USD **5,800**

June Average Price (USD/MT)

SOURCE: Dairy Australia, May Pricing

CHEDDAR

8.6% ↑

Change vs. 12-month Rolling Average of USD 3,729/MT

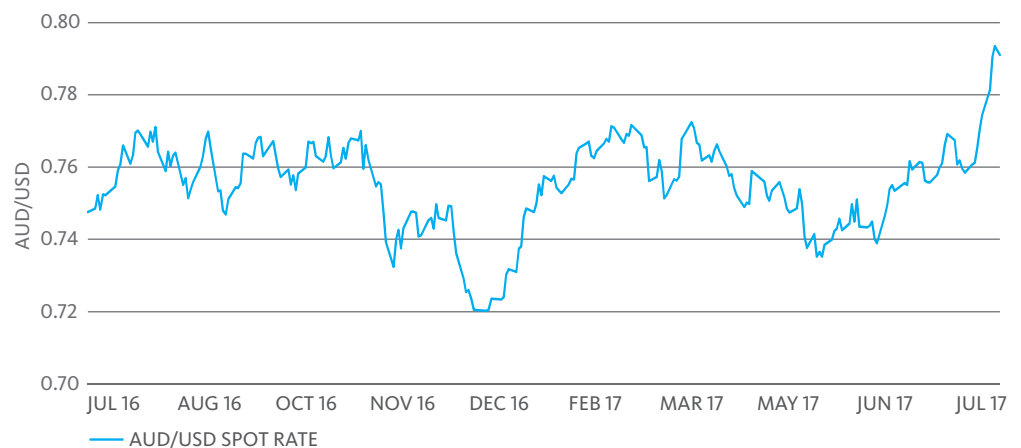
USD **4,050**

June Average Price (USD/MT)

Australian dollar trend

In mid-July the US dollar slipped against major currencies to its lowest level since September on the back of weaker-than-expected economic data that made the market less confident of Federal Reserve rate rises. In late July the Reserve Bank of Australia issued a markedly optimistic economic assessment in the minutes of its July policy meeting, sending the currency soaring to its highest level in more than two years.

SOURCE: news.com.au



SOURCE: Reserve Bank of Australia

Local factors affecting farming conditions



Hay

Most of the country returned to an active hay trading market in late July. Demand remains relatively low, but many farmers are topping up sheds to combat dwindling home-grown supplies after determining requirements for the rest of the year. A drier than average winter rushed this process, with the prospect of a much tighter year possible. In the south, the major hay making region has enjoyed a well overdue bout of rainfall in the past fortnight. With most growers planting less this season, any yield reduction could mean much less plentiful supply. Some hay traders are looking to secure large volumes of fodder in expectation of a boost in demand later in the year.

SOURCE: Dairy Australia

Grain

Huge global stockpiles of wheat remain, but as large amounts of these are in China and India some concern regarding the accuracy of these figures has been noted. The market is currently trading largely around weather stories but ongoing dry conditions in many cropping regions are beginning to have a fundamental effect on production. Rain in northern Europe raises potential quality issues with high protein Baltic wheat. The latest USDA report predicts US spring wheat to reach 10.9 million acres, well below market estimates and, together with low winter wheat, the lowest level since 1919. High temperatures and little moisture in the US northern plains area continue to cause concern.

SOURCE: Dairy Australia

Weather

June rainfall was below average for most of Australia, and lowest on record for much of the northern, north-eastern parts of Victoria and Tasmania. This was largely due to higher than average mean sea level pressure patterns across southern Australia associated with a positive phase of the Southern Annular Mode. The Indian Ocean Dipole (IOD) is neutral, however, two of six climate models suggest positive IOD thresholds could be reached in coming months. Only one suggests these will last long enough to be considered a positive IOD event. Positive events are typically associated with below average winter and spring rainfall over central and southern Australia.

SOURCE: Bureau of Meteorology

OUR BUSINESS



Strong demand and growth in milk pool enables step up

Improved market conditions, strong demand from customers and a growth in milk intake has enabled Fonterra Australia to today announce a step-up of 20 cents per kilogram of milk solids (kgMS) to their farmgate milk price for the 2017/18 season, bringing their average farmgate milk price to \$5.50 per kgMS.

The increase applies from 1 July 2017, with farmers receiving payment on 15 August 2017.

The previously announced additional payment of 40 cents/kgMS is payable on top of the revised farmgate milk price, and brings the total average cash paid to \$5.90kgMS.

Fonterra Australia Managing Director René Dedoncker said that improved market conditions and the strength of the Australian business supported this step-up.

“Since the start of this season our milk pool has

grown, and our assets are nearing optimal capacity, meaning our factories are operating efficiently,” said René.

“Coupled with strong demand from Fonterra’s Australian and global customers, this has enabled us to deliver this step-up to our farmers.

“This price increase will improve cashflow positions on farm, reinforcing growing confidence of our farmers.”

Fonterra has also updated its forecast closing milk price range, to \$5.50 to \$5.80 per kgMS, and advised that while commodity prices are strong, the rally in the Australian dollar was likely to influence the end of season milk price within that forecast range.

“We continue to monitor currency movements closely and will keep our farmers updated throughout the season with the latest market conditions.”

OUR COMMUNITY



Fonterra Stanhope will open its doors to the community

We’re in the final stretch of construction at Stanhope, with the first milk flowing through the lines of our state-of-the-art cheese plant, which will soon begin sending cheese to the world.

Fonterra’s new Stanhope cheese plant is a major investment in northern Victoria and is the result of two years of planning, hard work and collaboration.

The rebuild and expansion has been an incredible journey which has given us the opportunity to celebrate Stanhope, its broader communities and Fonterra’s place in it.

Part of this rebuild is the community art installation – a 48 metre by 5 metre wall mural, with the theme *Legendairy Stanhope – Proud People, Proud Community*, which celebrates Stanhope’s

cheese-making history dating back to the 1920s, along with a rural community known for its dairy farms and agricultural abundance.

Stanhope Site Manager Jason Wright said the *Legendairy Stanhope Mural* is being installed as we speak, and that soon the community will be able to see the massive mosaic on the northern wall of the cheese plant.

To celebrate the commissioning of the new cheese plant and officially unveil the *Legendairy Stanhope Mural*, we will be holding a *Community day* on **Sunday 17 September 2017** at Stanhope’s community hall.

“We’re encouraging our farmers, employees and the entire community to come along, with a number

of fun family activities to be had and the chance to take a tour through the new cheese plant.

“We’re delighted that we will soon open the cheese plant doors and bring the community inside” says Jason.

Make sure you mark Sunday 17 September in your diaries, and keep your eyes peeled for more information to come!

