

GLOBAL DAIRY UPDATE AUSTRALIA



• Fonterra Australia milk collection increased 26% for the season from 1 July to 30 November.



• Further increase in monthly European milk production. New Zealand production improved in November, however continues to be impacted by weather.



• Demand for dairy remains strong in China and Asia. Middle East and Africa and Latin America imports decline.
• Dairy exports from New Zealand and US continue to decline. Export growth from the EU increasing.

• Following our November price review we have increased the farmgate milk price by 10 cents per kilogram of milk solids (kgMS) for the 2017/18 season, bringing the average farmgate milk price to \$5.62 per kgMS. We have also revised the forecast closing milk price range, to \$5.62 to \$5.70 per kgMS. See Our Business section for further information.



• Spreading Christmas cheer – Fonterra staff across the region have been out spreading joy in the lead up to Christmas, with teams in the West feeling particularly festive.

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Global production

AUSTRALIA

2% ↓

Production change for the 12 months to October 2017

Australia production in October increased 7% compared to October last year due to favourable spring conditions across all major collection regions compared to wet September/October conditions last year.

NEW ZEALAND

1% ↑

Production change for the 12 months to November 2017

New Zealand production in November was up 4% compared to November last year, largely due to improved weather conditions towards the end of spring and through early November. Dry weather across the country, has caused soil moisture and pasture quality to decrease, impacting collections in late November.

EUROPEAN UNION

0%

Production change for the 12 months to October 2017

EU production increased 7% in October compared October last year, driven by strong global dairy prices. France, Germany and the United Kingdom had the largest increases in production, up 7%, 9% and 5% respectively, in October.

USA

2% ↑

Production change for the 12 months to October 2017

US production in October increased 1% compared to the same month last year largely due to increased productivity, as milk production per cow across all 23 major states continued to improve.

Global exports

AUSTRALIA

1% ↓

Export change for the 12 months to October 2017

Australia dairy exports increased 12%, in October compared to October last year. Key drivers were liquid milk, cheese and infant formula, up a combined 28%, or 10,000 MT. For the 12 months to October, liquid milk and infant formula exports remain strong, however declines in most other export categories led to an overall decline.

NEW ZEALAND

4% ↓

Export change for the 12 months to October 2017

New Zealand dairy exports in October decreased 7%, compared to October last year, driven by AMF, butter and WMP, down a combined 27,000 MT. For the 12 months to October, there were declines across most categories except liquid milk and infant formula. The largest, WMP, SMP and cheese, declined a combined 80,000 MT.

EUROPEAN UNION

4% ↑

Export change for the 12 months to August 2017

EU dairy exports in August were up 6%, or 27,000 MT, relative to August last year. Exports of SMP were up again in August, an increase of 79%, or 30,000 MT, compared to August last year. Europe's largest export category, liquid milk, showed a decline of 2% for the month.

USA

7% ↑

Export change for the 12 months to October 2017

US dairy exports decreased 10% in October compared to October last year, due to a reduction in SMP exports, down 25,000 MT, or 33%. Exports for the 12 months to October were up 152,000 MT, on the previous comparable period driven by cheese and whey powder, up a combined 113,000 MT.

Global imports

China dairy imports increased 28%, or 43,000 MT, in October compared to October last year. All major categories showed growth, in particular liquid milk which grew 16,000 MT, or 31%. Strong import demand out of China continues with all key categories up for the 12 months to October.

CHINA

13% ↑

Import change for the 12 months to October 2017

ASIA

7% ↑

Import change for the 12 months to August 2017

MIDDLE EAST & AFRICA

3% ↓

Import change for the 12 months to August 2017

OUR MARKETS

DAIRY COMMODITY PRICES



Global pricing

GDT Event 202, held 19 December resulted in a decrease of 3.9%.

SMP

16.2% ↓

Change vs. 12-month Rolling Average of USD 2,058/MT

USD **1,725**

December Average Price (USD/MT, FAS)

SOURCE: GlobalDairyTrade

WMP

8.6% ↓

Change vs. 12-month Rolling Average of USD 3,057/MT

USD **2,793**

December Average Price (USD/MT, FAS)

BUTTER

7.5% ↑

Change vs. 12-month Rolling Average of USD 5,396MT

USD **5,800**

November Average Price (USD/MT)

SOURCE: Dairy Australia, November Pricing

CHEDDAR

2.7% ↑

Change vs. 12-month Rolling Average of USD 3,992/MT

USD **4,100**

November Average Price (USD/MT)

Australian dollar trend

The Australian dollar continues to trade between 0.75 and 0.77. As widely anticipated in December, the US raised the benchmark interest rate 25 basis points to 1.5%. A strong outlook for commodities and a surprise jump in Australian jobs numbers saw the Australian dollar rally strongly. The FOMC noted the US economy continues to strengthen and has indicated further rate rises may be necessary in 2018.

SOURCE: news.com.au



SOURCE: Reserve Bank of Australia

Local factors affecting farming conditions



Hay

November rainfall extended the hay making season but caused quality concerns as rain interrupted curing and bailing. The market remains dormant, with little demand or interest in trading, as growers and sellers focus on the new harvest resulting in steady prices. Unusually wet conditions in northern regions increased grazing opportunities subduing demand, however wet weather also reduced supply. Reports suggest moisture content in bales may be higher than usual and feed tests are crucial to ensure value for money. Quality varies across the country as many growers, especially in southern regions, try to off-load carry-over hay to make room for new harvest.

SOURCE: Dairy Australia

Grain

With the grain harvest in full swing ABARES' latest Crop Report suggests total winter crops will drop to 34.9 million tonnes. This is 41% lower than last season, but only 2% lower than the 10-year average. The drop is largely a result of mixed seasonal conditions during spring with some regions experiencing very poor production conditions. The Australian wheat crop is expected to fall 42%. Canola meal and barley are expected to fall 31% and 40% respectively. The market responded accordingly with wheat prices firming during November to \$272/tonne!. Despite production decline, barley prices eased to \$225/tonne!.

SOURCE: Dairy Australia
1 ASX Futures, Jan 2018.

Weather

Above-average rainfall in most of the country with northern Australia and South Australia reporting one of the wettest Novembers on record. Heavy rain and thunderstorms developed in South Australia, NSW and Victoria with up to 200mm recorded across multiple regions. Tasmania, eastern and southern Victoria had below to well-below-average rain. November was the hottest on record for Tasmania and the second hottest ever in Victoria. The December-February outlook suggests 50-65% chance of exceeding median rainfall and 65-80% chance of exceeding median temperatures across Victoria and Tasmania as La Niña weather pattern develops.

SOURCE: Bureau of Meteorology

OUR BUSINESS



Fonterra announces 10 cent step-up

Fonterra Australia has increased its farmgate milk price by 10 cents per kilogram of milk solids (kgMS) for the 2017/18 season, bringing its average farmgate milk price to \$5.62 per kgMS when changes to milk composition and the seasonal curve are factored in.

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

Fonterra's additional payment of 40 cents per kgMS is payable on top of the revised farmgate milk price, and brings the total average cash paid to \$6.02 per kgMS.

Fonterra Australia Managing Director René Dedoncker said Fonterra's Australian business is growing stronger as its product mix rebalances, enabling it to earn good returns from the market.

"Our plants, including our recently reopened Stanhope cheese plant, are operating efficiently," said René.

Fonterra also revised its forecast closing milk price range, to \$5.62 to \$5.70 per kgMS, noting that whilst currency had weakened, there had also been some softening in the global market.

"We remain committed to providing our farmers with clear market-based signals, and the 10 cents per kgMS reduction in the top end of our forecast range is a prudent way to reflect the impact of this global volatility on the market farmgate milk price," said René.

"However, demand for dairy remains strong in key regions, and we are confident with our increased



RENÉ DEDONCKER, MANAGING DIRECTOR, FONTERRA AUSTRALIA

farmgate milk price in the current conditions."

Fonterra recently announced that it will spend \$100 million across its seven Australian manufacturing sites to boost processing capacity, and will announce the details of that investment in the new year.

The new investment will unlock a further 500 million litres of processing capacity, ensuring both Fonterra and its farmers are able to grow and capture that demand for dairy, creating value for farmers as well as the broader dairy industry.

OUR COMMUNITY



Spreading Christmas cheer

Fonterra staff across the region have been out spreading joy in the lead up to Christmas, with teams in the West feeling particularly festive.

Around 20 people from the Cobden and Dennington facilities volunteered at Cobdenhealth this month, where they've been mowing lawns, cutting hedges and painting fences.

Freya Fidge, Regional HR Manager – West, helped to coordinate teams, and said that Fonterra was proud to support its community by spending a day to make a big difference.

Also in the West, the Dennington Social Club Committee visited South West Healthcare's Warrnambool Base Hospital to spread Christmas cheer and hand out gifts to patients.

Randall Ferguson, Site Manager – Dennington, said the team has played Santa's helper to the hospital for almost 90 years.

"The Dennington community has been supporting

Fonterra for over 100 years, and this is one small way we can show our gratitude to the Warrnambool Base Hospital which plays such a vital role in caring for our community," said Randall.

