

GLOBAL DAIRY UPDATE AUSTRALIA



• Fonterra's milk collection across Australia for the six months to 31 December reached 86 million kgMS, 18 million kgMS higher than last season.



• In December, there was a significant decrease in Fonterra's New Zealand milk collections, down 6% compared to December last year.

• Fonterra Australia is raising the roof on capacity to accommodate growth in its milk volumes, with more than \$165 million in capital expenditure across its manufacturing sites in Victoria and Tasmania. These investments will increase capacity from the 2 billion litres our Australian farmers will deliver this season.

FARMGATE MILK PRICE UPDATE



Following our January price review, we are maintaining our current average milk price at \$5.62 per kgMS plus \$0.40 per kgMS, for a total cash payout of \$6.02 per kgMS.

Fonterra's Australian operation continues to attract good growth in demand for its products. This gives confidence around the forecast cash payout.

However, the strengthening of the Australian dollar against the US dollar, together with some softening of dairy ingredients prices, means that it is prudent for our Australian dairy farmers to budget around \$5.62, plus \$0.40, for a total \$6.02 per kgMS forecast average closing milk price.



FONTERRA MILK COLLECTION 2017/18 SEASON

AUSTRALIA



Fonterra's milk collection across Australia for the six months to 31 December reached 86 million kgMS, 18 million kgMS higher than last season.

December milk collection reached 16 million kgMS, 28% higher than December last season. Growth continues to be driven by new suppliers to Fonterra and strong seasonal conditions across Australia.

NEW ZEALAND



Fonterra's milk collection across New Zealand for the seven months to 31 December reached 878 million kgMS, slightly down on the same period last season.

Fonterra's New Zealand milk collections in December declined by 10 million kgMS, or 6%, due to dry weather across the country.

LOCAL FACTORS AFFECTING FARMING CONDITIONS

HAY

Typically demand for fodder is on the verge of change as we enter the second half of summer. However, hay trading remains relatively dormant, particularly in the south due to favourable spring and early summer weather conditions that have largely been conducive to growing pastures and producing home-grown forage. Hay stocks are typically strong and complimented by on-farm silage reserves. Whilst there are pockets of demand, trading is generally slow in most regions and prices remain steady. Domestic demand is expected to lift as summer heat dries out pastures and the export market assesses new season fodder for shipment to China.

SOURCE: Dairy Australia

GRAIN

As the southern Australian harvest drew to a close in December, growers are reportedly reluctant to sell into a sluggish market and buyers are largely covered. Accordingly the domestic market is fairly quiet and prices largely remain steady. Wheat and barley prices range from \$250-\$300/t across Victoria and \$320-\$330/t in Tasmania. Globally, wheat stocks remain quite firm and are a drag on the market. The Australian dollar is appreciating and is a factor forcing local prices to remain subdued. However there are concerns over forecast volumes of Russia's new season crop which, along with corn demand for ethanol, are putting upward pressure on prices.

SOURCE: Dairy Australia

YOUR LOCAL FONTERRA CONTACTS

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WEATHER

For Australia, rainfall during December 2017 was below average. In contrast, rainfall was above average in parts of western, southern and south-eastern Australia. Monthly totals were well above average in southern New South Wales and eastern Victoria due to significant rainfall events in December, the majority of Gippsland received monthly rainfall in the 80th-100th percentile for the month.

Maximum and minimum temperatures were close to average across Australia during December, with

south-eastern states enjoying a relatively mild month. The Bureau of Meteorology reported that 2017 was Australia's third-warmest year on record (national mean temperature 0.95°C above the 1961-1990 average).

SOURCE: Bureau of Meteorology



OUR MARKETS

DAIRY COMMODITY PRICES



GLOBAL PRICING

GDT Event 204, held 16 January, resulted in an index increase of 4.9%.

SMP

11.4% ↓

Change vs. 12-month Rolling Average of USD 1,985/MT

USD **1,759**

January Average Price (USD/MT, FAS)

SOURCE: GlobalDairyTrade

WMP

2.7% ↓

Change vs. 12-month Rolling Average of USD 3,028/MT

USD **2,948**

January Average Price (USD/MT, FAS)

BUTTER

0.5% ↑

Change vs. 12-month Rolling Average of USD 5,471/MT

USD **5,500**

December Average Price (USD/MT)

SOURCE: Dairy Australia, December Pricing

CHEDDAR

1.4% ↑

Change vs. 12-month Rolling Average of USD 3,996/MT

USD **4,050**

December Average Price (USD/MT)

AUSTRALIAN DOLLAR TREND

The Australian dollar has continued to rally through January, gaining 7% against the US dollar since early December 2017. This is on the back of a general weakening of the US dollar against most major currencies. The Australian dollar also benefitted from continued strength in base commodity prices which remained supported.

In December, the FOMC maintained its view that US interest rates will lift in 2018, while the RBA is looking for consolidation in Australian economic growth data.

SOURCE: news.com



SOURCE: Reserve Bank of Australia



Raising the roof on capacity to accommodate milk volume growth in \$165 million Australian expansion

Fonterra Australia is raising the roof on capacity to accommodate growth in its milk volumes, with more than \$165 million in capital expenditure across its manufacturing sites in Victoria and Tasmania in a move to increase capacity from the 2 billion litres our Australian farmers will deliver this season.

The investment was first signalled at Fonterra's AGM in November last year. It comprises new investment of around \$130 million to put in 500 million litres of additional capacity, and a further \$35 million for a range of annual site improvements as part of its regular capital investment plan in Australia.

Fonterra Australia Managing Director René Dedoncker says customers want trusted supply options out of Australia, especially for products like cheese, whey and nutritional powders, which are in high demand.

"We have a clear strategy that is delivering sustainable returns. To create value, we need to invest to stay ahead of the demand curve. These investments support our aim to secure positive returns back to our farmers.



"We will play to our strengths in cheese, whey, and nutritionals, increasing production capacity to meet rising domestic and global

The new expansion includes:

- \$125 million expansion at Fonterra Australia's flagship Stanhope cheese facility in northern Victoria which will double the size of the cheese plant.
- \$12 million investment in Tasmania, which includes expansion to its Wynyard cheese plant and an increase in lactose processing capacity at Spreyton.
- \$7 million expansion at the Darnum nutritionals plant in Gippsland as well as the installation of two robotic palletisers in Bayswater to improve efficiency.
- \$13.5 million for projects at Cobden and another \$8.6 million at Dennington in Western Victoria.

demand, but filling our expanded capacity will mean securing more supply."

René says the lion's share of the investment will see the doubling of the Stanhope cheese plant, increasing cheese production by a further 35,000 metric tonnes for a range of cheeses including cheddar and mozzarella.

In total the capacity investments will create around 36 jobs, in addition to construction jobs created during the development phase.



STANHOPE ENGINEERING MANAGER
NEIL BICKERSTAFF

René says more capacity needs more milk, and Fonterra is working hard to secure this.

"Our Australian milk pool has grown by 400 million litres this season, and with this new investment we plan to grow our milk further, which we expect will come through growth from our existing farmers, coupled with milk from new suppliers joining Fonterra."

Fonterra Australia's total milk intake is now 2 billion litres in Victoria and Tasmania, with the company employing an additional 15 drivers after investing more than \$8 million in 14 truck and trailer units across its milk collection regions in Victoria and Tasmania.

