

AUSTRALIA GLOBAL DAIRY UPDATE



Dairy for life

OUR MARKETS



Production

EU production continues to be strong for the moment, despite falling farm-gate prices. In Oceania, production was slightly negative. Australia saw increased cow culling as farmers continue to manage costs due to drought conditions. Despite output in New Zealand being down, favourable conditions are supporting late season supply. US growth is neutral.

Exports

EU export growth is still accelerating, along with increasing production. Meanwhile Australia and New Zealand continue to compete for the supply of cheese and fresh dairy into Asia. In Australia, volume driven by cheese and milk, and strong value growth in WMP. Medium to longer term results are still positive due to its weakened currency. In contrast, US exports continue to be suppressed due to high domestic demand.

Imports

Healthy demand was seen in China, the rest of Asia and Latin America. Across Asia, fresh dairy appears to be an increasingly significant category. Middle East and Africa volumes continue to decline, as their purchasing is closely tied to economic conditions determined by suppressed oil prices. Meanwhile Russia continues to source imports from South America and Belarus.

Global production

AUSTRALIA

1% ↓

Production change for the 12 months to April 2016

NEW ZEALAND

1% ↓

Production change for the 12 months to March 2016

EUROPEAN UNION

4% ↑

Production change for the 12 months to February 2016

USA

1% ↑

Production change for the 12 months to March 2016

Global exports

AUSTRALIA

6% ↑

Export change for the 12 months to March 2016

NEW ZEALAND

6% ↑

Export change for the 12 months to February 2016

EUROPEAN UNION

9% ↑

Export change for the 12 months to January 2016

USA

5% ↓

Export change for the 12 months to February 2016

Global imports

CHINA

14% ↑

Import change for 12 months to March 2016

ASIA

7% ↑

Import change for 12 months to January 2016

MIDDLE EAST & AFRICA

1% ↓

Import change for 12 months to January 2016



SOURCE: Global Dairy Update, May 2016 and Dairy Australia

OUR MARKETS

DAIRY COMMODITY PRICES



Global Pricing

Global dairy prices rose 3.4% at the conclusion of the last GDT event on 1 June, on the back of a modest increase in the previous GDT event.

Futures markets are currently pricing modest increases for milk powders over the medium term.

Based on these indicators, we anticipate that the Australian farmgate milk price will remain low for the coming season.

BUTTER

5.8% ↓

Change vs. 12-month Rolling Average of USD 3,183/MT

USD **3,000**

April Average Price (USD/MT)

SOURCE: Dairy Australia

CHEDDAR

5.3% ↓

Change vs. 12-month Rolling Average of USD 3,275/MT

USD **3,100**

April Average Price (USD/MT)

SMP

8.8% ↓

Change vs. 12-month Rolling Average of USD 1,829/MT

USD **1,667**

May Average Price (USD/MT, FAS)

SOURCE: GlobalDairyTrade

WMP

2.1% ↑

Change vs. 12-month Rolling Average of USD 2,168/MT

USD **2,214**

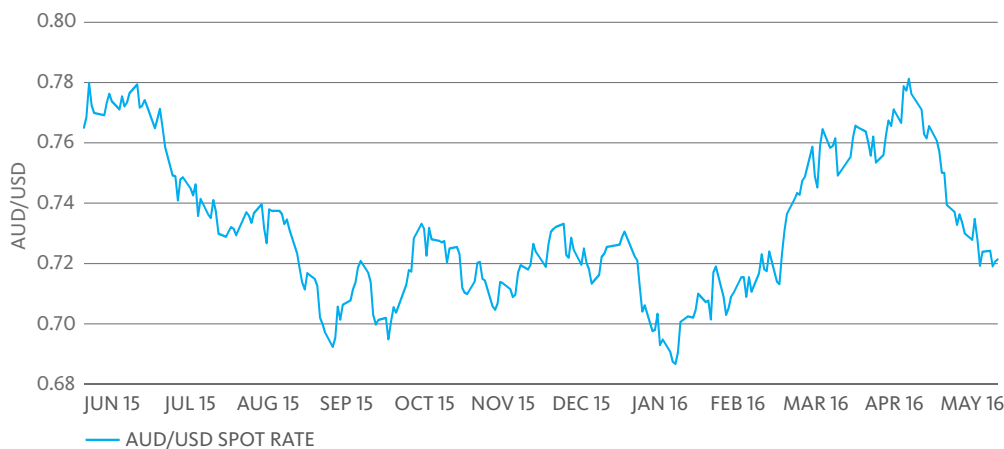
May Average Price (USD/MT, FAS)

Australian dollar trend

The Australian dollar is a major driver of farm gate milk price.

Since January, the AUD/USD has traded between \$0.68-\$0.78 and currency rates are inherently uncertain.

In the current environment, a one cent AUD/USD movement has an impact of around \$0.05-\$0.07 kgMS milk price on a full-year basis.



SOURCE: Reserve Bank of Australia

Global factors affecting market conditions



Economic

Composite leading indicators (CLIs) point to stable growth momentum in the OECD. Japan is also seeing signs of emerging stabilisation. Easing growth is expected in the US, UK and Italy. In China and India, CLIs point to stable growth momentum and firming growth respectively.

SOURCE: OECD

Weather

In April, El Niño conditions continued to weaken, with an increasing chance of La Niña in the latter half of 2016. Despite New Zealand experiencing pockets of heavy rainfall in March, April saw New Zealand dry out with above-average autumn temperatures.

In the US, California still suffers drought conditions, despite some easing from rain in March.

SOURCE: Qualitative Assessment

Consumer

The 2016 GDP growth forecast was slightly reduced to -2.3%. Factors considered were Brazil's change to a more market-friendly government, oil price decline and lingering concerns of volatility in the EU, key emerging markets and China.

SOURCE: Economist Intelligence Unit