

GLOBAL DAIRY UPDATE AUSTRALIA



• Fonterra Australia milk collection increased 26% for the season from 1 July to 31 October.

• Perfect Italiano stirring up the way Aussie families use ricotta.



• Milk production in New Zealand improved in October. European milk production increased for the fourth consecutive month.



• Caring for the bush is now easier for Friends of Mt Worth State Park thanks to the Fonterra Grass Roots Fund.



• Further decline in dairy exports from Australia and New Zealand. EU showing strong export growth.
• Strong growth in dairy imports continues in China and Asia. Middle East and Africa imports continue to soften.

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Global production

AUSTRALIA

4% ↓

Production change for the 12 months to September 2017

Australia production in September decreased 1% compared to September last year.

The decline in production is largely due to poor spring weather conditions and reduced herd size compared to 2016.

NEW ZEALAND

0%

Production change for the 12 months to October 2017

New Zealand production in October was up 3% compared to October last year, as weather conditions improved towards the end of the month. Supply typically peaks in mid-October, however wet weather across the country for most of spring meant the peak was later and impacted volumes in both Islands.

EUROPEAN UNION

0%

Production change for the 12 months to September 2017

EU production in September was up 5% compared to September last year with Germany and France, the two largest EU producers, up a combined 4%. September showed the largest growth since early 2016 as production ramps up on the back of increased demand.

USA

2% ↑

Production change for the 12 months to September 2017

US production September increased 1% compared to the same month last year. This is largely due to increased herd numbers and improved production per cow.

Global exports

AUSTRALIA

3% ↓

Export change for the 12 months to September 2017

Australia dairy exports decreased 3% in September, compared to September last year. SMP and infant formula were up a combined 25%, however most other categories showed a decline. For the 12 months to September, growth in liquid milk and infant formula was offset by declines in most other categories, particularly WMP, butter and AMF.

NEW ZEALAND

2% ↓

Export change for the 12 months to September 2017

New Zealand dairy exports in September decreased 7% compared to September last year. WMP and SMP led the decline, down 11% and 26% respectively. Liquid milk growth continued, up 39%. For the 12 months to September, liquid milk volumes were up, while weak volumes of SMP, AMF and butter led to an overall decline.

EUROPEAN UNION

5% ↑

Export change for the 12 months to July 2017

EU dairy exports in July were up 10% compared to July last year. SMP was up 70%, while liquid milk and infant formula had solid growth, up a combined 9%, offset by declines in whey powder, down 16%. For the 12 months to July SMP, infant formula, cheese and lactose were up a combined 13%, offset by declines in liquid milk, butter and AMF.

USA

11% ↑

Export change for the 12 months to September 2017

US dairy exports decreased 6% in September compared to September the previous year. This is the second consecutive month of declining exports in the US. For the 12 months to September growth was driven by SMP, whey powder and cheese, up a combined 16%, however most key categories are up for the period.

Global imports

China dairy imports increased 34% in September compared to September last year. WMP, infant formula and SMP led the increase, up a combined 96%. Imports continue to be very strong in China, with the largest growth this year in WMP, infant formula and SMP, up a combined 22%, or 179,000 MT.

CHINA

12% ↑

Import change for the 12 months to September 2017

ASIA

9% ↑

Import change for the 12 months to July 2017

MIDDLE EAST & AFRICA

2% ↓

Import change for the 12 months to July 2017

OUR MARKETS

DAIRY COMMODITY PRICES



Global pricing

GDT Event 200, held 21 November resulted in a decrease of 3.4%.

SMP

17.4% ↓

Change vs. 12-month Rolling Average of USD 2,131/MT

USD **1,759**

November Average Price (USD/MT, FAS)

SOURCE: GlobalDairyTrade

WMP

9.8% ↓

Change vs. 12-month Rolling Average of USD 3,122/MT

USD **2,815**

November Average Price (USD/MT, FAS)

BUTTER

11.6% ↑

Change vs. 12-month Rolling Average of USD 5,288MT

USD **5,900**

October Average Price (USD/MT)

SOURCE: Dairy Australia, October Pricing

CHEDDAR

3.1% ↑

Change vs. 12-month Rolling Average of USD 3,975/MT

USD **4,100**

October Average Price (USD/MT)

Australian dollar trend

In November the Australian dollar continued to show further decline versus the US dollar, dropping to 0.753 at one point. It later rebounded to stabilise at around 0.76.

A surge in iron ore prices and US investors taking a holiday for Thanksgiving is keeping the currency stable for the moment.



SOURCE: news.com.au

SOURCE: Reserve Bank of Australia

Local factors affecting farming conditions



Hay

There is little demand for fodder as the market transitions from spring to summer. Growers continue to focus on hay and silage production as rainfall eases and temperatures rise. Most areas in Victoria had favourable weather this season attributing to high yields of good quality fodder. In southern regions growers and traders continue to offload to make room for the new production. Demand remains from dryer regions in New South Wales, Queensland and east Gippsland. New season harvests are starting to trickle into the market which should direct market prices which depend on quality, quantity and carryover stocks this year.

SOURCE: Dairy Australia

Grain

The Australian grain harvest is moving into full swing with recent frost and rainfall events in southern Australia resulting in limited damage. Further weather forecasts suggest 50-100mm in NSW and Victoria which will further impact unharvested crops if it eventuates. On the flipside, summer crops in Northern Australia are thriving due to favourable conditions. The BOM has issued a La Nina watch, indicating a 70% chance of La Nina forming this year which typically results in drier weather in Brazil, Argentina, and US. Wheat prices are close to export parity in New South Wales and South Australia which could provide a price floor going forward.

SOURCE: Dairy Australia

Weather

October weather conditions across Australia were hotter and drier than average. It was the tenth warmest October for Australia, fourth warmest for Tasmania and seventh warmest for Victoria on record. Rainfall for the month was 150% above average but most of this concentrated in Queensland. Rainfall in south eastern Australia was mostly below average, with Victoria 27% and Tasmania 26% below the average October rainfall. The BOM has issued a La Nina watch, indicating a 70% chance of La Nina forming this year which typically leads to higher temperatures and average to above average rainfall in south eastern Australia.

SOURCE: Bureau of Meteorology

OUR BUSINESS



Perfect Italiano stirring up the way Aussie families use ricotta



One of Australia's favourite meals is about to get a stir up with a new range of pasta stir throughs about to hit the dairy case.

Perfect Italiano Ricotta Pasta Stir Through is a world-first innovation that combines Perfect Italiano ricotta made at our Stanhope ricotta plant with delicious flavours to create a healthy and convenient meal the whole family will enjoy.

Perfect Italiano Brand Manager Brenda Kosa says that ricotta is a hugely versatile cheese, working well with sweet or savoury dishes, but that many Australians aren't quite sure how to use it. This presented the Product Innovation team with a great opportunity to change the way Australians consume ricotta.

"Perfect Italiano Ricotta Pasta Stir Through is a world-first product, a convenient and authentic pasta stir through that contains the goodness of ricotta," says Brenda.

"It's naturally low in fat and high in protein, and has 80% less fat than cream, meaning it's a healthy alternative to cream-based pasta sauces yet still tastes delicious!

"Coming in three varieties – Garlic and herb, Sun-dried tomato, and Four cheese – the range is perfect for quick, convenient, and healthy family meals. Simply stir and heat through cooked pasta and your meal is ready to serve."

The innovative product saw Fonterra invest another \$1.3 million of capital into the Stanhope ricotta plant to be

able to bring Perfect Italiano Ricotta Pasta Stir Through to the supermarket shelves, which is the result of many months of hard work and product testing from a cross-functional team.

Perfect Italiano Ricotta Pasta Stir Through began to hit the shelves of Woolworths and independent supermarkets from late October, with a major national television advertising campaign featuring the Perfect Italiano Nonna kicking off at the start of November. The TV campaign will be supported by digital and outdoor campaigns and in-store demonstrations, giving shoppers the chance to try before they buy.

"We think Australian families will love Perfect Italiano Ricotta Pasta Stir Through, and can't wait for them to have a taste," says Brenda.

OUR COMMUNITY



Caring for the bush is now easier for Friends of Mt Worth State Park thanks to the Fonterra Grass Roots Fund

The habitat of one of the world's rarest species of earthworm is in good hands, with the Friends of Mt Worth State Park protecting the bush with the support of the Fonterra Grass Roots Fund.

Mt Worth State Park is home to the Giant Gippsland Earthworm, which grows to one metre long on average and lives its life entirely underground in darkness.

The creature was discovered in 1879 and is now a protected species. The earthworm is so rare that renowned naturalist Sir David Attenborough visited Gippsland to see the species in its natural habitat.

Fonterra's Grass Roots Fund is helping to care for this habitat by supporting the Friends of Mt Worth State Park, who have dedicated the past 40 years to maintaining the walking trails through this bush wonderland. Paul Strickland who volunteers



with the group says Fonterra's support helped purchase specialised mowing and trailer equipment designed for use in dense bushland.

"It is wet rainforest, so if you leave it for six months, it grows back," said Paul.

"We need to continue to clear the tracks to make sure they are accessible to the community so they can see this special part of the world.

"Fonterra Grass Roots Funding has been crucial in helping us buy vital equipment so that we can continue to look

after the bush and ensure future generations get the opportunity to see this amazing habitat."

The park was created in 1975 when over one thousand acres was set aside to preserve and regenerate natural forest that had been heavily logged in the 1920s. It is located just 17 kilometres south of Fonterra's Darnum site.

Community groups are being encouraged to apply to Fonterra's Australian Grass Roots Fund before 15 December 2017.