

GLOBAL DAIRY UPDATE AUSTRALIA



• Unfavourable weather conditions impacting New Zealand production. Production increasing in Australia and the EU in July.



• Global dairy exports increased other than from the United States, where exports declined for the first time since June 2016.
• Further strong import growth in China. Middle East and Africa imports down in June.



• Fonterra has always talked about the possibility of a global co-op. We believe that Australian dairy farmers want the option of a co-op, and with the changing landscape in dairy, now is the time to fast-track evaluating the introduction of a co-op model in Australia.



• Fonterra Grass Roots Fund lending a helping hand to our communities. From veggie patches to cricket pitches and wet suits to fire safety, Fonterra's Grass Roots Fund is calling out to community groups in need of a helping hand in 2018.

YOUR LOCAL FONTERRA CONTACTS



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Global production

AUSTRALIA

6% ↓

Production change for the 12 months to July 2017

Australia production in July increased 3% compared to July last year. Production for the 12 months to July was down 6% compared to the same period the previous year. The impact of poor weather conditions in spring 2016 and soft farmgate milk prices earlier in the year continue to be reflected in this seasonal decline.

NEW ZEALAND

1% ↓

Production change for the 12 months to August 2017

New Zealand milk production in August was down 2% compared to August last year. The recent challenging weather conditions have impacted supply in August and are also expected to have an impact on peak milk volumes and future production for the season.

EUROPEAN UNION

1% ↓

Production change for the 12 months to July 2017

EU production in July was up 2% compared to July last year. The increase was driven by continued growth in production out of Italy, Ireland and Poland, up a combined 10%. Germany and France, the two largest producers in Europe, were down again in July.

USA

2% ↑

Production change for the 12 months to August 2017

US production in August increased 2% compared August last year as farmers continue to benefit from increased milk production per cow, reported to be the highest for the month of August since 2003.

Global exports

AUSTRALIA

4% ↓

Export change for the 12 months to July 2017

Australia dairy exports increased 9% in July compared to the previous July. This increase was driven by SMP, partially offset by declines in WMP. Exports for the 12 months to July were down on the previous comparable period driven by SMP, butter and cheese, down a combined 29,000 MT, partially offset by an increase in liquid milk, up 12,000 MT.

NEW ZEALAND

0%

Export change for the 12 months to July 2017

New Zealand dairy exports in July increased 8% compared to July last year. The largest increases were seen in WMP and cheese, up 11,000 MT and 6,000 MT respectively. Exports for the 12 months to July were flat on the previous comparable period with liquid milk up 66,000 MT, and WMP and cheese up a combined 31,000 MT.

EUROPEAN UNION

4% ↑

Export change for the 12 months to June 2017

EU dairy exports in June increased 11% compared to June last year. SMP was up 96%, with manufacturers clearing inventories as the intervention programme draws to a close. For the 12 months to June cheese, infant formula, lactose and SMP were up a combined 11%, however, liquid milk, continued to decline, down 31,000 MT.

USA

14% ↑

Export change for the 12 months to July 2017

US dairy exports decreased 1% in July compared to July the previous year. This was largely a result of declining SMP exports offset by slightly improved exports of cheese. For the 12 months to July the US experienced significant growth across all key export categories, in particular SMP, whey powder and cheese, up a combined 223,000 MT or 20%.

Global imports

China dairy imports were up 28% or 54,000 MT in August compared to August last year. The largest growth was in WMP and liquid milk, up 17,000 MT and 12,000 MT respectively. For the 12 months to August, growth was seen, in particular, in infant formula, WMP and whey, which grew a combined 13% or 147,000 MT.

CHINA

9% ↑

Import change for the 12 months to August 2017

ASIA

9% ↑

Import change for the 12 months to June 2017

MIDDLE EAST & AFRICA

2% ↓

Import change for the 12 months to June 2017

OUR MARKETS

DAIRY COMMODITY PRICES



Global pricing

GDT Event 198, held 17 October resulted in an decrease of 1.0%.

SMP

15.6% ↓

Change vs. 12-month Rolling Average of USD 2,188/MT

USD **1,846**

October Average Price (USD/MT, FAS)

SOURCE: GlobalDairyTrade

WMP

4.5% ↓

Change vs. 12-month Rolling Average of USD 3,169/MT

USD **3,026**

October Average Price (USD/MT, FAS)

BUTTER

18.9% ↑

Change vs. 12-month Rolling Average of USD 5,129MT

USD **6,100**

September Average Price (USD/MT)

SOURCE: Dairy Australia, September Pricing

CHEDDAR

4.1% ↑

Change vs. 12-month Rolling Average of USD 3,938/MT

USD **4,100**

September Average Price (USD/MT)

Australian dollar trend

In October the Australian dollar showed a slight drop versus the US dollar to around 0.789. Investors have not had much appetite for risk-correlated currencies over the last month, as the Australian dollar has been dropping against a strong 'Greenback'. The Australian dollar's slight weakness has been largely due to the broad strength of the US dollar, as Australia's recent strong job market data was not enough to boost AUD/USD.

SOURCE: news.com.au



SOURCE: Reserve Bank of Australia

Local factors affecting farming conditions



Hay

With silage and hay harvest commencing, prices remain static due to a lull in demand as buyers wait to see what the new season's harvest will deliver. Early signs suggest lower volumes of higher-quality fodder. Combined with last seasons' carryover, supply, particularly in Southern Australia is expected to exceed demand. Supply is tighter in northern Australia and hay is flowing north due to dry seasonal conditions. Exporters are reportedly active securing high-quality new season hay which will likely set a benchmark for hay prices this season.

SOURCE: Dairy Australia

Grain

International grain markets are currently lacking direction as a large Russian crop prevents prices firming, offset by trade and logistic constraints which are limiting downward pricing pressure. In Australia recent rains in cropping regions will relieve some yield concerns on winter crop and provide upside to summer crop volumes, particularly sorghum in Queensland. Prices have eased slightly as a result. Many growers in southern regions have carryover stocks on farm which they will look to move before this harvest which may present some good buying opportunities.

SOURCE: Dairy Australia

Weather

September temperatures across Australia were 2°C above average making it the fifth warmest September on record, this was particularly evident in QLD, NSW and NT. Multiple average temperature records were set, including Australia's warmest September day on record, 33.5°C, which was more than 6°C above average. Australia as a whole received about two-thirds of its average September rainfall, however there were major regional discrepancies – the Murray Darling Basin and NSW recorded its lowest rainfall on record whilst coastal dairying regions in SE Australia recorded above rainfall for the month.

SOURCE: Bureau of Meteorology

OUR BUSINESS



Exploring a local co-operative to build partnerships

Unveiled last month are plans to accelerate our investments in our Australian operations. With our sites at capacity, the investment will clear bottlenecks and unlock another 500 million litres of processing capacity. That's important as we work to further increase our milk supply to support a business which has performed well in line with our strategy.

This additional milk will add to the 400 million litres more we collected this year, bringing our total supply to two billion litres this year.

With our assets full, we are fast-tracking our plans to add capacity as well as milk.

World demand has not slowed, so it is important for Australia's dairy industry that farmers keep producing with confidence. Farmers are our industry's biggest assets, which is one reason why Fonterra tabled an offer to Murray Goulburn; a merger proposal that provided options for Australian farmers to retain ownership and get a strong farmer voice.

It is a genuine offer on our part but not the MG Board's preferred option. So it is important farmers know we will continue to explore how we might create a local co-operative to build partnerships with local farmers that go further than the milk price. We believe that Australian dairy farmers want that option and that opportunity.

Although we're still in the early stages of evaluating the idea, we have raised it with the BSC Board and they are supportive. The next step will

be to evaluate how it would work so that we can put something credible in front of our current and potential suppliers and gauge your opinions.

In the meantime, the work of collecting milk, processing it and selling it for the best price has to go on and Fonterra is investing in our capacity and backing our strategy. We know that performance is the proof farmers want in the long run and it's our aim to provide it.

OUR COMMUNITY



Fonterra Grass Roots Fund lending a helping hand to our communities

From veggie patches to cricket pitches and wet suits to fire safety, Fonterra's Grass Roots Fund is calling out to community groups in need of a helping hand in 2018.

Fonterra has supported around 340 community initiatives over the past seven years, and last year's recipients shared with us some of the projects they've been able to fund with Grass Roots' support.

Dean Atkinson runs the junior programme at the Warrnambool Surf Life Saving Club, which secured funding for vital equipment to keep their rescue boat afloat and support the nippers programme.

"We are thankful for Fonterra's support, which is helping us keep our community safe," says Dean.

Other groups who have received Grass Roots support have added their voices to the campaign in the call out to communities.

Paul Strickland from the Friends of Mount Worth State Park in Gippsland care for the bush by maintaining the bush tracks. Grass Roots funding helped them secure mowing and trailer equipment to keep the tracks open for bushwalkers, trail runners and nature lovers.

"Fonterra's support really helped to kick-start our fundraising efforts to secure this special equipment," says Paul.

Grass Roots funding also helped the Kyabram and Gigarre Preschool build raised wooden veggie gardens, helping the children learn about where their food comes from.



"We are teaching our students sustainable practices around growing their own foods, looking after our land while picking and eating their own fruit and vegetables," says Tania Chiswell from the Kyabram and Gigarre Preschool Management Committee.

The Wynyard Cricket Club secured Grass Roots support to run a junior cricket programme, helping to encourage young people to get active, join the club, and maybe even find the next Ricky Ponting.

"Fonterra's funding has helped the Club improve the cricketing experience for our younger members," says Cherie Hawkins, the Club's Secretary.

Applications for Fonterra's Grass Roots Fund are open until 15 December 2017. Your community group can apply online at <https://www.fonterra.com/au/en/What-we-stand-for/FonterraGrassRootsFundAustralia.html> –