MAY 2018

GLOBAL DAIRY UPDATE AUSTRALIA

OUR MARKETS

- Increases in production across all regions for the month. Australian production up for the sixth consecutive month.

- China imports back to growth for the month. Imports down in Latin America and Middle East and Africa.
- Dairy exports for all regions grew strongly. The US has highest monthly exports in four years.

OUR COMMUNITY

- Fonterra's Commercial Insights team creates home-cooked comforts for families at Ronald McDonald House.

YOUR LOCAL FONTERRA CONTACTS

Farmer enquiries
+1800 266 674

Gippsland
Transport Office
+61 3 5624 2663

Northern Victoria
Transport Office – North
+61 3 5484 3529

Tasmania
Transport Office – Spreyton
+61 3 6421 2123
Transport Office – Wynyard
+61 3 6442 0230

West
Transport Office
+61 3 5595 1606

OUR **MARKETS**

Global production

AUSTRALIA

2% ↑

Production change for the 12 months to March 2018

Australia production in March increased 3% compared to March last year, largely driven by Victoria and Tasmania benefiting from favourable seasonal and production conditions. Increased production for the 12 months to March was due to improved seasonal conditions and cost efficiencies.

NEW ZEALAND

0%

Production change for the 12 months to April 2018

New Zealand production was up 3% in April compared to April last year, largely due to favourable weather conditions resulting in good late season grass growth throughout most of the country. The South Island in particular, continues to have a strong autumn compared to last year.

EUROPEAN UNION

3% ↑

Production change for the 12 months to March 2018

EU production increased 1% in March compared to March last year, driven by favourable conditions and strong prices. Production for the 12 months to March increased 3% on the comparable period, driven by lower feed costs, higher raw milk prices and good pasture conditions.

USA

2% ↑

Production change for the 12 months to February 2018

US production in February increased 2% compared to February last year.

The increase in production continues to be driven by larger herd numbers and improved production per cow.

Global exports

AUSTRALIA

3% ↑

Export change for the 12 months to March 2018

Australia dairy exports increased 26% in March compared to March last year, driven by SMP, liquid milk and WMP, up 43% combined. Liquid milk and infant formula continue to show strong export growth, up 20% for the 12-month period to March, however most other categories remain down particularly WMP, whey powder and butter which declined 24%, combined.

NEW ZEALAND

1% ↑

Export change for the 12 months to March 2018

New Zealand dairy exports in March were up 12%, or 32,000 MT, compared to March last year. The increase was driven by SMP, WMP and butter up a combined 30,000 MT, or 20%. Growth for the 12 months to March, was driven by an additional 107,000 MT in WMP and liquid milk. This increase was offset by AMF, SMP and cheese down a combined 8%.

EUROPEAN UNION

6% ↑

Export change for the 12 months to January 2018

EU dairy exports increased 10%, or 39,000 MT, in January compared to January last year.

Exports grew for all categories except WMP and caseinate, which were down a combined 9,000 MT.

Growth was primarily driven by liquid milk, infant formula and whey powder, up a combined 33,000 MT, or 19%.

USA

7% ↑

Export change for the 12 months to March 2018

US dairy exports increased 23% in March compared to March last year, the highest exported volumes since March 2014. SMP, lactose, WPC and WPI were the primary growth categories adding a combined 30,000 MT. Exports for the 12 months to March were up 141,000 MT, on the previous 12 months, driven by cheese, whey powder and SMP, up a combined 118,000 MT.

Global imports

China dairy imports increased 3% in March compared to March last year, driven by a combined 22% growth in liquid milk, butter and lactose imports. Declines in WMP of 6,000 MT partially offset the gains made. Strong demand out of China continues with infant formula, WMP and SMP up a combined 220,000 MT for the 12 months to March.

CHINA

17% ↑

Import change for the 12 months to March 2018

ASIA

0%

Import change for the 12 months to January 2018

MIDDLE EAST & AFRICA

2% ↓

Import change for the 12 months to January 2018

DAIRY COMMODITY PRICES

Global pricing

GDT Event 213, held 5 June resulted in a decrease of 1.3%.

SMP

5.6% ↑

Change vs. 12-month Rolling Average of USD 1,916/MT

USD **2,023**

May Average Price (USD/MT, FAS)

WMP

4.6% ↑

Change vs. 12-month Rolling Average of USD 3,085/MT

USD **3,229**

May Average Price (USD/MT, FAS)

SOURCE: Global Dairy Trade

BUTTER

3.0% ↑

Change vs. 12-month Rolling Average of USD 5,729MT

USD **5,900**

April Average Price (USD/MT)

CHEDDAR

0.3% ↓

Change vs. 12-month Rolling Average of USD 4,013MT

USD **4,000**

April Average Price (USD/MT)

SOURCE: Dairy Australia, April Pricing

Australian dollar trend

The Australian dollar held its value against the US dollar through May, after a weaker April following on from a weaker commodity index and the Federal Open Market Committee (FOMC) decision to increase US interest rates.

The Reserve Bank of Australia forecasts inflation to remain around two percent into 2019, near current levels and within its target.

SOURCE: news.com.au

SOURCE: Reserve Bank of Australia

Local factors affecting farming conditions

Hay

Demand for hay across eastern Australia is increasing as persistent hot, dry conditions drive demand for hay. New season hay is selling quickly as producers move to cover immediate needs and secure some supply with further dry conditions forecasted. As a result of this increased demand, 2016/17 carry-over stocks are being drawn down. Demand from further north has seen hay moving large distances, with New South Wales Government announcing transport grants to cover higher freight costs, as drought affected farmers buy-in from further afield. Export demand for high quality fodder from Asian markets such as China, Japan and Korea remain robust.

SOURCE: Dairy Australia

Grain

Global grain markets are being driven by supply concerns. Winter wheat plantings in the US confirm that the Kansas crop is drought affected, with significantly lower yields expected. Reports from the International Grains Council show a slight fall in expected global grain stocks for the first time in years. Ongoing market concerns around the crop in Argentina and reports of dry conditions in southern Russia and Ukraine are also sources of speculation and possibility for price rallies. In Australia, the effect of prolonged hot and dry conditions has many forecasting smaller crops unless significant rainfall is received before mid-year. These supply concerns are seeing prices firm, with the possibility of major global price rallies should they eventuate.

SOURCE: Dairy Australia

Weather

Australia experienced its fourth warmest autumn on record. The geographic extent and intensity of this heat, especially in early April, was unprecedented. National rainfall was well below average with southern and south-eastern mainland Australia suffering severe dryness. Rainfall for the season was in the lowest 10% of historical records for much of southern mainland Australia. Tasmania and some regions in Gippsland and southwest Victoria have received relatively good rainfall. BOM's outlook for June-August indicates a medium-to-high probability of below-average rainfall across much of Australia and warmer than average temperatures. Coastal Victorian regions and Tasmania are forecast to receive average to slightly above average rainfall.

SOURCE: Bureau of Meteorology

Fonterra's Commercial Insights team creates home-cooked comforts for families at Ronald McDonald House

Our Commercial Insights team – which provides commercial finance support to the Consumer, Foodservice and Ingredients channels – traded spreadsheets for spatulas recently, heading into the kitchen to bake treats for 60 family members staying at Ronald McDonald House in Parkville, Victoria, while their children undergo life-saving treatment.

One of 15 centres around Australia, the Parkville house accommodates 52 families each night – giving priority to families from regional Victoria with seriously ill children needing treatment at the nearby Royal Children's Hospital.

Being close to the hospital means that families don't have to repeatedly make long distance trips across the state, sleep in waiting rooms, or worry about the financial burden of paying for accommodation.

Fonterra team member, Viren Wijesinghe, said the group helped out as part of the Make-a-Meal programme, which provides an alternative for families who don't have time to prepare food themselves.

"While some families stay at Ronald McDonald House just for one night, others may need to stay for much longer, which can cause a huge amount of stress for the parents and kids.

"The Make-a-Meal initiative helps to take some of the pressure off when they've got a lot more to worry about than what to cook for dinner," said Viren.

The Fonterra team rolled up their sleeves to make corn fritters, cheesecakes, quiches and banana bread using Fonterra products and chipped in to help clean and tidy the pantries and the garden as part of a working bee.

"Ronald McDonald House in Parkville provides temporary accommodation to around 36,000 people each year, so it's a really great cause and we're proud to be involved.

"The team was really happy to have the opportunity to help out in a small way to make the lives of these families just a little bit easier during a difficult time," said Viren.

Ronald McDonald House is one of the many volunteering initiatives Fonterra staff take part in.