

GLOBAL DAIRY UPDATE AUSTRALIA



- Further decline in Australian production, EU production flat.



- New Zealand and EU exports up for the year, increase in US exports.
- Strong import growth in China, Latin America and Asia imports grew over the year.



- Fonterra has celebrated the official opening of its new state-of-the-art cheese plant at Stanhope, marking the return of full production to the site two and a half years after fire destroyed the previous plant.



FARMGATE MILK PRICE UPDATE



Following the conclusion of the 2016/17 season, we can confirm our final farmgate milk price of \$5.20 per kilogram of milk solids (kgMS), achieving the top-end of our forecast range for last season.

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Global production

AUSTRALIA

8% ↓

Production change for the 12 months to May 2017

Australia production in May decreased 3% compared to the same month last year. Production for the 12 months to May was down 8% compared to the same period last year. Wet conditions in winter and spring heavily impacted volumes, though late seasonal recovery was seen in some regions.

NEW ZEALAND

1% ↓

Production change for the 12 months to June 2017

New Zealand milk production in June was up 21% compared to the same month last year. In New Zealand, volumes are typically low at this time of year due to seasonality of supply. Volumes will start to build over the coming months.

EUROPEAN UNION

2% ↓

Production change for the 12 months to May 2017

EU production in May was flat compared to May last year. Ireland, Spain and Poland were up 7%, 4% and 3% respectively, while, Germany and France, were down 2% and 3% respectively. This is largely due to continued adverse weather conditions in Europe

USA

2% ↑

Production change for the 12 months to June 2017

US production in June increased 2% compared to the same month last year. Monthly volumes have been increasing at a rate of around 2% for each of the past 12 months. Milk production for the 12 months to June increased by almost 2% compared to the same period the previous year.

Global exports

AUSTRALIA

4% ↓

Export change for the 12 months to May 2017

Australia dairy exports in May decreased 6% or 4,000 MT compared to May last year. The two largest categories, liquid milk and cheese, were up a combined 7,300 MT. This was offset by declines in most other categories, particularly whey powder, WMP and SMP, down a combined 8,000 MT compared to May last year.

NEW ZEALAND

2% ↑

Export change for the 12 months to May 2017

New Zealand dairy exports in May increased 1% compared to May last year. Combined growth of 14% in WMP and cheese was offset by AMF and SMP, down 40% and 14% respectively. For the 12 months to May, WMP and SMP were flat, liquid milk and cheese were up a combined 16%, and AMF and casein, were down a combined 11%.

EUROPEAN UNION

2% ↑

Export change for the 12 months to April 2017

EU dairy exports decreased 3% or 14,000 MT in April compared to April last year. Liquid milk, the largest export category, was down 19% or 26,000 MT. Growth in other key categories such as SMP and cheese reduced the overall impact of this decline. Growth for the 12 months to April continued to be driven by cheese and infant formula, up a combined 10%

USA

14% ↑

Export change for the 12 months to May 2017

US dairy exports increased 15% or 26,000 MT in May, compared to May last year. Production volumes continue to increase at a rate of around 2% month-on-month. Growth was driven by SMP, cheese and whey powder, three of the largest US export categories, up 32%, 47% and 17% respectively.

Global imports

China dairy imports were up 27% or 52,000 MT in June compared to June last year. Imports for the 12 months to June were up 170,000 MT, compared to the same period last year with whey powder, infant formula and cheese, three of the larger import categories, up a combined 19% or 140,000 MT.

CHINA

8% ↑

Import change for the 12 months to June 2017

ASIA

12% ↑

Import change for the 12 months to April 2017

MIDDLE EAST & AFRICA

4% ↓

Import change for the 12 months to April 2017

OUR MARKETS

DAIRY COMMODITY PRICES



Global pricing

GDT Event 194, held 15 August resulted in a decrease of 0.4%.

SMP

12.4% ↓

Change vs. 12-month Rolling Average of USD 2,245/MT

USD **1,967**

August Average Price (USD/MT, FAS)

SOURCE: GlobalDairyTrade

WMP

1.1% ↑

Change vs. 12-month Rolling Average of USD 3,116/MT

USD **3,149**

August Average Price (USD/MT, FAS)

BUTTER

29.1% ↑

Change vs. 12-month Rolling Average of USD 4,725MT

USD **6,100**

July Average Price (USD/MT)

SOURCE: Dairy Australia, July Pricing

CHEDDAR

7.4% ↑

Change vs. 12-month Rolling Average of USD 3,817/MT

USD **4,100**

July Average Price (USD/MT)

Australian dollar trend

During August the Australian dollar extended its gain against its US counterpart, with the Australian Dollar still hovering around 0.796 USD. The lack of commentary on monetary policy by both the European and US Central banks, along with concern about the potential for economic disruption as a result of damage caused by Hurricane Harvey on the Texas coastline saw the US dollar index at its lowest level since May 2016.

SOURCE: news.com.au



SOURCE: Reserve Bank of Australia

Local factors affecting farming conditions



Hay

Trading continues at a steady pace in most of the country, with limited price changes. Demand is strongest in northern regions, supplies in southern Tasmania, eastern Gippsland and patches of Western Australia and South Australia are equally thin. These regions missed winter rainfall and are preparing for a prolonged dry spell through summer. Prospects for the rest of the country are increasingly positive. Growers reported a vast improvement in winter crops throughout August. With good rain and some warmer days in the past week, most southern regions are headed for another good harvest.

SOURCE: Dairy Australia

Grain

Global crop quality continues to cause concerns due to difficult growing conditions. Global prices continue to drop with harvest volumes in the Black Sea and Europe driving the market. Persistent rainfall in Germany and the Baltics is causing concerns for the high protein wheat crop. Lack of major global demand is making a major price rise unlikely at present according to some market experts. Bids for Russian wheat continue to decline following increases in expected production. In the latest USDA report, Canadian and Australian crops are expected to reach 25m tonnes and 23.5m tonnes respectively, despite some drought concerns.

SOURCE: Dairy Australia

Weather

July rainfall was average in Tasmania and average to below average across Victoria. This followed a record dry June, giving Victoria its second driest start to winter on record, with daytime temperatures above average. Nights were colder than average, especially in northern and central parts which saw record cold overnight temperatures near the start of the month. Spring nights are likely to be warmer than average. Australia's major climate drivers at this time of year, the El Niño–Southern Oscillation and the Indian Ocean Dipole, remain neutral. Localised influences, such as sea surface temperatures around the coastline, are likely to be affecting this outlook.

SOURCE: Bureau of Meteorology



FONTERRA'S NEW \$140 MILLION CHEESE PLANT SENDS STANHOPE CHEESE TO THE WORLD

Fonterra has celebrated the official opening of its new state-of-the-art cheese plant at Stanhope, marking the return of full production to the site two and a half years after fire destroyed the previous plant.

Victorian Minister for Regional Development the Honourable Jaala Pulford joined with Fonterra, its build partners, local farmers and community members to officially open the new \$140 million plant.

The 18-month project saw over 7,500 tonnes of concrete poured, approximately 80 containers of equipment shipped, and over 330,000 man-hours worked by more than 200 contractors to build the new cheese plant, which will be able to process up

to 1.3 million litres of milk every day.

Fonterra Co-operative Chair John Wilson was at the official opening event, and said the investment would help Fonterra to further capture the strong global demand for dairy.



John Wilson
Chair
Fonterra Co-operative Group

Australia is a global ingredients hub for Fonterra's cheese, whey and nutritionals, complementing our consumer and foodservice businesses.

Stanhope will help us to meet the growing global demand for cheese that is being driven by a strengthening middle class in our key markets. China alone is already a \$4.6 billion market for protein, and is growing at 4% per annum.

The future for Australian dairy is positive. The long-term fundamentals for dairy are strong and global prices are returning to more sustainable levels. Today's opening is a clear demonstration of our belief in the local dairy industry and our commitment to Australian farmers.



René Dedoncker
Managing Director
Fonterra Australia

The new plant returns mozzarella production to Australia for the first time since 2013, helping to capture growing demand for cheese both domestically and across Asia, particularly in China and Japan.

Fonterra is the leader in Australia's \$2 billion consumer cheese category, the market leader in foodservice, providing dairy solutions to chefs across Australia, and one of Australia's top dairy ingredients exporters.

The new Stanhope cheese plant is core to our strategy and helps us build on our market position, ensuring we have a sustainable business that delivers to everyone along the value chain.

Fonterra cheese already tops more than half the pizzas made in China, and now we will be sending Australian-made mozzarella to cater for growing demand.

Forty per cent of people in urban China eat at Western-style fast food outlets once a week, and the use of dairy in foodservice has grown by over 30% in just five years.

This growth has been helped by demand for cheese – as disposable incomes rise the dining-out culture is growing, particularly for pizza.

In Japan, cheese consumption is rising by 3% each year, with huge potential for growth. Japan is the world's second-largest importer of cheese, with Australia their number one supplier – they're our biggest market for cheese.

Our Stanhope cheese plant helps us make the most of that enormous market potential in Australia and around the world.