

# GLOBAL DAIRY UPDATE AUSTRALIA



## FARMGATE MILK PRICE UPDATE



- Increased production from the EU in January. New Zealand production down for the month.

Following our March price review, we are maintaining our current average milk price at \$5.62/kgMS plus \$0.40/kgMS, for a total cash payout and forecast average closing milk price of \$6.02/kgMS.



- Demand for dairy remains strong in China. Latin America and Asia imports decline for the month.
- Growth in dairy exports from New Zealand in January. Steady growth from the EU and the US.

While the global supply and demand picture remains positive and we expect prices to stay around current levels, we will be watching for any impact on market sentiment as spring production volumes build in Europe.

The Australian dollar has seen some weakness back to US\$0.77 from highs of US\$0.794 in February, which is an encouraging indicator for next season's pricing.



- Australian business continues to deliver.

We are currently holding farmer meetings in all regions, providing an update on the market, our business and the season ahead to provide visibility on the levers that may affect the milk price.



- Farming community pulls together to support families in need.

We will also soon open applications for our price risk management tool Fixed Base Milk Price for season 2018/19, which enables farmers to reduce their exposure to market volatility.

Applications open on 2 April, and we will be communicating the Fixed Base Milk Price in late May for the 2018/19 season.



## Global production

### AUSTRALIA

**1%↑**

Production change for the 12 months to February 2018

Australia production in February increased 2% compared to February last year with steady milk production growth, particularly in south east Australia, where improved seasonal conditions and cost efficiencies have increased production.

### NEW ZEALAND

**1%↑**

Production change for the 12 months to February 2018

New Zealand production in February was down 2% compared to February last year, as the difficult weather conditions that have hampered production for most of the season continue to impact pasture quality.

### EUROPEAN UNION

**2%↑**

Production change for the 12 months to January 2018

EU production was up 4% in January compared to January last year, driven by continued strong dairy prices. While growth was experienced across most of Europe, Germany and Italy had the highest growth, up a combined 7%, partially offset by decreases in both Hungary and Sweden.

### USA

**1%↑**

Production change for the 12 months to January 2018

US production in January increased 2% compared to the same month last year. The increase in production is largely driven by larger herd numbers and improved production per cow.

## Global exports

### AUSTRALIA

**2%↓**

Export change for the 12 months to January 2018

Australia dairy exports decreased 12%, or 7,000 MT, in January compared to January last year. Key drivers were SMP and cheese, down 29%.

For the 12 months to December, WMP, SMP and whey powder were down a combined 41,000 MT, offset by a 34,000 MT increase in liquid milk.

### NEW ZEALAND

**1%↓**

Export change for the 12 months to January 2018

New Zealand dairy exports in January increased 3%, or 10,000 MT, compared to January last year, driven by WMP and liquid milk up a combined 24,000 MT.

For the 12 months to January, there were declines across most categories except liquid milk and WMP which were up a combined 6% or 97,000 MT.

### EUROPEAN UNION

**6%↑**

Export change for the 12 months to December 2017

EU dairy exports increased 2%, or 6,000 MT, in December relative to December last year. Growth in liquid milk, cheese and SMP was offset by declines in caseinate, whey powder and lactose.

For the 12 months to December exports of SMP increased 36% as Europe continues to sell down its post-intervention SMP inventory.

### USA

**5%↑**

Export change for the 12 months to January 2018

US dairy exports increased by 8% in January compared to January last year, with in whey powder and cheese p a combined 9,000 MT.

Exports for the 12 months to January were up 108,000 MT, on the previous comparable period with growth in cheese, whey powder and SMP, up a combined 115,000 MT.

## Global imports

China dairy imports rose 44% in January compared to January last year. Liquid milk, WMP and whey powder were up 92%, 28% and 45% respectively.

For the 12 months to January China dairy imports were up 454,000 MT with liquid milk, WMP and infant formula up a combined 271,000 MT.

### CHINA

**20%↑**

Import change for the 12 months to January 2018

### ASIA

**2%↑**

Import change for the 12 months to November 2017

### MIDDLE EAST & AFRICA

**1%↓**

Import change for the 12 months to October 2017

# OUR MARKETS

## DAIRY COMMODITY PRICES



### Global pricing

GDT Event 208, held 20 March resulted in a decrease of 1.2%.

#### SMP

**2.5%** ↑

Change vs. 12-month Rolling Average of USD 1,921/MT

USD **1,969**

March Average Price (USD/MT, FAS)

SOURCE: GlobalDairyTrade

#### WMP

**5.5%** ↑

Change vs. 12-month Rolling Average of USD 3,061/MT

USD **3,229**

March Average Price (USD/MT, FAS)

SOURCE: Dairy Australia

#### BUTTER

**2.7%** ↓

Change vs. 12-month Rolling Average of USD 5,600MT

USD **5,450**

February Average Price (USD/MT)

SOURCE: Dairy Australia, February Pricing

#### CHEDDAR

**2.0%** ↓

Change vs. 12-month Rolling Average of USD 3,979MT

USD **3,900**

February Average Price (USD/MT)

### Australian dollar trend

The AUD weakened against the USD over the past month. Weaker base commodity spot prices and expectations of further interest rate rises by the Federal Reserve saw the AUD fall from 0.785 to 0.770. While the US federal funds interest rate increased by 25 basis points, a weaker than expected projected rate path saw the AUD recover to 0.775. While spot commodity prices remain lower and the US economy strengthens, the medium term outlook for the AUD will be bearish.

SOURCE: news.com.au



SOURCE: Reserve Bank of Australia

### Local factors affecting farming conditions



#### Hay

Hay prices firmed throughout February, particularly in northern regions of Australia as persistent dry conditions increased fodder demand. Rainfall towards the end of the month provided some relief to northern markets and temporarily subdued demand. In southern regions, new season hay and reserved stocks helped keep demand low. Straw is expected to be in short supply this year due to limited production. The quality of hay from Western Australia is reportedly excellent and as the majority of supply is exported it will serve as a solid pricing indicator for high quality fodder.

SOURCE: Dairy Australia

#### Grain

US crop conditions are deteriorating due to unusually dry weather and global wheat prices have rallied. Russian wheat production has been revised downwards and global demand continues to provide support for wheat prices, resulting in higher domestic prices. Australian wheat prices are now at or above export parity in several regions and given current conditions and demand, short term prices are likely to remain firm. Global demand for barley remains strong due to demand from China and Saudi Arabia, accordingly, ASX Jan 2019 barley futures increased 7% in February. Global demand for soybean meal combined with dry weather in Argentina will support Australian soybean and canola meal prices.

SOURCE: Dairy Australia

#### Weather

Australia's total February rainfall and rainfall in Victoria and the Riverina was below average whilst average rainfall was received in Tasmania. Western Australia, south eastern Queensland and parts of southern New South Wales recorded above average to well above average rainfall. BOM's April to June outlook shows Gippsland, Tasmania and southeast NSW are likely to be wetter than average and the majority of other regions across Australia have roughly equal chances of a slightly wetter or drier than average three months. April rainfall is forecast to be above average across Victoria and Tasmania along with average to above average temperatures.

SOURCE: Bureau of Meteorology

# OUR BUSINESS



## Australian business continues to deliver

Our Australian business has continued to make a good contribution in the first half of this year, and Australian Managing Director René Dedoncker says the results show that the business is on the right track.

“We are delivering repeatable performance because our business has the right strategy in place – the right assets, the right product mix, the right partnerships and the right cost base to win in the market.

“The Australian business continues to grow in volume and value, and has performed well at every critical production point, starting with milk.

We’ve seen 27% growth – or 400 million litres – in our milk pool and have reached the goal we set last year to collect two billion litres of milk this season.”

A key highlight has been the launch of Farm Source™, which will deliver better, faster and easier-to-use tools and services that will provide real tangible benefits to you, our farmers, and help boost the profitability of your businesses.

“Some of these services – such as Farm Source Digital and Partners – are ready now, while the others will become available over the second half. They will also continue to

evolve over time to reflect our farmers’ feedback and business needs,” said René.

“At the same time, our three business channels have performed well. In Ingredients, we’ve focused on building solid and long-term customer partnerships, such as our strategic relationships with The a2 Milk Company and Bellamy’s Australia, as well as a number of global partners.

“Within our Consumer business, we have extended our leadership position in cheese and spreads, and have successfully launched a number of new products across Mainland, Perfect Italiano and

Western Star.

“Our Foodservice business continues to be the number one dairy partner for our key distributors groups while successfully winning new business through the delivery of Italian and Bakery dairy solutions for our end users,” he continued.

The investments we have made this year to de-bottleneck our plants and boost capacity will enable us to keep playing to our strengths in cheese, whey and nutritional, and deliver sustainable returns to our farmers.”

# OUR COMMUNITY



## Farming community pulls together to support families in need

The true devastation caused by the fires in southwest Victoria is only just becoming apparent now all bushfires are under control, although peat fires continue to affect the wider community closing the local retirement home and schools.

Trees that have stood for decades have been felled by the flames, and around 3,000 kilometres of fencing has been destroyed over an expanse of around 40,000 hectares. Over 15 Fonterra farms have been directly affected by the fires, and another 70 farms were

impacted through loss of power and other disruptions.

Leading the fire response effort was Larpent farmer and CFA Group Officer Mark Billing, supported by several Fonterra suppliers. With many of our farmers volunteering for the CFA, they were working on the front line to save their own farms as well as neighbouring properties.

Andrew Nevill, Regional Manager Farm Source – Western Victoria, said that one thing that is still standing strong is the support amongst

the farming community.

“It is really heartening to see the Fonterra community come together to help out those in need. We have been overwhelmed with offers to help from each of our farming regions, from fodder to financial donations.

“One of our Tassie farmers even offered a Herringbone dairy, which is really an extraordinary gesture,” says Andrew.

The Farm Source West and Cobden site teams have been out offering their help

to get our farmers back on track, from sourcing generators, reconnecting electricity, and helping with fence reconstruction.

“The coming together of the Cobden community, as well as offers of help from our farming families across Victoria and Tasmania, has really helped to relieve some of the strain and lift the spirits of those affected.

“While we’re now able to collect all milk, our focus is on helping each of our farmers get back up and running as soon as possible,” concluded Andrew.

# YOUR LOCAL FONTERRA CONTACTS



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