



Market Announcement

10 October 2018

FONTERRA REVISES 2018/19 FORECAST FARMGATE MILK PRICE

Fonterra Co-operative Group Limited today revised its 2018/19 forecast Farmgate Milk Price from \$6.75 per kgMS to a range of \$6.25-\$6.50 per kgMS and increased its forecast New Zealand milk collection volumes by 1.3 per cent to 1,550 million kgMS.

Fonterra Chief Executive, Miles Hurrell, says the change in the forecast Farmgate Milk Price was due to a stronger global milk supply relative to demand at this time.

"I know how hard it is for farmers when the forecast Farmgate Milk Price drops, but it's important they have the most up to date picture so they can make the best decisions for their farming businesses.

"We are still seeing strong production coming from Europe, US and Argentina. While the hot weather in Europe has slowed down the region's production growth, it is still tracking ahead of last year. US milk production is up slightly and Argentina's is up 6.8%.

"Here in New Zealand, the season has got off to a positive start, mainly thanks to good weather and early calving in the South Island. As a result, we have increased our forecast milk collections for the year to 1,550 million kgMS – up from 1,525 million kgMS.

Mr Hurrell says that global demand is simply not matching current increases in supply.

"At recent Global Dairy Trade (GDT) events, prices for all products that make up the milk price have fallen. Demand for WMP, in particular, continues to grow in China, and it remains strong across South East Asia, but it simply isn't matching current levels of supply."

Talking about the new move to provide a range for the forecast Farmgate Milk Price, Mr Hurrell says it was part of the Co-op's intention to provide the best possible signals.

"We operate in a hugely volatile global market place, so it is very difficult to pinpoint an exact forecast Farmgate Milk Price this early in the season. For example, weather conditions can change suddenly and this can have a significant impact on the global milk supply.

"As a result, we have chosen to give a range of \$6.25-\$6.50 per kgMS and be clear that the Advance Rate is based on \$6.25 per kgMS and the final price could be outside this range as we are still early in the season and up against considerable volatility. We therefore recommend farmers budget with ongoing caution."

The timing of today's update is driven by available market information and is not a DIRA requirement. Fonterra is required to give a forecast for DIRA purposes by 15 December 2018.

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About Fonterra

We're a global dairy nutrition company owned by 10,000 farmers and their families. We've built our expertise on the legacy of the thousands of farmers who've made New Zealand a world leader in dairy. With a can-do attitude and a collaborative spirit, we're a world leading dairy exporter. Our 22,000 people share the goodness of dairy nutrition with the world through our innovative consumer, foodservice and ingredient solutions brands, and our farming and processing operations across four continents.

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