Fonterra announces forecast Farmgate Milk Price for 2014/15 season and revised forecast for 2013/14 season

2014/15 season opening forecast Farm gate Milk Price

Fonterra Co-operative Group Limited today announced an opening forecast Farmgate Milk Price of $7.00 per kgMS for the 2014/15 season - matching the opening forecast provided 12 months ago at the start of the 2013/14 season.

The forecast Cash Payout - which comprises the Forecast Farmgate Milk Price and dividend for the 2014/15 season - will be announced in July when Fonterra’s budget is completed and approved.

The Co-operative is forecasting milk supply for the new season of 1,616 million kgMS – up 2 per cent on the current season forecast of 1,584 million kgMS.

Chairman John Wilson said the new season Farmgate Milk Price forecast remained historically high, matching the Co-operative’s opening price of the previous season, but also reflecting current market conditions.

“Our farmers understand the realities of dairy commodity price cycles, and will exercise caution at this early stage in the season,” he said.

Chief Executive Theo Spierings said the shift in supply and demand over the past few months showed that volatility continued to exert a strong influence over the global outlook for dairy.

“Dairy commodity prices have come off the peak reached in early February this year, as global supply and demand have rebalanced.

“There is currently more milk available for the international market to absorb. We expect demand from China to remain strong. In Russia, there will be pressure on the balance between imports and local production. These factors are expected to continue influencing the supply-demand balance,” said Mr Spierings.

Revised 2013/14 Forecast

The Co-operative also confirmed today that it is reducing its current forecast Farmgate Milk Price for the 2013/14 season to $8.40 per kgMS. Along with a reconfirmed forecast dividend of 10 cents per share, the change amounts to a forecast Cash Payout of $8.50 for a fully shared-up farmer.

Chairman John Wilson said that when the last forecast was made in late February, the forecast Farmgate Milk Price derived under the Milk Price Manual was $9.35. The Milk Price Manual calculation is now 40 cents lower at $8.95.

“When we announced the last forecast Farmgate Milk Price, it was 70 cents per kgMS below the then Milk Price Manual calculation. We made that decision to protect the Co-operative.
“After seeing recent improved stream returns on powders and other products, and considering the level of risk likely in the remaining three months of the financial year, the Board has decided to reduce that 70 cent gap by 15 cents, to 55 cents.

“That is why today’s forecast Farmgate Milk Price amounts to a 25 cent net reduction from $8.65 to $8.40,” he said.

Chief Executive Theo Spierings said volatility remained an issue. The revised forecast reflects the recent fall in global dairy commodity prices, as well as the impact of currency movements.

“Our previous guidance on the earnings range remains unchanged.

“GlobalDairyTrade (GDT) prices have tracked down in recent events, with the GDT price index down more than 22 per cent since a peak on February 4, 2014. Since that date, prices for whole milk powder on GDT have decreased by 22 per cent, while skim milk powder prices are down 23 per cent.

“Despite the weaker auction results, the New Zealand dollar has remained firm. The exchange rate has moved from NZD/USD 0.835 to sit above NZD/USD 0.855 for the majority of the last two months,” said Mr Spierings.

The forecast Farmgate Milk Price change for the current season will not mean any revision to the June payment of the Advance Rate Schedule. The 25 cent net reduction will be spread over the July to October payments.

Note: currency is New Zealand dollars unless otherwise stated.

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About Fonterra

Fonterra is a global leader in dairy nutrition – the preferred supplier of dairy ingredients to many of the world’s leading food companies. Fonterra is also a market leader with our own consumer dairy brands in Australia/New Zealand, Asia/Africa, Middle East and Latin America.

The farmer-owned New Zealand co-operative is the largest processor of milk in the world, producing more than two million tonnes of dairy ingredients, value added dairy ingredients, specialty ingredients and consumer products every year. Drawing on generations of dairy expertise, Fonterra is one of the largest investors in dairy based research and innovation in the world. Our more than 16,000 staff work across the dairy spectrum from advising farmers on sustainable farming and milk production, to ensuring we live up to exacting quality standards and delivering every day on our customer promise in more than 100 markets around the world.

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