Fonterra maintains 2015/16 Farmgate Milk Price

Fonterra Co-operative Group Limited today maintained a forecast Farmgate Milk Price of $4.60 per kgMS. Along with the November announced estimated Earnings Per Share range of 45-55 cents, this amounts to a total available for payout of $5.05-$5.15 kgMS and would currently equate to a total forecast Cash Payout of $4.95-$5.00¹.

Fonterra is required to consider its forecast Farmgate Milk Price every quarter as a condition of the Dairy Industry Restructuring Act (DIRA).

Chairman John Wilson said the stable forecast reflected the Board and management’s view that international prices would continue to improve in the first half of next year.

“We are looking out over the next nine months and basing our forecast on the view that current, unsustainably low prices will continue to impact production levels globally. We support the consensus view in the market that an improvement will take place, but the market remains volatile. While there are signs of a recovery, particularly in China, we still need the imbalance between supply and demand to correct.

“That imbalance is starting to reduce with year to date production in the United States up by only one per cent and slowing, and New Zealand volumes expected to be down by at least six per cent over the current season. In the EU, however, farmers are continuing to push production, currently up one per cent.”

Fonterra’s Board also reviewed the Fonterra Co-operative Support loan. The loan was made available on production from 1 June to 31 December. The loan of 50 cent per kgMS is interest-free until 31 May 2017 with repayments triggered when the Farmgate Milk Price exceeds $6 per kgMS.

Mr Wilson said the Board’s scheduled review had weighed up the improved Farmgate Milk Price and higher Earnings Per Share forecast since the loan was launched, when the milk price was at $3.85, and the need for financial discipline from the Co-operative. The Board had decided not to continue the Co-operative Support loan for milk collected after 31 December, but will monitor conditions and assess the need to continue the support if market conditions changed later in the season.

“We will provide some $390 million in support to around 75 per cent of our farmers through the most productive half of the season, including the peak. Farms typically produce 60 per cent of their milk in the first half, with production beginning to taper off from December, so we have provided support when it is needed the most.”

-ENDS-

Note: currency is New Zealand dollars unless otherwise stated.

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¹ Cash Payout comprises the Farmgate Milk Price plus the dividend per share. Total available for Payout is the Farmgate Milk Price plus earnings per share.