

# GLOBAL DAIRY UPDATE



Dairy for life



• European milk production decreased for the seventh consecutive month, while the US remains strong. The rate of decline in New Zealand production is easing.



• US exports continue to grow with a seventh consecutive month of positive growth. EU exports declined for the first time in over two years.



• Steady growth continues in Asia and Latin America while China imports continue to soften.



• While still down on last year collections improved in February with better growing conditions.

• Maximising value from late season volume growth.

• Fonterra confirmed its forecast Farmgate Milk Price under the quarterly DIRA update at \$6.00/kgMS.

• Forecast season collections were updated to 1,515m kgMS, a 3% decline on last season.

• Fonterra will provide an update on its performance as part of the Interim Results announcement on 22 March.

## KEY DATES



22 March 2017  
Interim Results  
Announcement

1 June 2017  
Measurement Date for Share  
Standard 2017/18 Season

September 2017  
Annual Results  
Announcement

1 December 2017  
Compliance Date for Share  
Standard 2017/18 Season



To view a chart that illustrates year-on-year changes in production –

# EUROPEAN MILK PRODUCTION DECREASED FOR THE SEVENTH CONSECUTIVE MONTH, WHILE THE US REMAINS STRONG. THE RATE OF DECLINE IN NEW ZEALAND PRODUCTION IS EASING

## NEW ZEALAND

2% ↓

Production change for the 12 months to January 2017

**Total New Zealand milk production** for January was down 1% compared to the same month last year. For the 12 months to January, milk production is down 2% compared to the same period the previous year. This volume represents improved growing conditions through January. Fonterra collections have been reported for February, see page 5 for details.

## AUSTRALIA

7% ↓

Production change for the 12 months to December 2016

**Australia production** in December decreased 4% compared to the same month last year. Production for the 12 months to December is down 7% compared to the same period the previous year. Fonterra collections in Australia have been reported for February, see page 5 for details.

## EUROPEAN UNION

0%

Production change for the 12 months to December 2016

**EU production** continued to slide, decreasing for the seventh consecutive month, with December volumes down 3% compared to the same month last year. French production was down 6% while Germany and the UK were both down 5%. These three countries represent nearly half of all EU production. Production for the 12 months to December is in line with the comparable period the previous year.

## USA

2% ↑

Production change for the 12 months to January 2017

**US production** in January increased 2% compared to the same month last year, with farmers responding to favourable weather conditions and grain prices. This marks the fifth consecutive month of monthly production increases in excess of 2%. Milk production for the 12 months to January increased 2% compared to the same period the previous year.



To view a chart that illustrates year-on-year changes in exports –

## US EXPORTS CONTINUE TO GROW WITH A SEVENTH CONSECUTIVE MONTH OF POSITIVE GROWTH.

## EU EXPORTS DECLINED FOR THE FIRST TIME IN OVER TWO YEARS

### NEW ZEALAND

**5%↑**

Export change for the 12 months to December 2016

**Total New Zealand dairy exports** in December decreased 4% compared to the same month the previous year. This marks the second month of declines and was led by SMP and AMF both down 19%. WMP, the largest product category at just under half of monthly volumes, was flat for the month.

Exports for the 12 months to December were up 5%, or 151,000 MT, compared to the same period the previous year. The products contributing to this increase include infant formula up 80%, fluid and fresh dairy up 41% and cheese up 9%. The primary offset to these gains was WMP, down 2%.

### AUSTRALIA

**3%↑**

Export change for the 12 months to December 2016

**Australia dairy exports** decreased 7% in December, driven largely by a 20% decline in SMP.

Exports for the 12 months to December are up 3%, or 25,000 MT, compared to the same period the previous year. Growth contributions from fluid and fresh dairy, infant formula and whey powder, up a combined 27%, are offset to some extent by SMP, the second largest category, down 19%.

### EUROPEAN UNION

**8%↑**

Export change for the 12 months to November 2016

**EU dairy exports** decreased 2% in November, or 7,000 MT, compared to the same month the previous year.

This is the first monthly export decline in over two years and was well signalled by declining growth rates over the past quarter. Notable contributors to the monthly move include fluid and fresh dairy, down 6% and SMP down 17%.

Export growth for the rolling 12 months continues to slow, but remains up 8%, or 374,000 MT, compared to the same period last year. This is driven by fluid and fresh dairy, up 14%, cheese up 13% and butter up 29%.

### USA

**3%↑**

Export change for the 12 months to December 2016

**US dairy exports** continued their strong run through to the end of 2016, with December volumes up 18% on the same period the previous year. After a brief period of decline, this is the seventh consecutive monthly increase in volumes.

December growth can be attributed to whey powder and WPC/WPI, up a combined 44% or 15,000 MT.

Exports for the 12 months to December are up 3%, or 68,000 MT, compared to the same period last year.

This is driven by WPC/WPI, up 26%, fluid and fresh dairy, up 9% and whey powder, up 7%.



# STEADY GROWTH IN ASIA AND LATIN AMERICA CONTINUES WHILE CHINA IMPORTS CONTINUE TO SOFTEN

To view a chart that illustrates year-on-year changes in imports –

## LATIN AMERICA



**Latin America<sup>1</sup> dairy import** increased 19%, or 25,000 MT, in November compared to the same month the previous year.

WMP and cheese had increases of 46% and 51% respectively, a collective increase of 18,000 MT.

Imports for the 12 months to November are up 13%, compared to the same period the previous year. Core categories have led this growth with SMP, WMP and cheese up a combined 19%. These categories account for over half of Latin American imports.

## ASIA



**Asia (excluding China)<sup>2</sup> dairy import** increased 7%, or 26,000 MT, in November compared to the same month the previous year. SMP and cheese both increased at 8%, while WMP decreased 9%, or 5,000 MT.

Imports for the 12 months to November are up 5%, or 192,000 MT, compared to the same period the previous year. Increases in fluid and fresh dairy, lactose and whey powders, up a combined 10%, were offset by declines in powders, with SMP and WMP down 1% or 20,000 MT.

## MIDDLE EAST & AFRICA



**Middle East and Africa<sup>3</sup> dairy imports** decreased 4%, or 13,000 MT, in November compared to the same month the previous year. WMP and fluid and fresh dairy were down 10% and 2%.

Imports for the 12 months to November are down 4%, or 175,000 MT, compared to the same period last year. Although this is the third consecutive month of decreasing imports, the rate of growth is easing. SMP, fluid and fresh dairy and WMP were all down 7%, for a combined 185,000 MT.

## CHINA



**China dairy imports** decreased 13%, or 40,000 MT, in January compared to the same month last year. This marked the second consecutive month of declines and was led by WMP and fluid and fresh dairy, down 10% and 23% respectively.

Imports for the 12 months to January are up 12%, or 247,000 MT, compared to the same period last year. Fluid and fresh dairy, cheese and infant formula all had increases in excess of 20%, for a combined increase of 218,000 MT.

<sup>1</sup> Excludes Venezuela and includes estimates for Nicaragua (January-November) and Honduras (November).

<sup>2</sup> Includes estimate for Indonesia (August-November) and Macao (October-November).

<sup>3</sup> Includes estimates for Algeria (November).

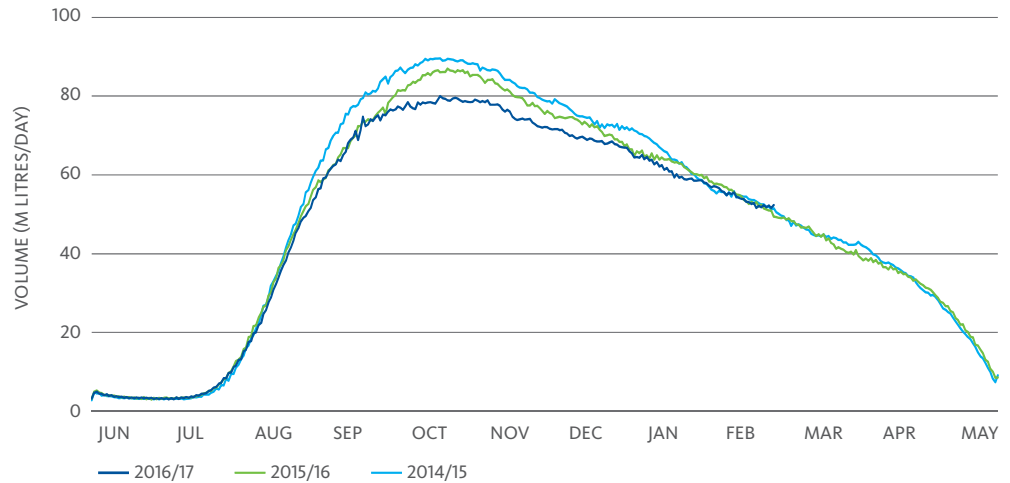
**OUR MARKETS**

FONTERRA MILK COLLECTION 2016/17 SEASON



To view a table that shows our detailed milk collection in New Zealand and Australia compared to the previous season –

**NEW ZEALAND MILK COLLECTION**



**NEW ZEALAND**

**5%** ↓

Decrease for the season from 1 June to 28 February

Fonterra’s milk collection across New Zealand for the nine months to 28 February reached 1,194 million kgMS, 57 million kgMS lower than last season.

Fonterra New Zealand milk collection improved in February compared to the rest of the season due to good growing conditions.

Fonterra has updated its forecast milk collection for the 2016/17 season – see page 7.

**NORTH ISLAND**

**7%** ↓

Decrease for the season from 1 June to 28 February

**North Island milk collection** in February reached 79 million kgMS, 5% behind February last season.

**SOUTH ISLAND**

**1%** ↓

Decrease for the season from 1 June to 28 February

**South Island milk collection** in February reached 62 million kgMS, 1.5% up on February last season.

**AUSTRALIA**

**2%** ↓

Decrease for the season from 1 July to 28 February

Fonterra’s milk collection across Australia for the eight months to 28 February reached 88 million kgMS, 2 million kgMS lower than last season.

In February milk collection reached 8.6 million kgMS, 2% behind the same month last season.

Fonterra Australia have updated their methodology for reporting milk collection to include volume collected via third parties.

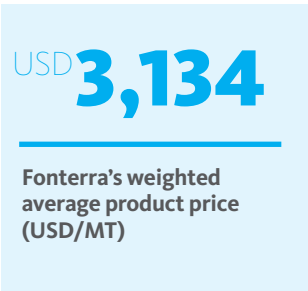
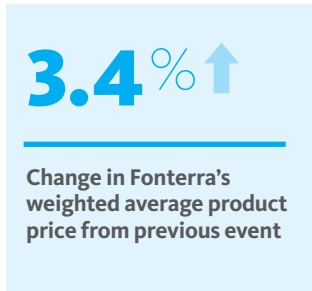
For the seven months to 31 January, volumes collected both directly and from third parties were 79 million kgMS, 2 million lower than at the same date last season, a 2% decrease.

# OUR MARKETS

## FONTERRA GLOBAL DAIRY TRADE RESULTS



Fonterra GDT results at last trading event  
**21 March 2017:**



### BUTTER

**5.5% ↑**

USD 4,910/MT

### RENNET CASEIN

**4.4% ↑**

USD 5,927/MT

### WMP

**4.3% ↑**

USD 2,855/MT

### AMF

**2.6% ↑**

USD 5,799/MT

### CHEDDAR

**0.8% ↓**

USD 3,406/MT

### SMP

**10.4% ↓**

USD 1,949/MT

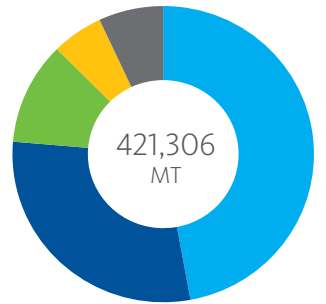
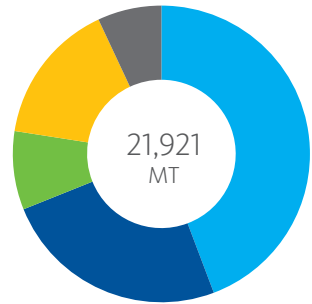
Fonterra GDT sales by destination:

### LATEST AUCTION

### FINANCIAL YEAR-TO-DATE

To view more information, including a snapshot of the rolling year-to-date results –

- NORTH ASIA (INCLUDING CHINA)
- SOUTH EAST ASIA
- MIDDLE EAST AND AFRICA
- LATIN AMERICA
- OTHER



▶ The next trading event will be held on 4 April 2017. Visit [www.globaldairytrade.info](http://www.globaldairytrade.info) for more information.

### Dairy commodity prices and New Zealand dollar trend

In February, the New Zealand dollar weakened initially, falling off its highest level since October, before stabilising around 0.72 for the remainder of the month.







## MAXIMISING VALUE FROM LATE SEASON VOLUME GROWTH



Better than expected growing conditions have meant that Fonterra's New Zealand milk collection in recent months has been better than initially forecast. Milk collections from our farmers were down 2% overall for the months of January and February, with the South Island reporting an actual increase in supply.

These greater volumes are good news for farmers as it adds to late season incomes. Particularly when combined with our forecast farmgate milk price of \$6.00 per kgMS – 54% higher than last season. Important after two seasons of low milk prices.

It's good news for Fonterra too. Higher volumes in the later months of the season improve our overall utilisation of our processing assets. This helps to reduce costs and improve margins. While weather can change we are reviewing options to keep some sites open for longer than usual in order to

process higher late season milk if it occurs. We will use the optionality in our asset base to produce the best returning products from this milk.

We have also been constrained in some products in prior months to meet growing demand. So these volumes help us better meet our customer's needs. For example, cheese and cream based products as used in our growing foodservice business.

We have seen some increase in volumes being sold through GlobalDairyTrade (GDT) in January and February. This is normal as GDT is an efficient and valuable sales channel for

Fonterra. The most recent announcement of GDT sales volumes had no increase in Fonterra product to be sold.

The timing of when we recognise the sale of these extra volumes can add uncertainty to earnings though. Depending on exact timing of production and available demand, we may carry some of this extra volume into the next financial year.

While the forecast milk collection is just that, a forecast, we are watching weather conditions and on-farm production closely and will continue to provide updates to the market and our farmers.



### Forecast Fonterra Milk Collection Across New Zealand

Fonterra's forecast New Zealand milk collection for the 2016/17 season has been revised to 1,515 million kgMS, reflecting improving conditions across most parts of the country.

**1,515M**  
KGMS

**Decrease of 3%  
for the 2016/17 season**

### Fonterra Interim Results for 2017 Financial Year

Fonterra will report its financial results for the six months to 31 January 2017 on 22 March.

**22 Mar**

2017

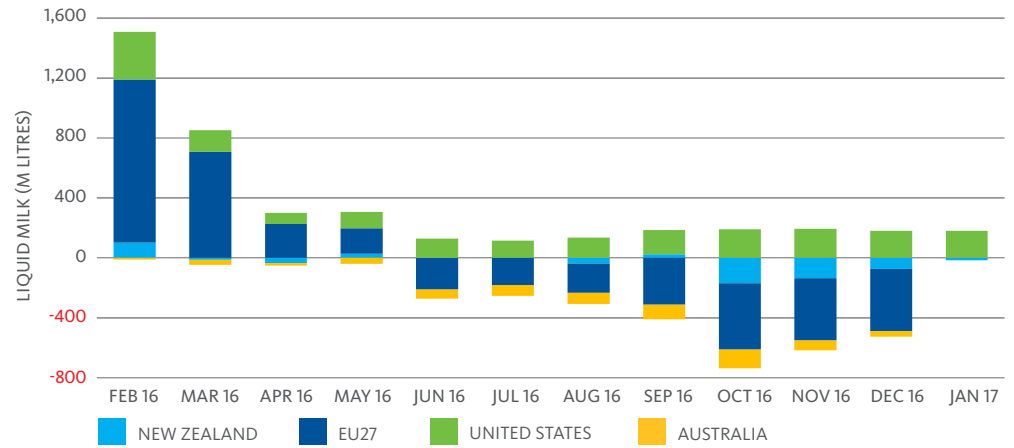
# SUPPLEMENTARY INFORMATION

## Global Dairy Market

The charts on the right illustrate the year-on-year changes in production, exports and imports for a range of countries that are important players in global dairy trade.

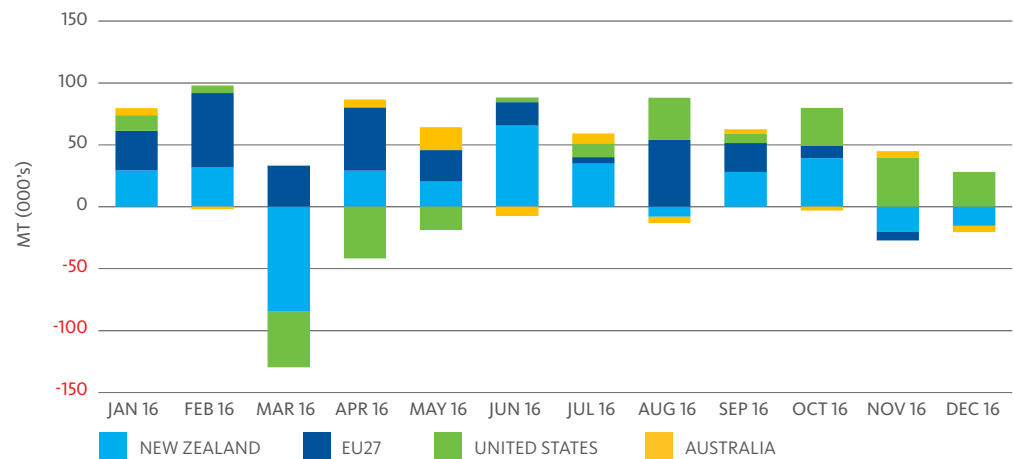
The absolute size of the bars represents the change in production, exports or imports, relative to the same period the previous year.

### PRODUCTION



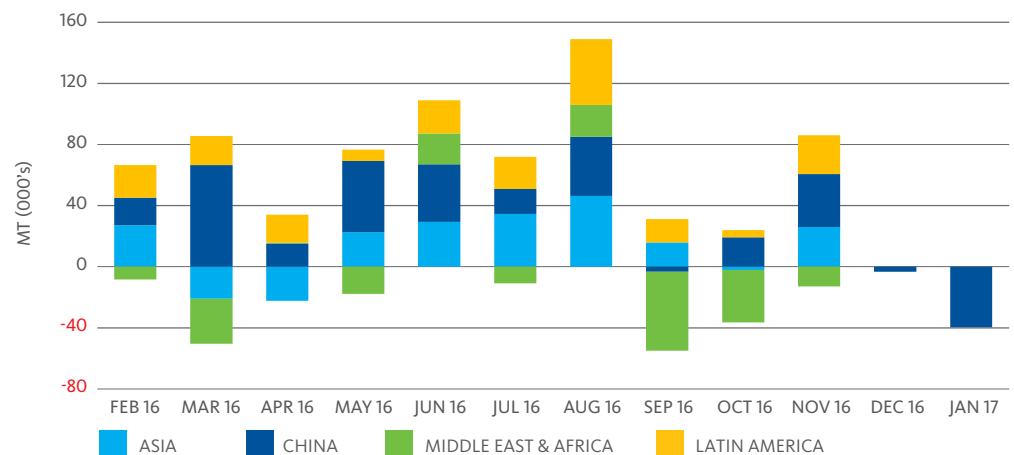
NOTE: Data for EU and Australia to December and New Zealand and US to January.

### EXPORTS



NOTE: Data for EU to November; New Zealand, US and Australia to December.

### IMPORTS



NOTE: Data for Asia, Middle East and Africa and Latin America to November, China to January.

SOURCE: Government milk production statistics/GTIS trade data/Fonterra analysis.



# SUPPLEMENTARY INFORMATION

## Fonterra milk production

The table on the right shows Fonterra milk solids collected in New Zealand and Australia compared to the previous season.

MILK COLLECTION (MILLION KGMS)	FEBRUARY 2017	FEBRUARY 2016	MONTHLY CHANGE	SEASON-TO-DATE 2016/17	SEASON-TO-DATE 2015/16	SEASON-TO-DATE CHANGE
Total Fonterra New Zealand	140.9	144.1	(2.2%)	1,194	1,251	(4.6%)
North Island	78.9	83.1	(5.0%)	732.7	784.3	(6.6%)
South Island	62.0	61.1	1.5%	461.8	467.2	(1.2%)
Fonterra Australia	8.7	8.8	(1.8%)	87.9	90.1	(2.4%)

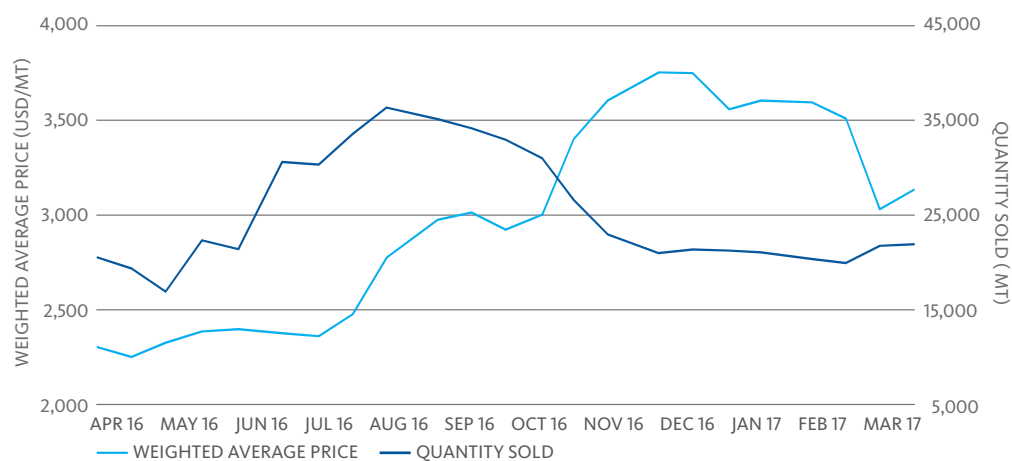
## Fonterra GDT results

This table provides more information on the latest results, including a snapshot of the year-to-date results.

	LAST TRADING EVENT (21 MARCH 2017)	YEAR-TO-DATE (FROM 1 AUGUST 2016)
Quantity Sold on GDT (Winning MT)	21,921	421,306
Change in Quantity Sold on GDT over same period last year	10.3%	(9.1%)
Weighted Average Product Price (USD/MT)	3,134	3,186
Change in Weighted Average Product Price over same period last year	41.8%	35.3%
Change in Weighted Average Product Price from previous event	3.4%	-

## Fonterra GDT Results

This chart shows Fonterra GDT prices and volumes over the past 12 months.



# GLOSSARY

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## AMF

Anhydrous Milk Fat.

## BMP

Butter Milk Powder.

## DIRA

Dairy Industry Restructuring Act 2001 (New Zealand).

## Farmgate Milk Price

The price for milk supplied in New Zealand to Fonterra by farmer shareholders.

## Fluid and Fresh Dairy

The Fonterra grouping of fluid milk products (skim milk, whole milk and cream – pasteurised or UHT processed), concentrated milk products (evaporated milk and sweetened condensed milk) and yoghurt.

## Reference Products

The dairy products used in the calculation of the Farmgate Milk Price, which are currently WMP, SMP, BMP, butter and AMF.

## Season

New Zealand: A period of 12 months to 31 May in each year.

Australia: A period of 12 months to 30 June in each year.

## SMP

Skim Milk Powder.

## WMP

Whole Milk Powder.