

# GLOBAL DAIRY UPDATE



Dairy for life



• Early season production in New Zealand stronger than last year. EU and US production growth is slowing and Australia is declining.

• Nearly one in four Kiwis have tried our new Tip Top™ Whittakers™ ice cream within two weeks of its launch.



• Exports from New Zealand and the US continued to grow in August. European exports declined in June.



• Fonterra has appointed an independent Sustainability Advisory Panel to guide the Co-operative as it aims to be a world leader in sustainably produced dairy nutrition.



• Imports into Asia show steady growth. Middle East and Africa is up, while Latin America declines.

## COMING UP...



• Fonterra's early season milk collection across New Zealand for the four months to 30 September reached 307 million kgMS, (but still accounts for only 20% of the forecast season).

- The November issue of Global Dairy Update will be published on 6 December together with our Quarter One Business Update.
- The following publication of the Global Dairy Update will be published on 31 January 2019.

## KEY DATES



8 November 2018  
Fonterra Co-operative Group  
Annual Meeting

12 November 2018  
Fonterra Shareholders' Fund  
Annual Meeting

1 December 2018  
Compliance Date for Share  
Standard 2018/19 Season

6 December 2018  
FY19 Q1 Business Update



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

# EARLY SEASON PRODUCTION IN NEW ZEALAND STRONGER THAN LAST YEAR. EU AND US PRODUCTION GROWTH IS SLOWING AND AUSTRALIA IS DECLINING

## NEW ZEALAND



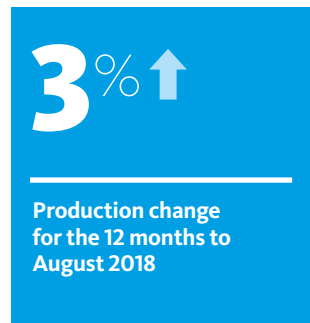
**Total New Zealand milk production** increased 6% in September compared to the same month last year. Season-to-date, which represents only about 20% of seasonal production, is up almost 6%. This has been driven by favourable weather although some regions are beginning to dry heading into summer. If these conditions prevail this early season rate of growth will moderate as the season progresses. Production for the 12 months to September was above 1% mainly due to the growth in recent months. Fonterra collections have been reported for September, see page 5 for details.

## AUSTRALIA



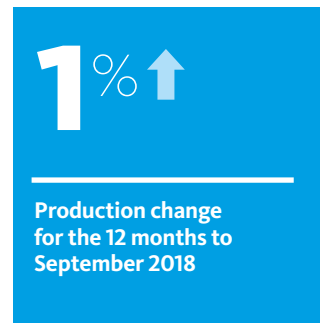
**Australian milk production** decreased 4% in August compared to the same period last year. This is being driven by rising on-farm input prices, drought across parts of the country and cow cull rates increasing (up 33% in August, year-on-year). Production for the 12 months to August was up 2% compared to the same period the previous year. The likelihood of an El Niño developing has lifted to 70% which will continue to pressure milk production throughout the season. Fonterra collections in Australia have been reported for September, see page 5 for details.

## EUROPEAN UNION



**EU milk production** saw no growth in August compared to the same period last year. The Netherlands experienced the largest monthly decline. The Netherlands' milk production on an annualised basis has remained flat since mid-2016. Extreme heat impacted production in other EU countries. Production for the 12 months to August was up almost 3% compared to the same period the previous year. Growth has slowed but remained resilient in the face of the recent extreme heat. The impact of feed availability and cost is likely to put pressure on production as the season progresses.

## USA



**US milk production** was up 1% in September compared to the same period last year. The US has seen relatively steady production growth. Of note is the prior months' downward revision of cow numbers. Margins have been squeezed and the latest downturn in cow numbers suggests moderation in milk volume growth in coming months. Milk production for the 12 months to September increased by 1% compared to the same period last year.



# EXPORTS FROM NEW ZEALAND AND THE US CONTINUED TO GROW IN AUGUST. EUROPEAN EXPORTS DECLINED IN JUNE

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

## NEW ZEALAND

**1%** ↓

Export change for the 12 months to August 2018

**Total New Zealand dairy exports** increased 6%, or 7,000 MT, in August compared to the same period last year. This increase is driven by AMF and butter, up a combined 7,300 MT. However, declines in SMP and cheese of 2,000 MT dampened the overall increase.

Exports for the 12 months to August were down 1%, or 16,275 MT, on the previous comparable period. This continues to be driven by lower volumes across WMP, AMF, cheese and SMP, down a combined 83,000 MT. Fluid and fresh dairy and infant formula continued strong growth, up 72,000 MT.

In total, New Zealand exports remain relatively flat over the last couple of years.

## AUSTRALIA

**4%** ↑

Export change for the 12 months to August 2018

**Australian dairy exports** increased 7%, or 3,700 MT, in August compared to the same period last year. This growth was due to increases in most categories, offset by declines in fluid products, WMP and other powders.

Exports for the 12 months to August were up 4%, or 29,000 MT, on the previous comparable period.

Fluid and fresh dairy, cheese, and infant formula continued to make up most of the growth in Australian exports, up a combined 44,000 MT.

In total, Australian exports have continued to grow on an annualised basis, reaching 762,000 MT, the highest level in the last 10 years.

## EUROPEAN UNION

**2%** ↑

Export change for the 12 months to June 2018

**EU dairy exports** decreased by 12%, or 58,000 MT, in June compared to the same period last year. This was primarily driven by declines in fluid and fresh dairy and SMP, down a combined 40,000 MT.

Exports for the 12 months to June were up 2%, or 112,000 MT, on the previous comparable period. Continued growth in SMP and infant formula remains the primary driver behind European dairy export growth, up a combined 159,000 MT.

In total, EU exports have continued to grow on an annualised basis and have just eased back from a record peak of 5.4 million tonnes in April 2018.

## USA

**11%** ↑

Export change for the 12 months to August 2018

**US dairy exports** increased by 11%, or 21,000 MT, in August compared to the same period last year. Growth in SMP and lactose of a combined 18,000 MT, was the primary driver behind this increase.

Exports for the 12 months to August were up 11%, or 234,000 MT, on the previous comparable period.

This increase was driven by growth across the five largest export categories, SMP, lactose, cheese, whey powder and WPC and WPI, up a combined 200,000 MT.

The US continues to show strong export growth having reached a record 2.4 million tonnes on an annualised basis through August 2018.



## IMPORTS INTO ASIA SHOW STEADY GROWTH. MIDDLE EAST AND AFRICA IS UP, WHILE LATIN AMERICA DECLINES

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

### LATIN AMERICA

**2%** ↓

Import change for the 12 months to June 2018

**Latin American dairy import volumes<sup>1</sup>** decreased 4%, or 6,000 MT, in June compared to the same period last year. This decrease was driven by WMP down 28%, or 7,000 MT. This was partially offset by gains in whey powder and SMP up 3,000 MT.

Imports for the 12 months to June were down 2%, or 40,000 MT, compared to the same period the previous year. This decline was primarily driven by WMP and AMF, and cheese down a combined 104,000 MT. An increase in SMP and whey powder of 57,000 MT offset some of the decline.

### ASIA

**3%** ↑

Import change for the 12 months to June 2018

**Asia (excluding China) dairy import volumes<sup>1</sup>** increased 1%, or 5,000 MT, in June compared to the same period last year. Growth in fluid and fresh dairy, WMP and butter of 12,000 MT drove the increase. A decline in SMP and cheese of 10,000 MT dampened gains.

Imports for the 12 months to June were up 3%, or 123,000 MT, compared to the same period the previous year. Continued growth in WMP and cheese of 126,000 MT was the primary driver.

### MIDDLE EAST & AFRICA

**5%** ↑

Import change for the 12 months to June 2018

**Middle East and Africa dairy import volumes<sup>1</sup>** decreased 9% or 32,000 MT in June compared to the same period last year. Small growth in AMF and MPC products was offset by declines in fluid and fresh dairy, cheese and cultured products of 33,000 MT.

Imports for the 12 months to June were up 5%, or 202,000 MT, compared to the same period the previous year. The increase is driven by growth in SMP, cheese and fluid and fresh dairy, up a combined 119,000 MT.

### CHINA

**17%** ↑

Import change for the 12 months to March 2018

**China dairy import volumes<sup>2</sup>** increased 3%, or 7,000 MT, in March compared to the same period last year. This was driven by a combined 14,000 MT, or 22%, growth in fluid and fresh dairy, butter and lactose categories. Declines in WMP of 6,000 MT partially offset this growth.

Imports for the 12 months to March were up 17%, or 394,000 MT, compared to the same period last year. Strong demand out of China continued with imports across all key categories up for the period. Infant formula, WMP and SMP imports added a combined 220,000 MT of additional volumes.

<sup>1</sup> Estimates are included for those countries that have not reported data.

<sup>2</sup> China has suspended trade data, citing system technical issues. Based on exports to China, we estimate June volumes grew 15% compared to the previous comparable period.

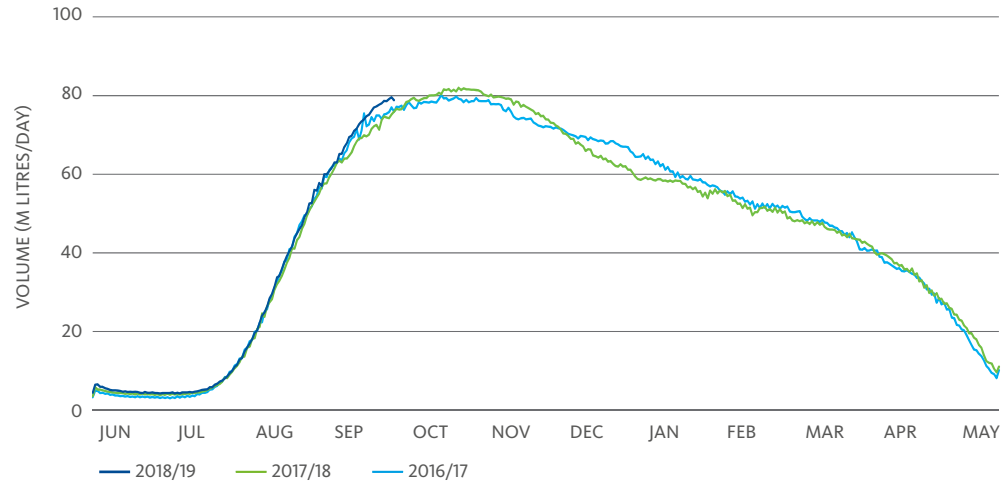
**OUR MARKETS**

FONTERRA MILK COLLECTION 2018/19 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% ↑**

Increase for the season from 1 June to 30 September

Fonterra’s milk collection across New Zealand for the four months to 30 September reached 307 million kgMS, up 5% compared to last year.

New Zealand collections in September reached 179 million kgMS, 5% up on the same month last season.

Relatively mild winter weather and generally favourable on-farm conditions continued into September resulting in increased milk volumes, particularly in the South Island.

**NORTH ISLAND**

**2% ↑**

Increase for the season from 1 June to 30 September

**North Island milk collection** in September reached 111 million kgMS, 3% higher than September last season.

Waikato, Taranaki and Central Districts have had positive starts to the season, running above last season. Bay of Plenty and Northland have faced slower pasture growth due to unfavourable weather conditions.

North Island milk collection for the 2018/19 season to date reached 207 million kgMS, up 2%.

**SOUTH ISLAND**

**10% ↑**

Increase for the season from 1 June to 30 September

**South Island milk collection** in September reached 68 million kgMS, 8% higher than September last season.

All South Island regions are tracking above last season. Ongoing good pasture cover should allow strong milk flows to continue.

South Island milk collection for the 2018/19 season to date reached 100 million kgMS, up 10%.

**AUSTRALIA**

**11% ↓**

Decrease for the season from 1 July to 30 September

Fonterra’s milk collection across Australia for the three months to 30 September reached 30 million kgMS, down 11% on the same period last season.

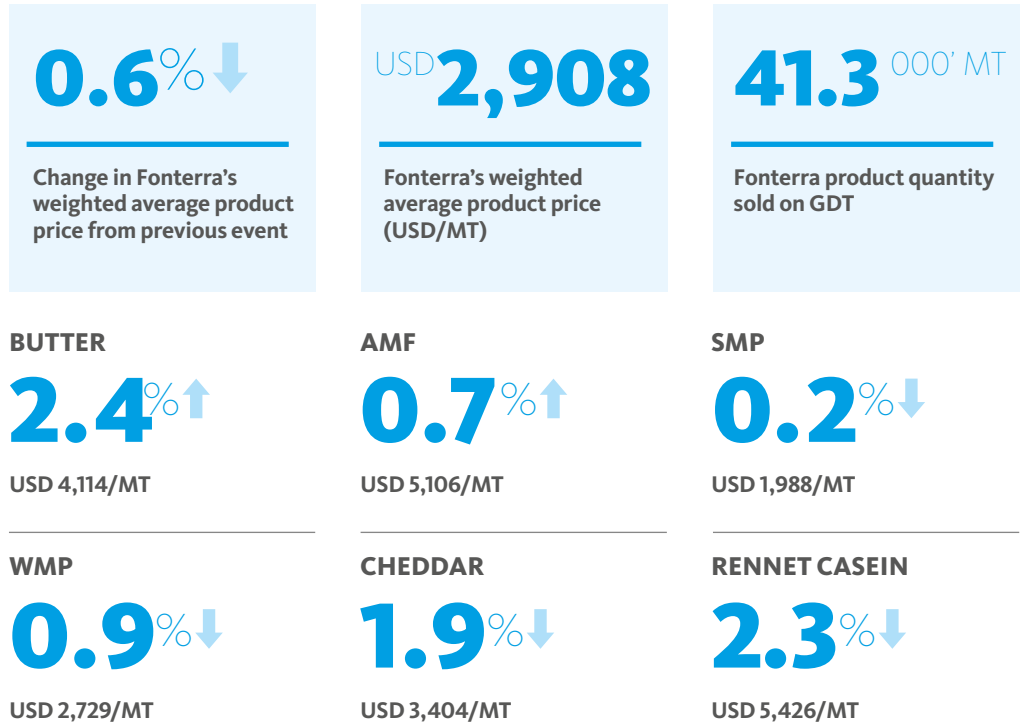
Poor seasonal conditions are driving up input costs resulting in increased cow cull rates. The poor seasonal outlook and a very competitive milk supply market will more than likely impact milk supply during the 2019 financial year.

# OUR MARKETS

## FONTERRA GLOBAL DAIRY TRADE RESULTS

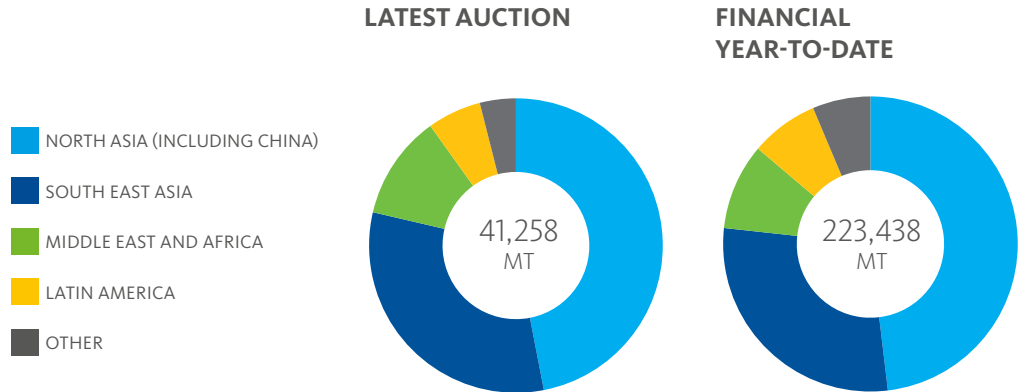


Fonterra GDT results at last trading event  
**16 October 2018:**



Fonterra GDT sales by destination:

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



► The next trading event will be held on 6 November 2018. Visit [www.globaldairytrade.info](http://www.globaldairytrade.info) for more information.

### Dairy commodity prices and New Zealand dollar trend

The New Zealand dollar initially weakened in September as ongoing US-China trade tensions and general global risk weighed on sentiment before positive domestic economic data buoyed the currency leaving its value unchanged by month's end.





## A MATCH MADE IN HEAVEN



Nearly one in four Kiwis has tried our new Tip Top™ Whittakers™ ice cream within two weeks of its launch.

Combining the best of Kiwi ice cream with the best New Zealand chocolate, the three flavours, Vanilla & Cashew Praline, Coffee & Cacao and Chocolate & Pretzel, have already smashed sales targets and are on track to be one of New Zealand's most successful new product development launches this year. Already sales targets are 220% above what was initially predicted.

Tip Top Director Kim Ballinger says it's exciting to see the launch going so well. "It's early days

with peak ice cream season still to come but so far the feedback we have had has been incredible.

"Shops were so excited to get the ice cream on sale some of them jumped the gun putting it on sale two days before they were meant to, so we pushed go for everyone."

Once launched one supermarket chain had product on sale in 18 stores within 10 minutes – for those unfamiliar with the inner workings of a supermarket that's quite a feat.

Kim says it's great to see the hype around the launch born out of the partnership of two proud Kiwi companies.

"When looking for someone to partner with we wanted someone who like us produces a premium product. We're both committed to being 100 per cent palm oil free and our ice cream contains all natural colours and flavours.

Whittaker's Marketing Manager, Jasmine Currie, says Tip Top was a natural match for them.

"Whittakers is a proud New Zealand and family-owned company and we love teaming-up with top quality producers and other iconic Kiwi brands."

The three new flavours are not limited-edition products and can be enjoyed by Kiwis and visitors year round.



## Fonterra has appointed an independent Sustainability Advisory Panel to guide the Co-operative as it aims to be a world leader in sustainably produced dairy nutrition.

CEO Miles Hurrell says the panel represents one part of the Co-op's wider strategy to build sustainability into everything it does.

"Our independent panel will help ensure our strategy is relevant to current and evolving sustainability trends while being integrated into commercial objectives," says Hurrell.

"Some of the world's biggest sustainability challenges are around food and we believe, like many, that the global food system must shift from being part of the problem to becoming a greater part of the solution. Our Co-op is already taking action to support healthy environments and strong communities, but we know we must do more."

Hurrell says collaboration is key.

"Environment Minister David Parker and Agriculture Minister Damien O'Connor have just announced the New Zealand Government's blueprint to improve freshwater quality which is encouraging to see and we support their overall objective. We share their commitment to deliver healthy waterways for New Zealanders and appreciate the inclusive approach they are taking to solve the issues we all currently face.

"We're keen to maximise opportunities to accelerate progress together, and our Living Water partnership working with the Department of Conservation in five key freshwater catchments is a good example. We've committed to help restore an additional 50 catchments, working with farmers, scientists, the Government and councils, mana whenua and communities."

As part of its first meeting this month, the Sustainability Advisory Panel had the chance to visit the Te Rapa manufacturing site, a farm in the Waikato, as well as

Fonterra's support office in Auckland to learn more about the Co-op and discuss challenges and opportunities around sustainability.

"It speaks volumes for Fonterra that they have invited us in to provide advice with absolute transparency and openness," says Sir Rob Fenwick.

"It's a chance to influence the country's biggest company with a multitude of challenges – environmental, social and economic – that impact not only the business and its owners, but the economy of the country. You don't get challenges like that very often in your life. I'm really excited about it.

"When you bring together a group of people with very disparate interests from different backgrounds, you often get surprising answers. I think that's the value of these independent advisory groups. What's so important about this one is that it's reporting to the board of directors. We'll provide advice at the highest level and that makes such a difference.

The panel features a diverse range of experts including:

- **Sir Rob Fenwick** (Chair), who co-founded the New Zealand Business Council for Sustainable Development and was the first New Zealander knighted for services to both business and conservation.
- **Paul Gilding**, a Fellow at the University of Cambridge's Institute for Sustainability Leadership, author and former global head of Greenpeace.
- **Aroha Mead**, a Research Associate specialising in Mātauranga Māori and indigenous knowledge.
- **Bridget Coates**, Chairperson of White Cloud Dairy Innovation, Director of Tegel Group Holdings Ltd and former Director of the Reserve Bank of New Zealand.
- **Hugh Logan**, who chaired the Land and Water Forum and has 40 years' experience in natural resource management.
- **Michelle Pye**, owner of large scale agricultural business Pye Group and member of the Fonterra Shareholders' Council.





# SUPPLEMENTARY INFORMATION

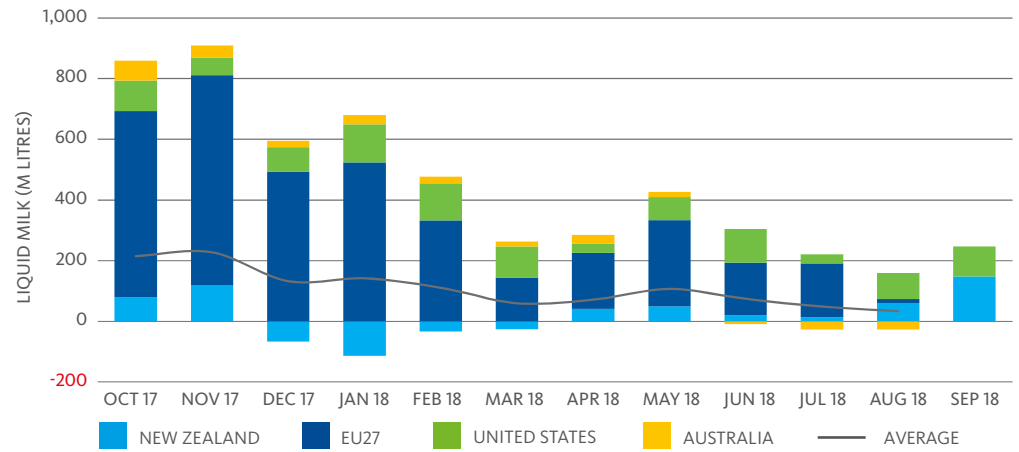
## Global Dairy Market

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

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

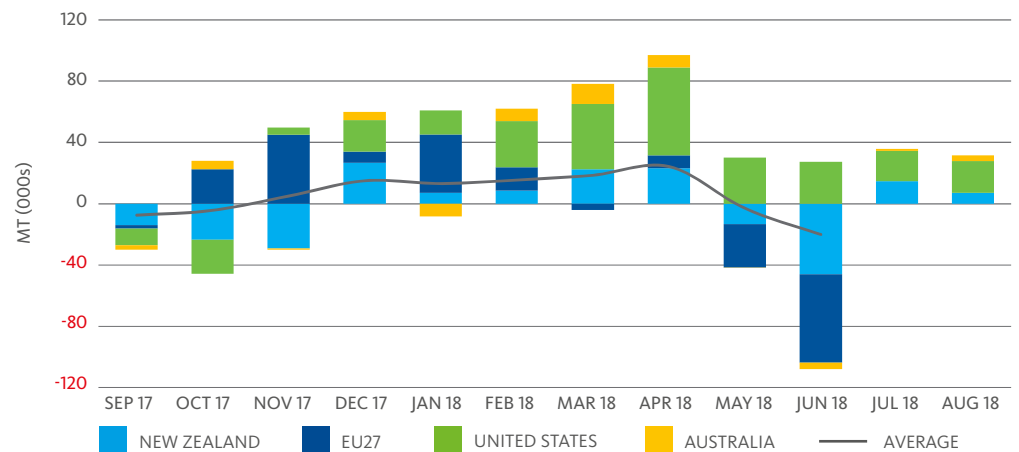
Averages are shown where data is complete for the regions presented.

### PRODUCTION



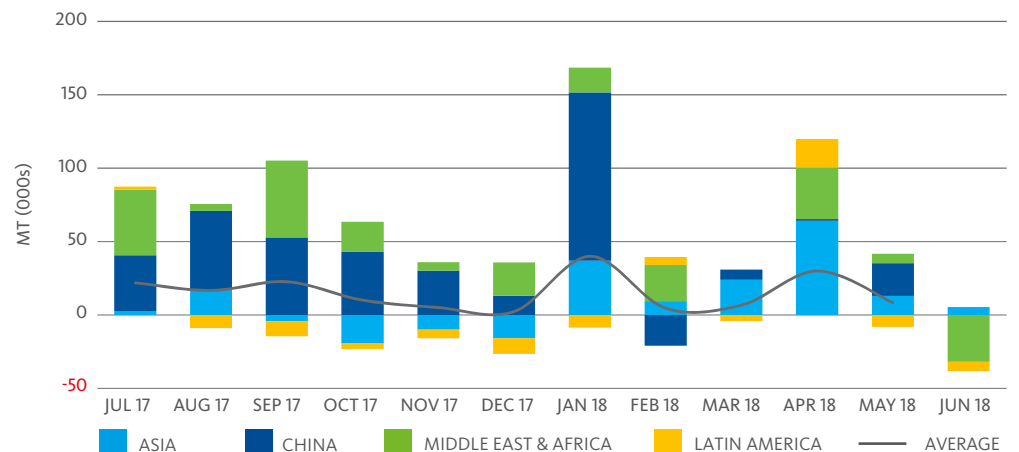
NOTE: Data for EU and Australia to August; New Zealand and US to September.

### EXPORTS



NOTE: Data for EU to June; New Zealand, US and Australia to August.

### IMPORTS



NOTE: Data for China to May; Asia, Middle East and Africa, Latin America to June.

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)	SEPTEMBER 2018	SEPTEMBER 2017	MONTHLY CHANGE	SEASON-TO-DATE 2018/19	SEASON-TO-DATE 2017/18	SEASON-TO-DATE CHANGE
Total Fonterra New Zealand	179.3	171.1	4.8%	307.0	293.5	4.6%
North Island	110.9	107.8	2.9%	207.4	202.6	2.4%
South Island	68.4	63.4	7.9%	99.6	90.9	9.6%
Fonterra Australia	12.7	14.8	(14.2%)	29.8	33.4	(11.0%)

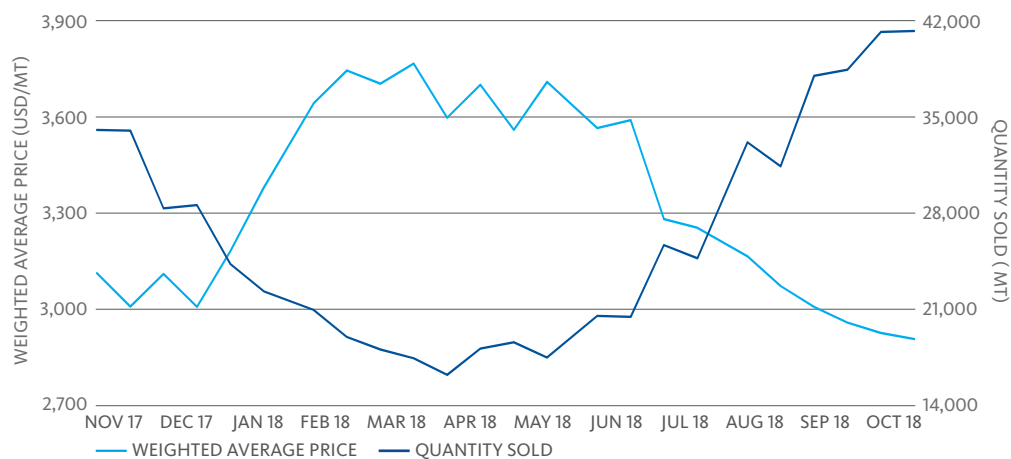
## Fonterra GDT results

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

	LAST TRADING EVENT (16 OCTOBER 2018)	YEAR-TO-DATE (FROM 1 AUGUST 2018)
Quantity Sold on GDT (Winning MT)	41,258	223,438
Change in Quantity Sold on GDT over same period last year	17.2%	11.1%
Weighted Average Product Price (USD/MT)	2,908	2,999
Change in Weighted Average Product Price over same period last year	(9.3%)	(9.8%)
Change in Weighted Average Product Price from previous event	(0.6%)	-

## 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.

## GDT

Global Dairy Trade, the online provider of the twice monthly global auctions of dairy ingredients.

## kgMS

Kilogram of milk solids, the measure of the amount of fat and protein in the milk supplied to Fonterra.

## LME (Liquid Milk Equivalent)

A standard measure of the amount of milk (in litres) allocated to each product based on the amount of fat and protein (“milk solids”) in the product relative to the amount of fat and protein in a standardised raw milk.

## Non-Reference Products

All dairy products, except for Reference Products, produced by the NZ Ingredients business.

## 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.