



Market Announcement

19 April 2020

Communication to Fonterra farmers

The attached communication was provided to Fonterra Co-operative Group Limited farmers by the Chairman, John Monaghan, on 19 April 2020.

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For further information contact:

Fonterra Communications
24-hour media line
Phone: +64 21 507 072

CHAIRMAN'S EMAIL: COVID-19 UPDATE

Dear, [name]

As the country is preparing to move into Level 3 of the COVID-19 lockdown, it is timely to share with you some of the things that could impact our global markets and next season.

There are a lot of views out there already and we want to highlight some of the key factors that are affecting us.

It's clear that the COVID-19 outbreak will continue to have an impact on the health and wellbeing of people and economies across the globe for an extended period, likely deep into 2021.

The global recession will impact people's purchasing power and that will be reflected in prices for all products and services. The scale of the impact is impossible for economists to predict right now.

As a food producer of New Zealand dairy, our Co-op is better placed than a lot of other industries, but we are still being impacted.

Progress to date within New Zealand to contain the virus is great news for us here at home. With your support in following official advice and new health and safety precautions, we're keeping our people safe and our milk flowing into our key export markets.

Ultimately, it is progress containing the virus in these markets that impacts our performance.

Key amongst those markets is China. That economy is slowly returning to a new normal. Chinese bidders returned to the last GlobalDairyTrade auction at levels closer to their historic participation. We are starting to see key foodservice outlets such as Starbucks and McDonald's re-open their doors in China. While that's good news, there's a lot of recovery still needed in that market.

One of the key strengths of our Co-op is our scale. We export into every region of the world and manufacture a broad range of products. This means that, even in challenging times like this, we can put your milk into the places and products that will deliver as much value as possible.

You may have seen coverage of our EU and US peers pouring their milk down the drain due to the impact of COVID-19 on their supply chains.

The US are the world's second largest milk producer and their milk volumes were forecast to be up by as much as 2% year-on-year.

Milk supply in Latin America, the UK and EU is also expected to be up on last year, with good growing conditions for UK and EU farmers as they went into their spring peak.

This is likely to disrupt the global supply/demand balance that has supported solid milk prices in the 2019/20 season.

We will announce our opening forecast Farmgate Milk Price range for the coming 2020/21 season in late May. We will be considering the high levels of uncertainty that we are seeing across the world, stronger supply signals from key dairy regions, and the NZ/US exchange rate as we forecast what prices could be more than a year from now.

We encourage you to consider the level of global uncertainty we are all seeing now and out into the future and be cautious with your significant on-farm decisions.

There is no update to the forecast milk price range for the current 2019/20 season at this stage. We have already contracted a high percentage of milk sales for the current season and this is helping us manage the impact of COVID-19.

John.