

APRIL 2020

# Global Dairy UPDATE



- New Zealand monthly production down. Australia, EU and US production up.

- Fonterra and YFood partnership.



- New Zealand and Australia monthly exports decline. Increase in monthly exports from the US and EU.



- China records decline for first two months of 2020. Asia, Middle East and Africa monthly imports down.

- Partnering to help out where we can - delivering milk and food to those in need.
- Our cheese and butter bring home the bacon.



- Fonterra's milk collection across New Zealand for the 10 months to 31 March reached 1,341 million kgMS, down 0.3% on last season. Australia milk collection decreased 13.9% to 85.3 million kgMS for the season to 31 March 2020.

## Key Dates



May/June 2020  
FY20 Q3 Business Update

1 June 2020  
Measurement Date for Share  
Standard 2020/21 Season

31 July 2020  
End of Financial Year 2020



## New Zealand monthly production down. Australia, EU and US production up

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

### NEW ZEALAND

**1.9%↓**

Change for March 2020 compared to March 2019

**1.1%↓**

Change for the 12 months to March 2020

**New Zealand milk production<sup>1</sup>** was down 1.9% on a litres basis (up 0.1% on a milk solids basis) in March compared to March last year.

Continued drought conditions for many locations across New Zealand, particularly in the upper North Island affected milk production in March. This has prompted some farmers to dry-off herds earlier than usual.

New Zealand milk production for the 12 months to March was 1.1% lower than last year.<sup>2</sup>

Fonterra collections are reported for March, see page 5 for details.

### AUSTRALIA

**8.1%↑**

Change for February 2020 compared to February 2019

**4.4%↓**

Change for the 12 months to February 2019

**Australia milk production<sup>2</sup>** increased 8.1% in February compared to the same period last year.

With rainfall in many regions offsetting the impact of dry conditions milk production is showing signs of recovery, driven by growth in output from regions in Victoria and Tasmania.

Production for the 12 months to February was down 4.4% on the previous 12 months.<sup>2</sup>

Fonterra collections in Australia are reported for March, see page 5 for details.

### EUROPEAN UNION

**4.4%↑**

Change for February 2020 compared to February 2019

**1.0%↑**

Change for the 12 months to February 2020

**EU milk production<sup>2</sup>** increased by 4.4% in February compared to the same period last year.

The largest production growth was seen in Spain (up 9.2%) followed by France (5.3%), The Netherlands (5.1%) and Germany (4.5%).

Milk production is beginning to improve at a time when global demand uncertainty and supply chain bottle-necks are weighing on the market.

EU milk production for the 12 months to February was up by 1.0% compared to the same period last year.<sup>2</sup>

### USA

**2.2%↑**

Change for March 2020 compared to March 2019

**1.1%↑**

Change for the 12 months to March 2020

**US milk production** increased by 2.2% in March compared to March last year. Milk production continued to grow in March, as spring volumes started to ramp up and the result of prior months' steady increases in herd sizes and in milk per cow becomes apparent.

Some dairy producers have been dumping milk, as they struggle with a lack of demand due to restaurant and school closures amid the COVID-19 crisis.

Milk production for the 12 months to March was 1.1% higher compared to the same period last year.<sup>2</sup>

<sup>1</sup> New Zealand production is measured in litres.

<sup>2</sup> 2020 production numbers include one extra day of production in February as 2020 is a leap year.



## New Zealand and Australia monthly exports decline. Increase in monthly exports from the US and EU

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

### NEW ZEALAND

**5.9%↓**

Change for February 2020 compared to February 2019

**3.7%↑**

Change for the 12 months to February 2020

**Total New Zealand dairy exports** decreased by 5.9%, or 18,713 MT, in February compared to the same period last year. This was primarily driven by decreased demand for butter from Iran and for fluid milk products from China, down a combined 19,132 MT.

Exports for the 12 months to February were up 3.7%, or 124,237 MT, on the previous comparable period. This was primarily driven by WMP, fluid milk products, cheese and infant formula, up a combined 129,269 MT.

### AUSTRALIA

**16.0%↓**

Change for February 2020 compared to February 2019

**7.6%↓**

Change for the 12 months to February 2020

**Australia dairy exports** decreased 16.0%, or 10,448 MT, in February compared to the same period last year. This was primarily driven by fluid milk products, WMP, SMP and whey, down a combined 8,756 MT.

Exports for the 12 months to January were down 7.6%, or 59,868 MT, on the previous comparable period.

Declines were recorded across a broad range of products with SMP, whey, cheese and WMP down 78,966 MT, but partially offset by increases in fluid milk products up 29,955 MT.

### EUROPEAN UNION

**0.8%↑**

Change for January 2020 compared to January 2019

**6.6%↑**

Change for the 12 months to January 2020

**EU dairy exports** increased by 0.8%, or 3,755 MT, in January compared to the same period last year. This was mainly driven by increases in cheese and butter to the US, butter to the Middle East, fluid milk products to China and AMF to Saudi Arabia, up a combined 28,212 MT, and largely offset by a decrease in SMP exports to Asia of 25,167 MT.

Exports for the 12 months to January were up 6.6%, or 359,421 MT, on the previous comparable period. Fluid milk products, SMP, butter and cheese were the main drivers of this growth, up a combined 348,635 MT.

### USA

**5.4%↑**

Change for February 2020 compared to February 2019

**2.0%↓**

Change for the 12 months to February 2020

**US dairy exports** increased 5.4%, or 9,621 MT, in February compared to the same period last year, albeit at a slower pace than prior months.

The increase was driven by WPC and lactose, up a combined 8,997 MT. Whey exports to China also continued to grow after months of sustained declines, up 2,569 MT. Cheese exports to Mexico slowed, down 1,868 MT.

Exports for the 12 months to February 2020 were down 2.0%, or 48,190 MT, on the previous comparable period, driven by whey and AMF, down a combined 74,313 MT, but partially offset by an increase in WMP and fluid milk products.



## China records decline for first two months of 2020. Asia, Middle East and Africa monthly imports down

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

### LATIN AMERICA

**4.1%↑**

Change for January 2020 compared to January 2019

**1.4%↓**

Change for the 12 months to January 2020

**Latin America dairy import volumes<sup>1</sup>** increased 4.1%, or 6,867 MT, in January compared to the same period last year. This was driven by increased demand for WMP from Colombia and Chile and for cheese from Mexico, up a combined 6,725 MT.

Imports for the 12 months to January 2020 were down 1.4%, or 28,274 MT, compared to the same period the previous year. Decreases were driven primarily by infant formula, and whey, down a combined 47,519 MT, but largely offset by increased WPC, up 22,017 MT.

### ASIA

**8.9%↓**

Change for January 2020 compared to January 2019

**0.2%↑**

Change for the 12 months to January 2020

**Asia (excluding China) dairy import volumes<sup>1</sup>** decreased 8.9%, or 36,884 MT, in January compared to the same period last year. Decreases were recorded in SMP, fluid milk products and whey down 31,765 MT.

Imports for the 12 months to January were up 0.2%, or 10,084 MT, compared to the same period the previous year.

Growth was recorded across cheese, butter and lactose, up a combined 48,111 MT, but offset by decreases in whey and infant formula, down 29,593 MT.

### MIDDLE EAST & AFRICA

**13.7%↓**

Change for January 2020 compared to January 2019

**2.7%↓**

Change for the 12 months to January 2020

**Middle East and Africa dairy import volumes<sup>1</sup>** decreased 13.7% or 50,445 MT, in January compared to the same period last year. Decreases were recorded principally in infant formula to Nigeria, fluid milk product to Libya and WMP to Algeria, down a combined 45,440 MT.

Imports for the 12 months to January 2020 were down 2.7%, or 114,676 MT, compared to the same period last year. This was driven by large decreases in WMP and fluid milk products, down a combined 120,894 MT, and partly offset by an increase in infant formula of 38,494 MT.

### CHINA

**1.4%↓**

Change January-February 2020 compared to same period 2019

**7.7%↑**

Change for the 12 months to February 2020

**China dairy import volumes** decreased by 1.4%, or 9,056 MT, in the January-February period compared to the same period last year. Based on updated aggregated data for January and February, the decrease was the result of lower volumes of SMP (21.6% or 20,875 MT), WMP (4.9% or 11,358 MT) and lactose (25.3% or 4,495 MT), partially offset by an increase in butter, fluid milk products and whey, up a combined 26,153 MT.

COVID-19-related public health measures put in place in February are likely to have impacted China's imports.

New Zealand's exports to China reduced by 1.5% over this period.

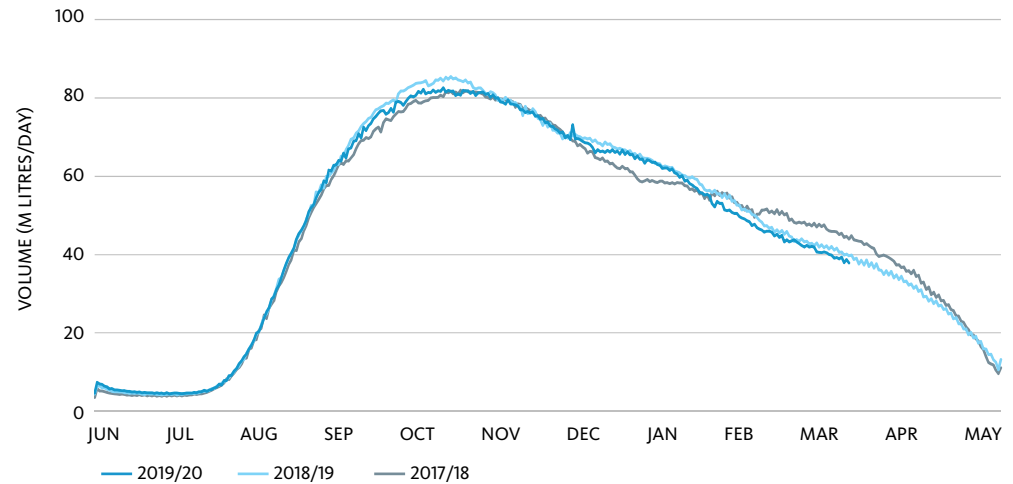
<sup>1</sup> Estimates are included for those countries that have not reported data.

# Fonterra Milk Collection 2019/20 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

# 1.2%↓

Change for March 2020 compared to March 2019

# 0.3%↓

Season to date 1 June to 31 March

**Fonterra's New Zealand collection** in March, was 128 million kgMS, down 1.2% on the same month last season.

Season-to-date collection was 1,340.9 million kgMS, 0.3% behind collections at the same time last season.

March was drier than usual across most of the country, although some regions did see periods of significant rainfall. The dry conditions continued to weigh on North Island milk supply through March, while South Island production levels have held well.

### NORTH ISLAND

# 6.6%↓

Change for March 2020 compared to March 2019

# 1.5%↓

Season to date 1 June to 31 March

**North Island** milk collection in March was 63.5 million kgMS, down 6.6% on last March.

Season-to-date collection was 793.5 million kgMS, down 1.5% on last season.

Drought conditions continued throughout March in the North Island, significantly impacting milk production, particularly in northern regions.

The end of the month saw more meaningful rainfall bringing relief to some regions.

### SOUTH ISLAND

# 4.7%↑

Change for March 2020 compared to March 2020

# 1.4%↑

Season to date 1 June to 31 March

**South Island** milk collection in March was 64.5 million kgMS, up 4.7% on last March.

Season-to-date collection was 547.4 million kgMS, up 1.4% on last season.

South Island milk production continues to hold. Conditions on farm are reported as good, with pasture cover and cow condition both in good shape heading into autumn.

### AUSTRALIA

# 2.9%↓

Change for March 2020 compared to March 2019

# 13.9%↓

Season to date 1 July to 31 March

**Fonterra's Australia collection** in March was 8.0 million kgMS, down 2.9% on March last season.

Average to above-average rainfall and moderate summer temperatures for much of Australia in March improved seasonal conditions and the milk production outlook for the remainder of the season.

Season-to-date collections reached 85.3 million kgMS, down 13.9% on the same period last season. Fonterra milk collections have been impacted by the highly competitive milk supply market with losses primarily to milk brokers. Fonterra also decided to purchase less third-party milk to focus on a value-add product mix.

## OUR MARKETS

# Fonterra Global Dairy Trade Results



Fonterra GDT results at  
last trading event  
**21 April 2020:**

**4.2%**↓

Change in Fonterra's  
weighted average product  
price from previous event

**USD 2,896**

Fonterra's weighted  
average product price  
(USD/MT)

**19.7** 000' MT

Fonterra product quantity  
sold on GDT

### CHEDDAR

**1.9%**↑

USD 4,480/MT

### RENNET CASEIN

**3.2%**↓

USD 9,409/MT

### BUTTER

**3.4%**↓

USD 4,117/MT

### WMP

**4.0%**↓

USD 2,707/MT

### SMP

**5.8%**↓

USD 2,431/MT

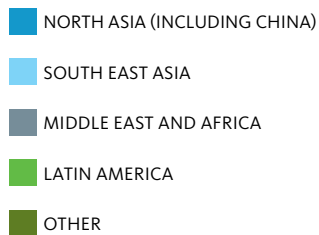
### AMF

**8.5%**↓

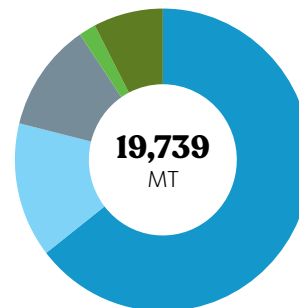
USD 3,975/MT

Fonterra GDT sales  
by destination:

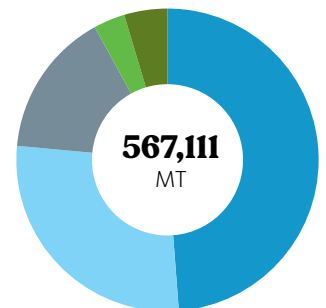
To view more information,  
including a snapshot of the  
rolling year-to-date results –



### LATEST AUCTION



### FINANCIAL YEAR-TO-DATE

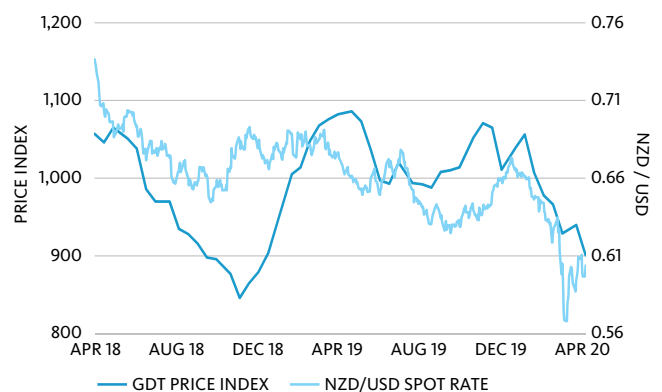


► The next trading event will be held on 5 May 2020. Visit [www.globaldairytrade.info](http://www.globaldairytrade.info) for more information.

## Dairy commodity prices and New Zealand dollar trend

COVID-19 continued to spread across the globe and by mid-March the World Health Organisation had officially classified the outbreak a 'pandemic'. Most developed nations moved into various states of 'lock-down' in an effort to slow the spread of the

virus and allow their health systems to cope, however, these efforts also resulting in economic contraction. New Zealand has adopted a similar approach, with the forecast domestic economic downturn weakening the NZ dollar to below 60 US cents.



# Our Performance

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## Fonterra and YFood partnership

Fonterra has partnered with one of Germany's fastest-growing start-ups, YFood, to provide research and product development expertise to support YFood's expansion.

YFood is already a market leader in the newly emerging complete food segment and provides innovative "complete food" in the form of drinks, bars and powder for people with busy lifestyles.

Fonterra GM Europe, Thijs Bosch says: "The strategic partnership with the YFood team is a great step to further strengthen Fonterra's position as the leading ingredient solutions supplier in the growing active nutrition market in Europe and beyond.

"We strongly believe that our product development and R&D capabilities will support the YFood team in developing great tasting

products with our range of specialty ingredients.

"This investment in YFood is part of our strategy which includes a focus on advanced ingredients categories that reflect the way consumers enjoy dairy as part of their lifestyles".

In line with this partnership Fonterra has made a small investment of capital.



# Our Co-op



Partnering to help out where we can - delivering milk and food to those in need

When New Zealand went into COVID-19 lock-down Fonterra's In-School programmes (Fonterra Milk for Schools and KickStart Breakfast) let principals know that, at their discretion, they could send product that was already at schools' home with those most in need.

Kickstart Breakfast is a partnership with Sanitarium and the New Zealand Government that provides Anchor™ milk and Weet-Bix™ to all New Zealand Schools. Fonterra Milk for Schools provides free milk to New Zealand primary schools.

With schools closed for at least four weeks, the team switched their focus to see how the Co-operative could do its bit in helping the wider community where it could.

Now, the team are providing nearly one million serves of Anchor™ milk to communities throughout the country.

Together we're delivering nearly

# 1 million

serves of Anchor Milk.

THE SALVATION ARMY

Whānau Ora

KIWI HARVEST  
RESCUING FOOD • NOURISHING COMMUNITIES

eat my lunch

Manager of Fonterra's In-School Programmes Vania Martins-Fouche said the team quickly realised that getting milk to these communities during lock-down was something they'd need a bit of help with, so they've enlisted the help of The Salvation Army, Eat My Lunch, Whanau Ora and Kiwi Harvest.

"We were looking for charity partners that had a wider distribution network and would be able to take the milk into the heart of the communities during the lock-down period, the four groups we've chosen fit this bill – it's a real example of Good Together," Vania says.

Good Together are the words we use to talk about our Co-op's purpose, values and strategy.







## Our cheese and butter bring home the bacon

Every year the New Zealand Champions of Cheese Awards celebrate the country's best specialty cheese, yoghurt and butter. Thanks to our farmers' top-quality milk, this year Fonterra, through NZMP™, Anchor Food Professionals™ and our own local cheese brands Kāpiti™ and Mainland™, scooped 20 gold, 18 silver and 14 bronze medals across several different categories.

The New Zealand Champions of Cheese Awards is the only national cheese competition in New Zealand and honours technical excellence in the manufacture of New Zealand cheese. The awards are judged by an independent panel of local and international experts, ranging from cheese-makers to food critics.

Winning a total of 52 medals is a fantastic result and one our farmers and teams can be extremely proud of.

Craig Honore, Fonterra's Cheese Technical Expert, says the standards have been raised for the New Zealand cheese awards, and we were up against tough competition.

"This is great recognition of the quality and the effort that's put in by farmers and our excellent cheese-makers, and the focus they have for making quality products."

It wasn't just cheese bringing home the silverware with our haul including 17 awards (11 gold) for butters made at

Kauri, Edgecumbe, Te Rapa, Te Awamutu, Clandeboye, Whareroa, and Morrinsville. In fact, every butter we entered won an award!

All winners are now in the running for the Category Champion, Trophy & Special Award wins which will be announced in May.

### The Gold Medal Winners were:

- Kāpiti Kikorangi Triple Cream Blue
- Kāpiti Kahurangi Creamy Blue
- Kāpiti Awa Tangy Blue
- Kāpiti Kahikatea Camembert
- Kāpiti Tuteremoana Te Tihi Premium Vintage Aged Cheddar
- Mainland Crumbly Feta
- Fonterra Lichfield NZMP 3MC
- Fonterra Stirling Mild Cheddar
- Anchor Food Professionals Traditional Cream Cheese
- Fonterra Edgecumbe Unsalted Pastry Butter
- Fonterra Kauri NZMP Salted Butter Spreadable
- Fonterra Te Rapa NZMP Unsalted Butter
- Fonterra Kauri NZMP Unsalted Butter
- Fonterra Te Awamutu NZMP Unsalted Butter
- Fonterra Clandeboye NZMP Unsalted Butter
- Fonterra Morrinsville NZMP Salted Butter
- Fonterra Clandeboye NZMP Unsalted Lactic Butter
- Fonterra Whareroa NZMP Unsalted Lactic Butter
- Mainland Reduced Salt Buttersoft
- Mainland Semi-Soft Butter

# Supplementary Information

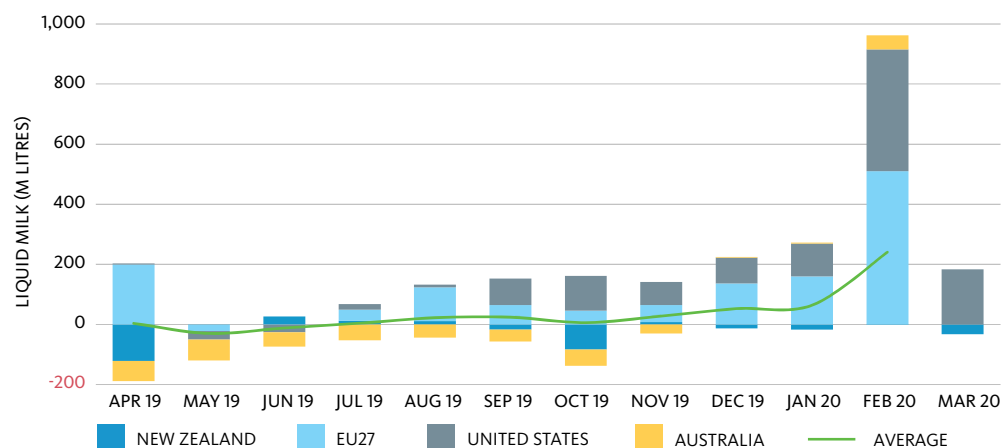
## Global Dairy Market

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.

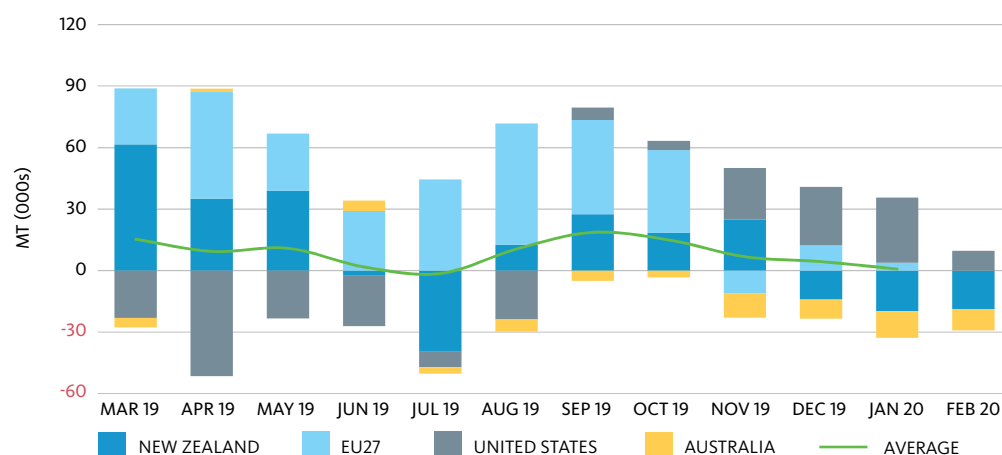
Averages are shown where data is complete for the regions presented.

## PRODUCTION



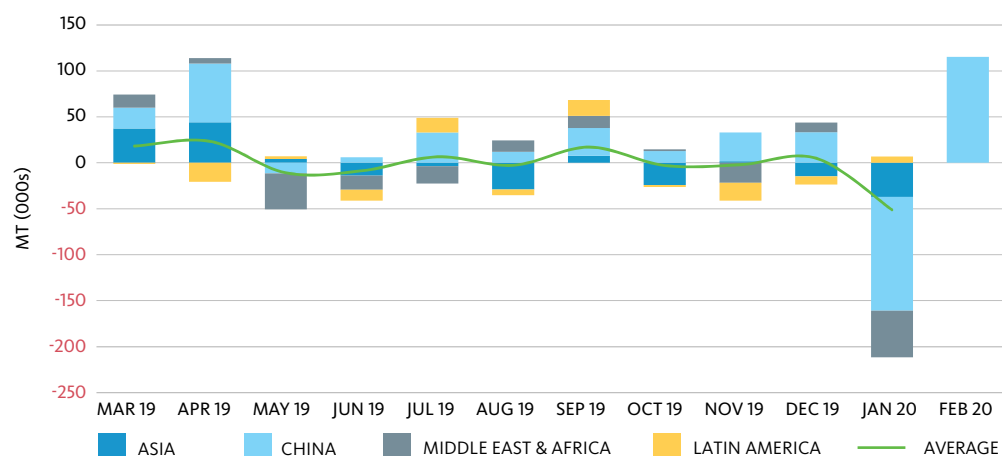
NOTE: Data for EU and Australia to February; New Zealand and US to March.

## EXPORTS



NOTE: Data for EU to January; New Zealand, Australia and US to February.

## IMPORTS



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

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)	MARCH 2020	MARCH 2019	MONTHLY CHANGE	SEASON- TO-DATE 2019/20	SEASON- TO-DATE 2018/19	SEASON- TO-DATE CHANGE
Total Fonterra New Zealand	128.0	129.6	(1.2%)	1,341.0	1,345.2	(0.3%)
North Island	63.5	67.9	(6.6%)	793.5	805.5	(1.5%)
South Island	64.5	61.6	4.7%	547.4	539.7	1.4%
Fonterra Australia	8.0	8.3	(2.9%)	85.3	99.1	(13.9%)

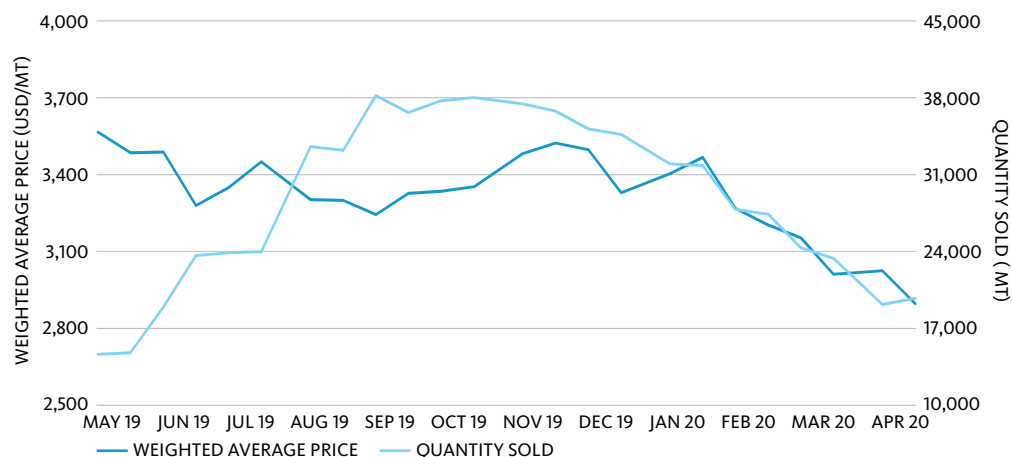
## Fonterra GDT results

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

	LAST TRADING EVENT (21 APRIL 2020)	YEAR-TO-DATE (FROM 1 AUGUST 2019)
Quantity Sold on GDT (Winning MT)	19,739	567,111
Change in Quantity Sold on GDT over same period last year	26.8%	1.9%
Weighted Average Product Price (USD/MT)	2,896	3,312
Change in Weighted Average Product Price over same period last year	(17.4%)	8.8%
Change in Weighted Average Product Price from previous event	(4.2%)	–

## 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 Products

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.

## MPC

Milk Protein Concentrate.

## 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.

## WPC

Whey Protein Concentrate