

JANUARY 2022

# Global Dairy UPDATE



- Monthly production decline observed across all regions.

- Farmers vote in favour of Fonterra's Flexible Shareholding structure.



- Australia and US monthly exports continue to grow. New Zealand and EU monthly exports decline.



- China and Asia monthly imports decline. Middle East and Africa, and Latin America monthly imports up.



- Anchor™ turns the tap on for a more sustainable flat white.



- Fonterra New Zealand milk collection for December was 173.4 million kgMS, down 5.3% on December the prior season.
- Fonterra Australia milk collection for December was 11.3 million kgMS, down 0.6% on December last season.

## Key Dates



December to February 2022  
Application Period to  
Supply Fonterra

17 March 2022  
FY22 Interim Results  
Announcement

May 2022  
FY22 Q3  
Business Update



## Monthly production decline observed across all regions

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

### NEW ZEALAND

**5.0%↓**

Change for December 2021 compared to December 2020

**0.1%↑**

Change for the 12 months to December 2021

**New Zealand milk production<sup>1</sup>** decreased 5.0% on a litres basis, (down 5.5% on milk solids basis) in December compared to December the year prior.

Weather conditions in the early part of December provided good moisture, before becoming dry and very warm in the final week of the month in most regions.

New Zealand milk production for the 12 months to December was flat on the year prior.

Fonterra New Zealand collections are reported for December, see page 5 for details.

### AUSTRALIA

**0.8%↓**

Change for November 2021 compared to November 2020

**0.9%↓**

Change for the 12 months to November 2021

**Australia milk production** decreased 0.8% in November compared to November the year prior.

After forecasting growth of up to 2% for FY22, both Dairy Australia and Rabobank have revised their forecasts down; Rabobank to -1.8% and Dairy Australia to "unlikely to see growth in FY22".

Australia milk production for the 12 months to November was 0.9% lower than the year prior.

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

### EUROPEAN UNION

**0.5%↓**

Change for October 2021 compared to October 2020

**0.1%↑**

Change for the 12 months to October 2021

**EU milk production<sup>2</sup>** decreased 0.5% in October compared to the same period the year prior.

Lower production volumes year on year were driven by Germany, Netherlands and France but partially offset by an increase in Italy's production.

EU milk production for the 12 months to October was up 0.1% compared to the same period the year prior, driven by higher volumes in Italy and Ireland, but largely offset by declines in Germany, France and Netherlands.

### USA

**0.1%↓**

Change for December 2021 compared to December 2020

**1.4%↑**

Change for the 12 months to December 2021

**US milk production** decreased by 0.1% in December, compared to the same period the year prior.

Weaker production was driven by continuing herd size contractions and lower milk per cow yield as input costs remain high.

Milk production for the 12 months to December was 1.4% higher compared to the same period the year prior.

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

<sup>2</sup> Excludes UK.



## Australia and US monthly exports continue to grow. New Zealand and EU monthly exports decline

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

### NEW ZEALAND

**0.6%**↓

Change for November 2021 compared to November 2020

**3.5%**↑

Change for the 12 months to November 2021

**Total New Zealand dairy exports** decreased by 0.6%, or 2,505 MT, in November compared to the same period the year prior.

Lower shipments of SMP, AMF, WMP and butter to South East Asia were partially offset by record shipments of fluid milk products to China.

Exports for the 12 months to November were up by 3.5%, or 121,319 MT, on the previous comparable period. This was primarily driven by WMP, fluid milk product and cheese.

### AUSTRALIA

**66.1%**↑

Change for November 2021 compared to November 2020

**17.8%**↑

Change for the 12 months to November 2021

**Australia dairy exports** increased 66.1%, or 43,558 MT, in November compared to the same period the year prior.

November exports were higher than normal, driven by high demand from China for fluid milk products, up 30,739 MT, and an increase in SMP and cheese exports.

Exports for the 12 months to November were up 17.8%, or 132,202 MT, on the previous comparable period.

This was predominantly driven by increases in fluid milk products, and also SMP and WMP, but partially offset by declines in infant formula.

### EUROPEAN UNION

**4.5%**↓

Change for October 2021 compared to October 2020

**0.4%**↑

Change for the 12 months to October 2021

**EU dairy exports** decreased 4.5%, or 26,476 MT, in October compared to the same period the year prior.

Lower exports of cultured products, cheese and infant formula, down a combined 27,261 MT, were partially offset by stronger demand for MPC, whey, lactose and SMP.

Exports for the 12 months to October were up 0.4%, or 25,175 MT, on the previous comparable period, driven by increases in fluid milk products and whey, and partially offset by declines in cultured products, infant formula, butter and WMP.

### USA

**19.8%**↑

Change for November 2021 compared to November 2020

**10.4%**↑

Change for the 12 months to November 2021

**US dairy exports** increased 19.8%, or 38,210 MT, in November compared to the same period the year prior with gains observed across most product categories.

Strong demand for SMP and cheese to Mexico, as well as lactose to China and Singapore, are driving this increase.

Exports for the 12 months to November 2021 were up 10.4%, or 260,989 MT, on the previous comparable period, driven by whey, SMP, cheese, fluid milk products and butter, up a combined 244,854 MT.



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

## China and Asia monthly imports decline. Middle East and Africa, and Latin America monthly imports up

### LATIN AMERICA

**6.2%↑**

Change for October 2021 compared to October 2020

**3.8%↑**

Change for the 12 months to October 2021

**Latin America dairy import volumes<sup>1</sup>** increased 6.2%, or 10,356 MT, in October compared to the same period the year prior.

The increase was driven by higher demand for cheese to Mexico and Dominican Republic.

Imports for the 12 months to October were up 3.8%, or 75,732 MT, compared to the same period the year prior.

### ASIA

**0.4%↓**

Change for October 2021 compared to October 2020

**1.5%↓**

Change for the 12 months to October 2021

**Asia (excluding China) dairy import volumes<sup>1</sup>** decreased 0.4%, or 1,441 MT, in October compared to the same period the year prior.

The decrease was driven by lower volumes of fluid milk products to Taiwan, partially offset by higher demand for whey to Indonesia and Bangladesh.

Imports for the 12 months to October were down 1.5%, or 74,048 MT, compared to the same period the year prior, driven by lower volumes of WMP and SMP, and offset by an increase in whey and cheese.

### MIDDLE EAST & AFRICA

**30.1%↑**

Change for October 2021 compared to October 2020

**3.7%↑**

Change for the 12 months to October 2021

**Middle East and Africa dairy import volumes<sup>1</sup>** increased 30.1%, or 103,043 MT, in October compared to the same period the year prior.

The increase was predominantly driven by higher volumes of SMP to Algeria, and of fluid milk products and cheese to Iraq.

Imports for the 12 months to October were up 3.7%, or 179,882 MT, compared to October the year prior, driven by increases in cheese, infant formula and ice cream.

### CHINA

**13.0%↓**

Change for December 2021 compared to December 2020

**18.0%↑**

Change for the 12 months to December 2021

**China dairy import volumes** decreased by 13.0%, or 42,365 MT, in December compared to December 2020, which was a record month for China imports.

Declines were observed in WMP and SMP import volumes as supply is limited. Whey imports were also down as hog herds in China decline, decreasing the demand for whey as feed.

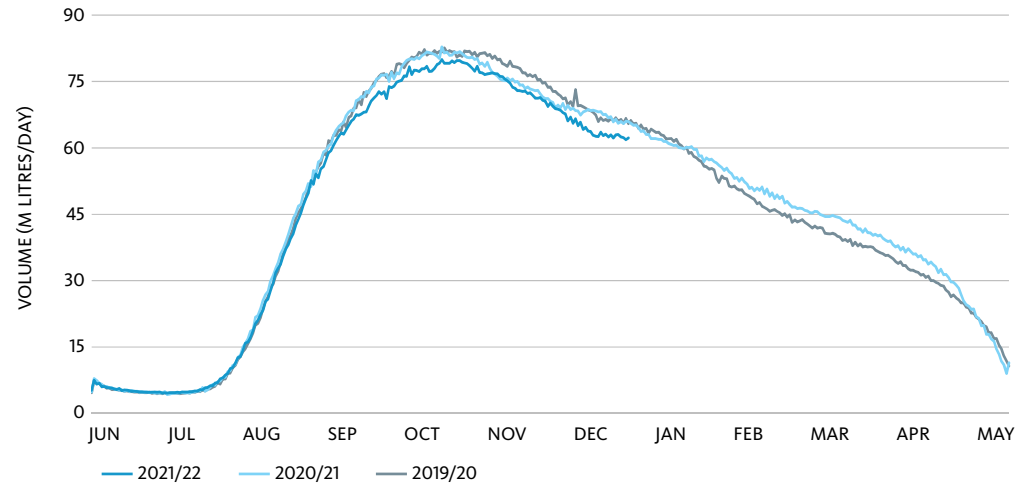
Imports for the 12 months to December were up 18.0%, or 630,474 MT, driven by fluid milk products, WMP, whey and SMP, partially offset by decreases in infant formula.

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



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

**5.3%↓**

Change for December 2021 compared to December 2020

**3.1%↓**

Season-to-date 1 June to 31 December

**Fonterra's New Zealand collections** for December were 173.4 million kgMS, 5.3% down on last December. Season-to-date collections are 874.6 million kgMS, 3.1% behind last season.

Settled weather across most of the country at the beginning of December gave way to heavy rain that moved up the South Island to the lower North Island. Warm and fine weather returned in the final week of the month, leading into a very warm new year, bringing with it a watch out for heat stress in some areas.

#### NORTH ISLAND

**7.0%↓**

Change for December 2021 compared to December 2020

**3.2%↓**

Season-to-date 1 June to 31 December

**North Island** milk collections in December were 98.3 million kgMS, 7.0% lower than December last season.

Season-to-date collections are 543.1 million kgMS, 3.2% behind last season.

Near record temperatures and periods of heavy rain in many regions contributed to poor grass quality across much of the North Island. Early December collections reduced sharply before showing some recovery in the second half of the month, but not enough to make up the lost ground.

#### SOUTH ISLAND

**2.9%↓**

Change for December 2021 compared to December 2020

**3.1%↓**

Season-to-date 1 June to 31 December

**South Island** milk collections in December were 75.1 million kgMS, 2.9% lower than December last season.

Season-to-date collections are 331.4 million kgMS, 3.1% behind last season.

The South Island was generally less impacted than the North Island by the weather and pasture quality issues. Otago and Southland were the only regions in the country where December collections remained consistent at or above December last season.

#### AUSTRALIA

**0.6%↓**

Change for December 2021 compared to December 2020

**1.2%↓**

Season-to-date 1 July to 31 December

**Fonterra's Australia collections** for December were 11.3 million kgMS, a 0.6% decrease on December last season.

Fonterra collections across Australia for the season-to-date are 58.3 kgMS, a 1.2% decline on last season.

After wetter and cooler spring conditions, rainfall totals in December were well below average reducing growth rates and pasture availability, resulting in poor quality silage.

### Outlook for Fonterra in New Zealand

**NZD per kgMS**  
**8.90–9.50**  
Forecast Farmgate Milk Price for the 2021/22 season

**1,500M kgMS**

Forecast milk collection for the 2021/22 season

## OUR MARKETS

# Fonterra Global Dairy Trade Results



Fonterra GDT results at  
last trading event  
**18 January 2022:**

**5.0%**↑

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

**USD 4,473**

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

**30.0**<sup>000</sup> MT

Fonterra product quantity  
sold on GDT

### WMP

**5.6%**↑

USD 4,082/MT

### SMP

**5.0%**↑

USD 3,960/MT

### BUTTER

**4.9%**↑

USD 6,158/MT

### CHEDDAR

**1.1%**↑

USD 5,546/MT

### AMF

**0.8%**↑

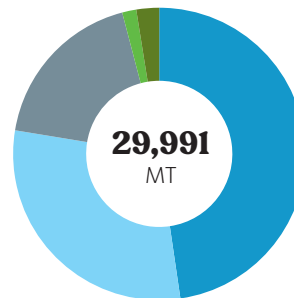
USD 6,720/MT

Fonterra GDT sales  
by destination:

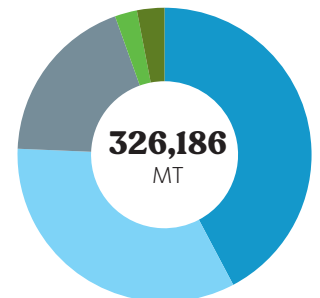
To view more information,  
including a snapshot of the  
rolling year-to-date results –



### LATEST AUCTION



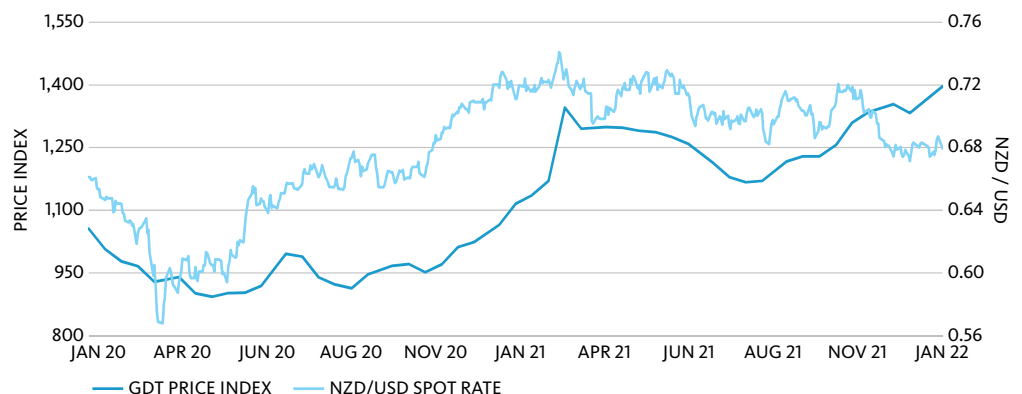
### FINANCIAL YEAR-TO-DATE



► The next trading event will be held on 1 February 2022. Visit [www.globaldairytrade.info](http://www.globaldairytrade.info) for more information.

## Dairy commodity prices and New Zealand dollar trend

The NZD/USD stabilised around 68 US cents through the summer holiday period and into January. The NZD faces headwinds from a strengthening USD and a cooling Chinese economy, however, it remains supported by strong commodity prices and rising domestic interest rates.





# Our Performance



## Farmers vote in favour of Fonterra's Flexible Shareholding structure

Fonterra shareholders have given the Co-operative's new Flexible Shareholding structure the green light with 85.16% of the total farmer vote in support of the proposal.

The final votes on the capital structure proposal were cast at a Special Meeting in Invercargill on 9 December 2021.

Chairman Peter McBride says the Board and Management are united in the belief that the Flexible Shareholding structure is the best course of action for the Co-operative.

"Our farmers have agreed. We have received a strong mandate for change with 85.16% of votes cast in favour of the proposal and 82.65% of eligible votes being cast.

"Changing our capital structure is the most important decision we as farmers have made in almost a decade. The results of this year's Annual Meeting resolutions were all above

80%, which shows farmers are united in their support for the direction of the Co-op. Our full focus is now on delivering the strategic commitments we have made.

"I would like to thank everyone who voted and the thousands of farmers who gave us their time and ideas during the consultation period, which helped us to shape the proposal into the model that was successfully passed in December."

With a clear farmer mandate for change, Fonterra is continuing to work with the Government on how to effect the changes under the Dairy Industry Restructuring Act (DIRA), the legislation that enabled the formation of Fonterra back in 2001.

"I believe we are philosophically aligned with the Government and remain confident that we can find a regulatory framework that supports the Flexible Shareholding structure.

"The strong mandate we received will support our conversations with the Government as we continue to work together to find a mutually acceptable outcome.

"We will continue to keep farmers and unit holders updated as these conversations progress."

The Flexible Shareholding structure will come into effect once the Board is satisfied that any steps necessary for implementation have been (or will be) completed. The Co-operative is aiming to implement the changes as soon as possible from the beginning of next season.

Share compliance obligations will remain on hold until at least six months after the new structure is effective. The current cap on the Fonterra Shareholders' Fund remains in place as a cap is a feature of the Flexible Shareholding structure.



Anchor™ turns the tap on for a more sustainable flat white



Fancy your latte or flat white from a source that produces less waste and is better for the environment?

Our Fonterra Brands New Zealand (FBNZ) team is kicking off an exciting trial which will see baristas making the same great coffee, but with a more sustainable pour, using 'Anchor™ café milk taps'.

This is another step in Anchor™ taking a leadership position around sustainability and follows on from the launch of Anchor's plant-based bottle and the specialised milks range being carbon zero (Anchor™ Organic, Protein+, Zero Lacto, Silver Top and Calci+).

FBNZ Director for Marketing, Mike Boness says: "The Anchor™ café milk tap is connected to a recyclable 10 litre bladder, filled

with milk, which replaces five 2-litre standard milk bottles and results in 65% less plastic."

"Cafés and coffee shops will also benefit because the milk tap measures the precise amount of milk into coffee cups, which means less waste and ultimately reduces their costs," says Mike.

Anchor will be trialling 10 milk taps across the country and taking feedback from customers.

The first trial café is Emporio Coffee located in Wellington, the coffee capital of New Zealand.

Eric Heycoop, Emporio Coffee Owner, says he's excited about the taps as more people are wanting to know that their food and drinks are being served more sustainably.

"Because there is less waste and spillage with every pour from the taps, it means less cost for us and increased productivity and time savings for the baristas making coffee."

"From our perspective it also enhances the whole café experience because it gives us more time to connect with our customers," says Eric.

Mike Boness says, "the Open Innovation Team from Fonterra Research Development Centre in Palmerston North has conducted an evaluation of the available tap systems. The MilkIt system (supplied out of Israel) was recommended as the best fit for Anchor™ proceeding to trial in cafés."



# Supplementary Information

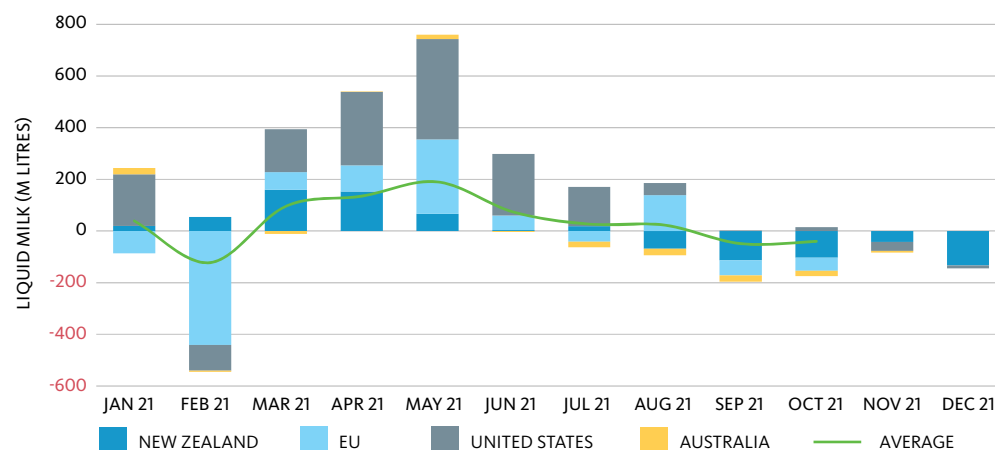
## Global Dairy Market

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.

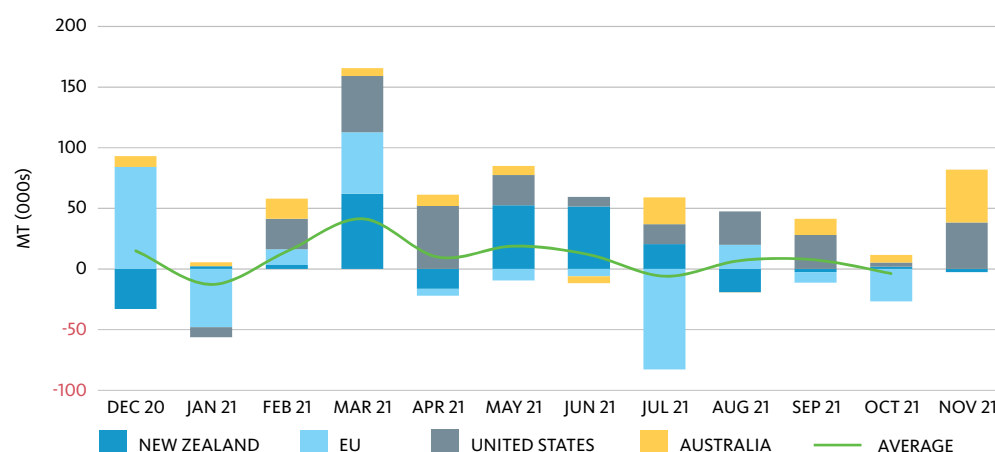
Averages are shown where data is complete for the regions presented.

## PRODUCTION



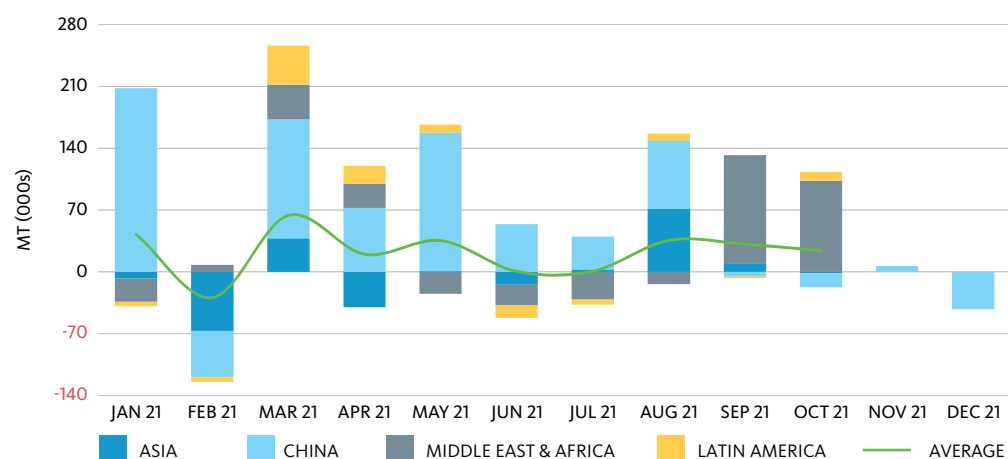
NOTE: Data for EU to October; Australia to November; New Zealand and US to December.

## EXPORTS



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

## IMPORTS



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

SOURCES: Government milk production statistics (DCANZ, Dairy Australia, Eurostat, USDA)/GTA 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)	DECEMBER 2021	DECEMBER 2020	MONTHLY CHANGE	SEASON- TO-DATE 2021/22	SEASON- TO-DATE 2020/21	SEASON- TO-DATE CHANGE
Total Fonterra New Zealand	173.4	183.1	(5.3%)	874.6	902.9	(3.1%)
North Island	98.3	105.8	(7.0%)	543.1	560.9	(3.2%)
South Island	75.1	77.3	(2.9%)	331.4	342.0	(3.1%)
Australia	11.3	11.4	(0.6%)	58.3	59.0	(1.2%)

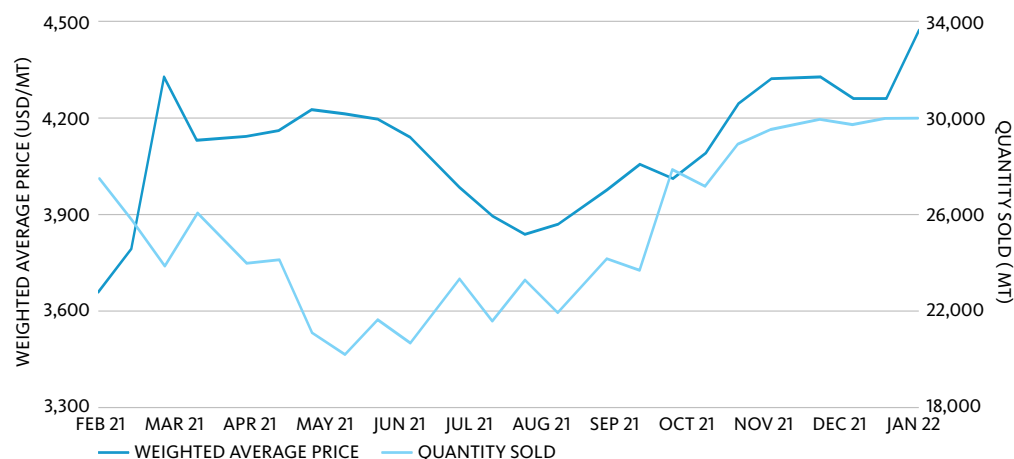
## Fonterra GDT results

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

	LAST TRADING EVENT (18 JANUARY 2022)	YEAR-TO-DATE (FROM 1 AUGUST 2021)
Quantity Sold on GDT (Winning MT)	29,991	326,186
Change in Quantity Sold on GDT over same period last year	5.0%	(15.8%)
Weighted Average Product Price (USD/MT)	4,473	4,163
Change in Weighted Average Product Price over same period last year	23.3%	30.0%
Change in Weighted Average Product Price from previous event	5.0%	–

## 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.