



OCTOBER 2019

# Global Dairy UPDATE



- Early season production in New Zealand in line with last season. US and EU production flat 12 months.

- India's foodservice sector has a new partner in Anchor™ Food Professionals.



- Exports from New Zealand and the EU show strong growth. US and Australia monthly exports continue to decline.



- China, Asia and Latin America imports increase. Middle East & Africa monthly imports down.

- Fonterra appoints Chief Operating Officer.
- Fonterra GoodSorts taking GoodYarn to the next level.



- Fonterra's milk collection across New Zealand reached 309 million kgMS, up 0.8% on last season and accounts for 20% of forecast total season production.

## Key Dates



**7 November 2019**  
Fonterra Annual Meeting  
Invercargill

**11 November 2019**  
Fonterra Shareholders' Fund  
Annual Meeting Auckland

**November/December 2019**  
FY20 Q1 Business Update

**20 April 2020**  
Share Standard Compliance  
2019/20 Season



## Early season production in New Zealand in line with last season. US and EU production flat 12 months

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

### NEW ZEALAND

**0.7%** ↓

Change for September 2019 compared to September 2018

**1.2%** ↑

Change for the 12 months to September 2019

**New Zealand milk production<sup>1</sup>** was down 0.7% on a litre basis but was up 0.7% on a milk solids basis in September compared to the same period last year. The variance between milk solids and liquid milk indicates improved pasture quality from last September.

Despite several cold snaps in parts of the South Island, average temperatures were recorded across much of the country and on-farm pasture conditions remain good.

New Zealand milk production for the 12 months to September was 1.2% higher than last year.

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

### AUSTRALIA

**5.9%** ↓

Change for August 2019 compared to August 2018

**6.2%** ↓

Change for the 12 months to August 2019

**Australia milk production** decreased 5.9% in August compared to the same period last year.

Production for the 12 months to August was down 6.2% on the previous 12 months.

The Bureau of Meteorology spring/summer forecasts are for well-below-average rainfall and well-above-average temperatures across the majority of Australia which will continue to pressure on milk production if the seasonal forecast materialises.

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

### EUROPEAN UNION

**1.0%** ↑

Change for August 2019 compared to August 2018

**0.0%** ↑

Change for the 12 months to August 2019

**EU milk production** increased by 1.0% in August compared to the same period last year.

Production growth was seen from key exporting countries such as Poland (2.2%), Spain (3.5%), Ireland (2.2%), Germany (0.6%), and France (0.8%).

EU milk production for the 12 months to August was flat compared to the same period last year. Significant increases in Ireland, United Kingdom and Poland's yearly production were offset by large declines in production in the Netherlands, France and in Italy.

### USA

**1.3%** ↑

Change for September 2019 compared to September 2018

**0.3%** ↑

Change for the 12 months to September 2019

**US milk production** increased by 1.3% in September compared to the same period last year.

Despite a continued decline in cow numbers, an increase in milk per cow in September drove production higher and may indicate a return to production growth in the coming months.

Milk production for the 12 months to September was 0.3% higher compared to the same period last year.

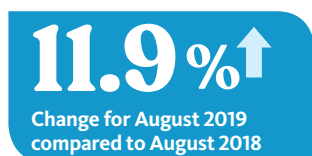
<sup>1</sup> New Zealand production is measured in litres.



# Exports from New Zealand and the EU show strong growth. US and Australia monthly exports continue to decline

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

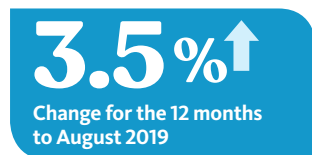
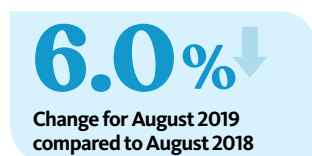
## NEW ZEALAND



**Total New Zealand dairy exports** increased by 11.9%, or 14,088 MT, in August compared to the same period last year. This was primarily driven by fluid milk products, SMP and infant formula, up a combined 18,500 MT. This was partially offset by a decrease in butter and AMF exports, down a combined 4,515 MT.

Exports for the 12 months to August were up 7.0%, or 228,808 MT, on the previous comparable period. This was primarily driven by WMP and fluid milk products, up a combined 206,348 MT.

## AUSTRALIA

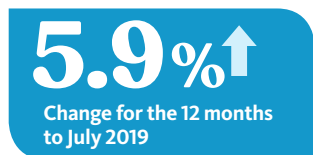
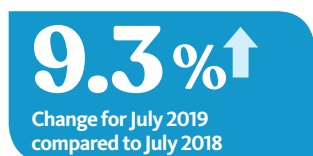


**Australia dairy exports** decreased by 6.0%, or 3,449 MT, in August compared to the same period last year. This was primarily driven by SMP, cheese, infant formula and whey, down a combined 8,591 MT but largely offset by an increase in fluid milk products of 6,896 MT.

Exports for the 12 months to August were up 3.5%, or 26,613 MT, on the previous comparable period.

Fluid milk products, infant formula and butter were the main drivers of this 12-month growth, up a combined 63,131 MT while WMP, cheese and SMP declined by 33,349 MT.

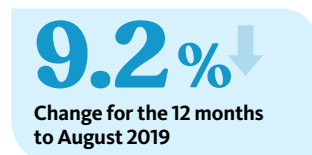
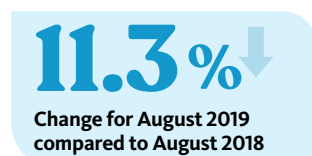
## EUROPEAN UNION



**EU dairy exports** increased by 9.3%, or 44,264 MT, in July compared to the same period last year. This was driven by increases across all products but primarily by SMP, butter, cheese and casein, up 30,990 MT.

Exports for the 12 months to July were up, 5.9%, or 314,183 MT, on the previous comparable period. SMP fluid milk products, lactose and cheese were the main drivers of this growth, up a combined 345,172 MT. This was partially offset by a decline in WMP, down 62,720 MT.

## USA



**US dairy exports** decreased 11.3%, or 23,723 MT, in August compared to the same period last year. SMP, whey, lactose and WPC were the main drivers of this decline, down a combined 24,910 MT. The downturn in whey for feed as a result of African swine fever continues to have a negative impact on whey exports to China.

Exports for the 12 months to August 2019 were down 9.2%, or 223,761 MT on the previous comparable period.

The decrease was driven by whey, SMP, WPC and lactose, down a combined 241,593 MT.



## China, Asia and Latin America imports increase. Middle East & Africa monthly imports down

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

### LATIN AMERICA

**9.8%↑**

Change for July 2019 compared to July 2018

**3.6%↑**

Change for the 12 months to July 2019

**Latin America dairy import volumes<sup>1</sup>** increased 9.8%, or 15,703 MT, in July compared to the same period last year. This was driven by increases in WMP, SMP, fluid milk products and WPC, up a combined 15,878 MT.

Mexico and Peru are the main drivers behind the year-on-year fluctuation.

Imports for the 12 months to July 2019 were up 3.6%, or 67,985 MT, compared to the same period the previous year. Increases were recorded across a broad range of products with SMP, WMP, and fluid milk products up by a combined 76,440 MT.

### ASIA

**1.1%↓**

Change for July 2019 compared to July 2018

**5.1%↑**

Change for the 12 months to July 2019

**Asia (excluding China) dairy import volumes<sup>1</sup>** decreased 1.1% or 4,676 MT, in July compared to the same period last year. Decreases were recorded across a broad range of products with SMP, infant formula, ice cream and fluid products down 10,634 MT but partially offset by increases in whey, MPC and cheese, up 6,876 MT.

Imports for the 12 months to July were up 5.1%, or 240,404 MT, compared to the same period the previous year. Growth continues across a broad range of products with SMP, fluid milk products, WMP and lactose up a combined 223,312 MT.

### MIDDLE EAST & AFRICA

**4.5%↓**

Change for July 2019 compared to July 2018

**5.7%↓**

Change for the 12 months to July 2019

**Middle East and Africa dairy import volumes<sup>1</sup>** decreased 4.5% or 15,725 MT in July 2019 compared to the same period last year.

Decreases were recorded principally in fluid milk products, butter and WMP, down a combined 28,993 MT but partially offset by an increase of 12,067 MT in infant formula. Libya is the main driver of the decline in fluid milk products imports.

Imports for the 12 months to July 2019 were down 5.7% compared to the same period last year, driven largely by cheese and WMP, down a combined 186,525 MT.

### CHINA

**4.7%↑**

Change for August 2019 compared to August 2018

**9.5%↑**

Change for the 12 months to August 2019

**China dairy import volumes** increased 4.7%, or 11,912 MT, in August compared to the same period last year. This was driven by increases in fluid milk products, SMP and infant formula, up 25,668 MT, but partially offset by decreases in WMP and butter, down by 13,969 MT.

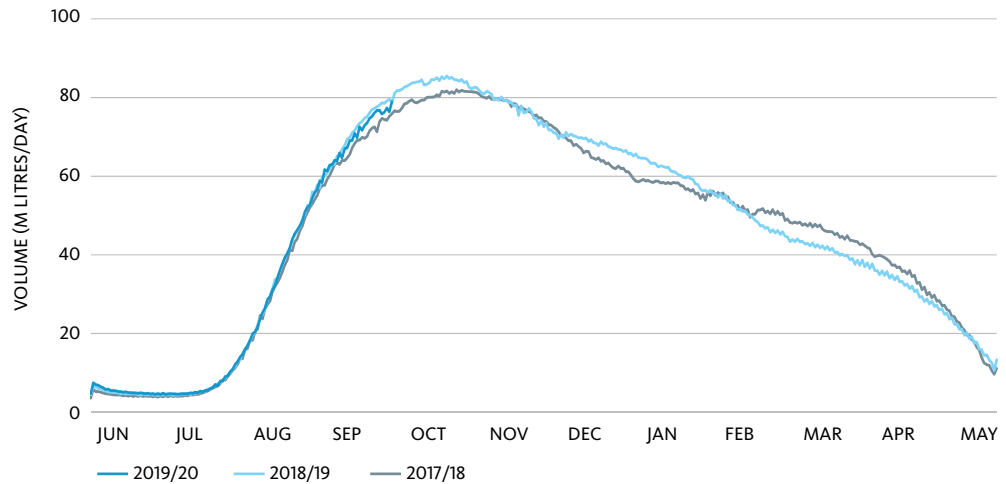
Imports for the 12 months to August were up 9.5%, or 264,857 MT compared to the same period last year. Strong demand continued across all key categories. Fluid milk products, WMP, SMP and infant formula were up a combined 382,293 MT, partially offset by a continuing decline in whey, down 90,936 MT, due to ongoing African swine fever.

<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

**0.1%** ↓

Change for September 2019 compared to September 2018

**0.8%** ↑

Season to date 1 June to 30 September

**Fonterra's New Zealand collection** for September, was 179.1 million kgMS, down 0.1% on the same month last season.

Season to date collection was 309.4 million kgMS, up 0.8% on last season.

Calving is finishing up in most regions with cow condition remaining positive leading into mating.

Pasture conditions have been reported to be generally good with minimal impact from recent cold weather.

### NORTH ISLAND

**1.1%** ↑

Change for September 2019 compared to September 2018

**1.7%** ↑

Season to date 1 June to 30 September

**North Island** milk collection in September was 112.1 million kgMS, up 1.1% on last September.

Season to date collection was 210.9 million kgMS, up 1.7% on last season.

Favourable conditions are expected to continue for the North Island. These conditions have contributed to the slight increase in collections for September.

### SOUTH ISLAND

**2.1%** ↓

Change for September 2019 compared to September 2018

**1.1%** ↓

Season to date 1 June to 30 September

**South Island** milk collection in September was 66.9 million kgMS, down 2.1% on last September.

Season to date collection was 98.5 million kgMS, down 1.1% on last season.

Cooler weather has seen South Island collections marginally down relative to the same period last year. Pasture cover remains strong.

### AUSTRALIA

**15.2%** ↓

Change for September 2019 compared to September 2018

**22.1%** ↓

Season to date 1 July to 30 September

**Fonterra's Australia collections** in September were 10.7 million kgMS, down 15.2% on September last season.

Fonterra collections across Australia for the three months to 30 September reached 23.2 million kgMS, down 22.1% on the same period last season.

The combination of high on-farm input costs, poor seasonal conditions across Australia, reduced herd numbers and intense competition for milk is impacting Fonterra's milk supply.

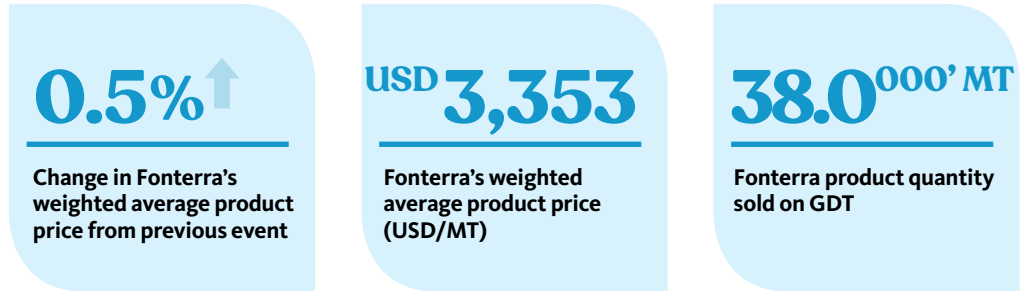
Dairy Australia is forecasting 2019/20 production to decline by 3% to 5% on prior season.

OUR MARKETS

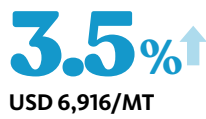
# Fonterra Global Dairy Trade Results



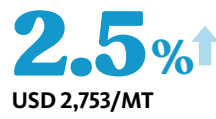
Fonterra GDT results at last trading event  
**15 October 2019:**



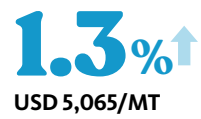
**RENNET CASEIN**



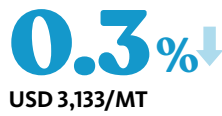
**SMP**



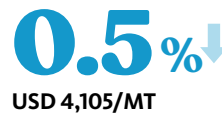
**AMF**



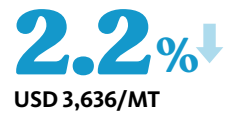
**WMP**



**BUTTER**



**CHEDDAR**

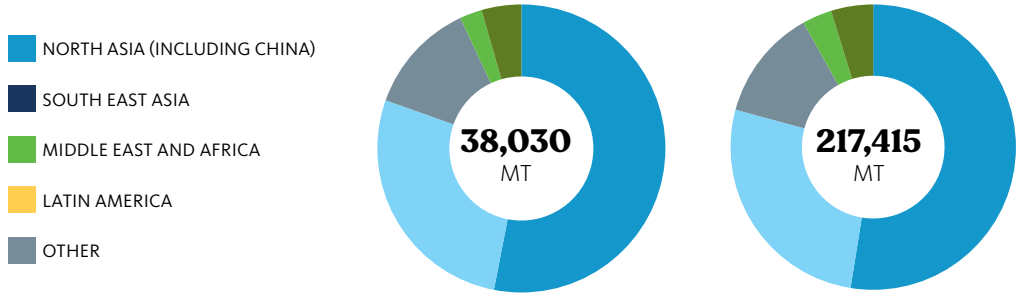


Fonterra GDT sales by destination:

**LATEST AUCTION**

**FINANCIAL YEAR-TO-DATE**

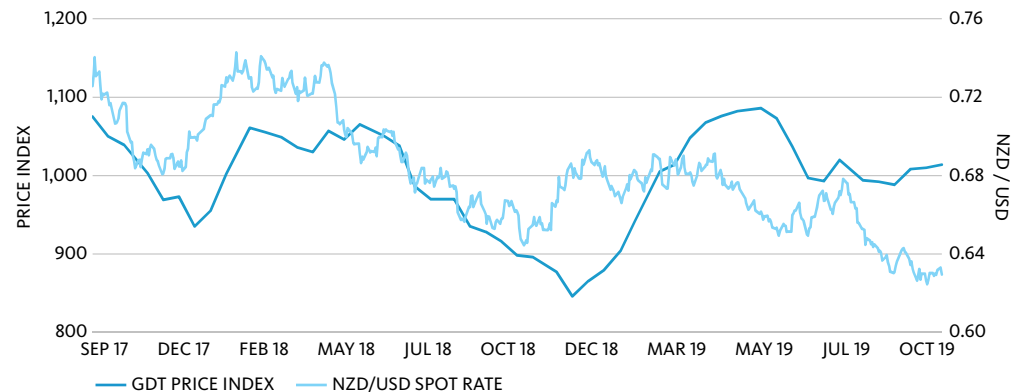
To view more information, including a snapshot of the rolling year-to-date results –



▶ The next trading event will be held on 5 November 2019. Visit [www.globaldairytrade.info](http://www.globaldairytrade.info) for more information.

**Dairy commodity prices and New Zealand dollar trend**

A decline in New Zealand's economic outlook helped fuel expectations for additional interest rate cuts by the RBNZ, this, together with rising geopolitical tensions, resulted in the NZD weakening across September.





# Our Performance



## India's foodservice sector has a new partner in Anchor™ Food Professionals

Chefs in India's rapidly-growing foodservice sector are the latest to benefit from Fonterra's foodservice offering, following the launch of Anchor™ Food Professionals at the SIAL food innovation exhibition held in New Delhi.

The launch demonstrates the Co-op's new strategy in action as it develops partnerships and new foodservice markets.

Fonterra Chief Executive Officer for Asia Pacific Judith Swales explains that as the world's largest producer and consumer of dairy, India's appetite for dairy is significant and shows no signs of slowing.

Over the next seven years, demand for dairy from Indian consumers is set to increase by 82 billion litres – seven times the forecast growth for China. The country's young population is looking to level up its dairy consumption with new products that meet their expectations of higher quality and better nutrition.

The Co-op's dairy heritage coupled with uncompromising food safety and quality standards are a strong draw for consumers in the Indian market.

However, Judith explains that understanding the nuances of this dynamic market will be key to making an impact in India.

"We recognise that our expertise in dairy is just one part of the equation in the Indian market. If we want to make a difference, we can't go it alone. In this diverse market, it's essential to find the right partners with the market knowledge, industry



expertise and infrastructure to reach our consumers.

"That's why we've chosen to partner with Future Consumer. Through our joint venture, Fonterra Future Dairy, launched in August 2018, we are taking a truly collaborative approach to bring new generation of dairy products to this rapidly expanding market."

With the launch of Anchor™ Food Professionals in India, the Co-op aims to enable chefs in the Indian foodservice sector to create food that not only tastes and looks better but helps them to run a more efficient kitchen with better yield and less wastage, giving them the edge in the foodservice industry.

The Indian foodservice sector is set to grow at 9% each year until 2023, when it is predicted to reach a total value of over NZ\$130 billion. Dairy is estimated to feature in 10% of food served in restaurants, making it an essential component in the food landscape.

The first products in the range – Extra Whip Whipping Cream, Laminated Butter Sheets, Extra Stretch Mozzarella Cheese and

Traditional Style Cream Cheese, are made in New Zealand and are available now.

The launch of the foodservice product range follows the launch of four consumer products from Fonterra Future Dairy's consumer brand Dreamery in June this year.

The Dreamery Dahi (curd), UHT Toned Milk, Chocolate and Strawberry Milkshakes are currently available at over 1,100 Future Group Modern Trade stores across India, as well as 500 general trade stores in key cities including Mumbai, Pune, Bangalore, Ahmedabad and Hyderabad.

The response so far has been positive, with Dreamery's Milk Shakes and UHT Toned Milk achieving more than 10% of sales in their respective categories in Future Retail Stores.

Future Consumer's parent company Future Group is present in 26 of 31 Indian states with over 2,000 modern trade outlets and 5,000 public distribution outlets, as well as a nationwide cold-chain and ambient distribution network.



## Fonterra is pleased to announce the appointment of Fraser Whineray to its management team in the newly created role of Chief Operating Officer, starting in early 2020

Mr Whineray is currently the Chief Executive of Mercury NZ and has held several senior leadership roles since joining the company in 2008.

Fonterra CEO Miles Hurrell says Mr Whineray is a results-orientated New Zealand business leader.

“Fraser has demonstrated he can transform organisations to achieve growth in complex environments through a focus on innovation, customers and his team. He is motivated to contribute to New Zealand’s export success and to drive sustainability, innovation and efficiency in business – three strengths that we believe can

create real value.

Fraser is also no stranger to the dairy industry, having started his career as a graduate of the New Zealand Dairy Board’s technical training programme and spending time at some of our manufacturing sites and in our export markets. He is going to be a great addition to our management team”.

Mr Whineray says he is looking forward to returning to the dairy sector and working alongside the many dedicated people at Fonterra.

“I am pleased to be able to continue in a role which contributes to New Zealand,

and has strong, genuine relationships with many regional communities, Maori land trusts and local iwi across the country”.

Mr Whineray has held roles at Credit Suisse, Puhoi Valley Cheese and Carter Holt Harvey.

He is the Chair of the Prime Minister’s Business Advisory Council and holds an MBA from the University of Cambridge, a Post Graduate Diploma in Dairy Science & Technology from Massey University and a Bachelor of Chemical & Process Engineering from the University of Canterbury.

## Fonterra GoodSorts taking GoodYarn to the next level

“GoodYarn is a story of helping everyday people talk about mental health,” says Terry Buckingham, Fonterra Health and Wellbeing Manager, New Zealand. “Recently, our team of tanker operators asked if we had any tools to help them talk about mental health and help others.”

“Kiwi men are often the first to help someone, however they’re often the last to ask for help for themselves. When I went looking for some tools it started a special relationship with the GoodYarn team, which lead to GoodYarn workshops being delivered across our operations.

GoodYarn is a peer delivery programme, which was initially formed as a programme that could be delivered by farmers for farmers. It’s the peer delivery model that has been the key to the success of GoodYarn.



There is a growing realisation amongst experts that peer delivery is as effective, if not more effective, than expert led mental health promotion.

Following on from the first successful year of GoodYarn workshops, the Farm Source team delivered it to their technical sales reps. Distribution centre teams also rolled it out last year and now at our Fanshawe Street

office the Health, Safety and Wellbeing Committee have taken GoodYarn to the next level by adding GoodSorts.

GoodSorts is a group of volunteers who are recognized as a champion of mental health awareness and have the same or similar skill set to Mental Health First Aiders – with the addition of delivering GoodYarn workshops.



# Supplementary Information

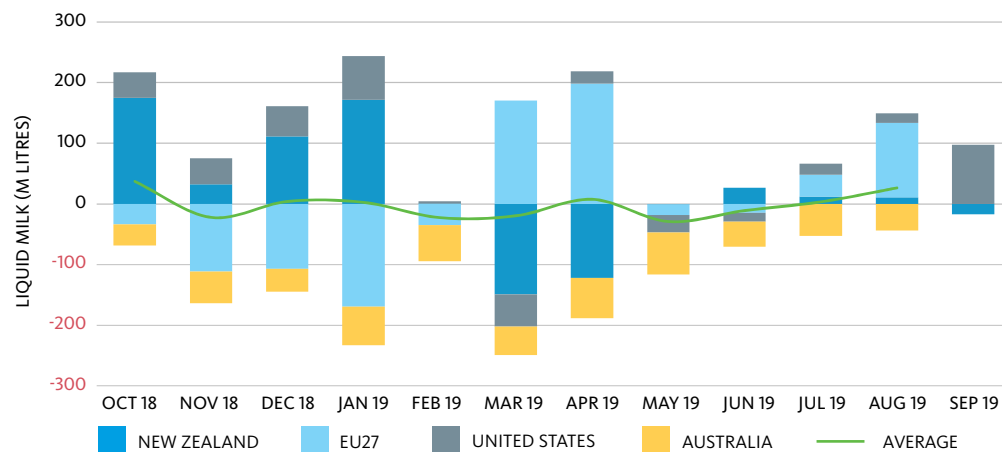
## Global Dairy Market

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.

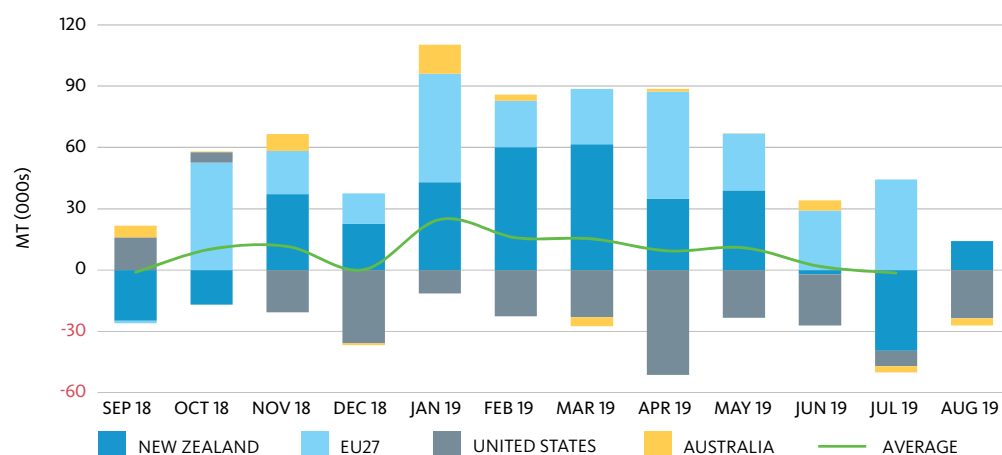
Averages are shown where data is complete for the regions presented.

## PRODUCTION



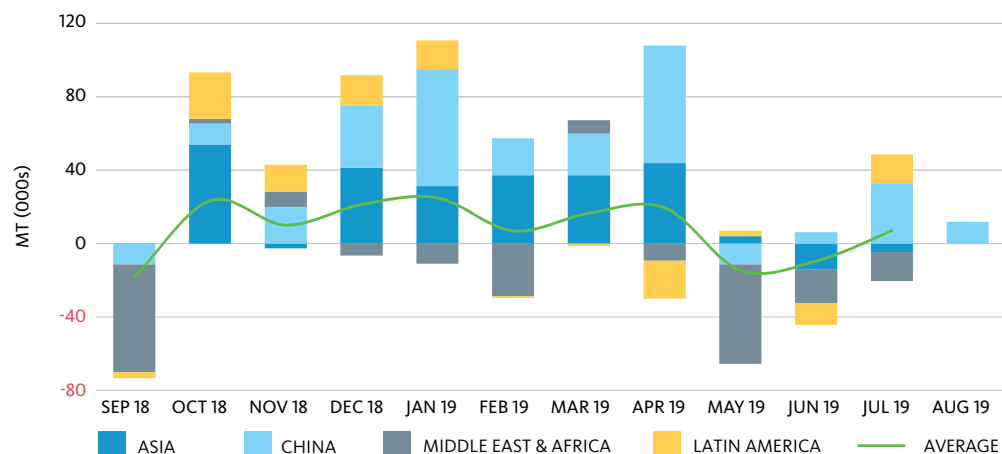
NOTE: Data for Australia and EU to August; New Zealand and US to September.

## EXPORTS



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

## IMPORTS



NOTE: Data for Latin America, Asia, Middle East & Africa to July; China to August.

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 2019	SEPTEMBER 2018	MONTHLY CHANGE	SEASON-TO-DATE 2019/20	SEASON-TO-DATE 2018/19	SEASON-TO-DATE CHANGE
Total Fonterra New Zealand	179.1	179.3	(0.1%)	309.4	307.0	0.8%
North Island	112.1	110.9	1.1%	210.9	207.4	1.7%
South Island	66.9	68.4	(2.1%)	98.5	99.6	(1.1%)
Fonterra Australia	10.7	12.7	(15.5%)	23.2	29.8	(22.1%)

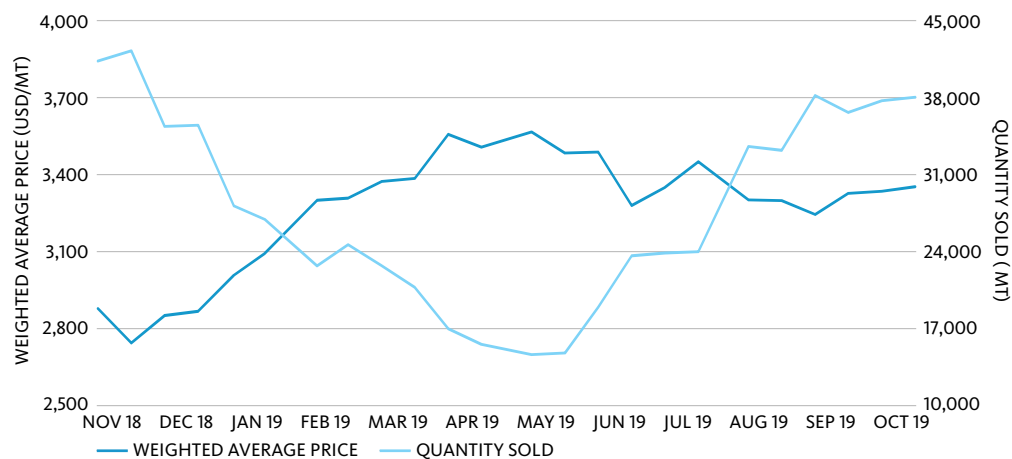
## Fonterra GDT results

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

	LAST TRADING EVENT (15 OCTOBER 2019)	YEAR-TO-DATE (FROM 1 AUGUST 2019)
Quantity Sold on GDT (Winning MT)	38,030	217,415
Change in Quantity Sold on GDT over same period last year	(7.8%)	(2.7%)
Weighted Average Product Price (USD/MT)	3,353	3,310
Change in Weighted Average Product Price over same period last year	15.3%	10.4%
Change in Weighted Average Product Price from previous event	0.5%	-

## 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