

AUGUST 2021

# Global Dairy UPDATE



- Low volumes in early season in New Zealand. US and EU monthly production up. Australia ends season on lower monthly production.

- Stirling site moving to 100% renewable thermal energy.



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



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



- Early season collections for both New Zealand and Australia.
- On-farm production and collections together with plant processing continued in August despite New Zealand entering a COVID-19 level 4 lockdown.

- Charging up our electric vehicle fleet.

## Key Dates



23 September 2021  
FY21 Annual Results  
Announcement

9 December 2021  
Fonterra Co-operative Group  
Annual Meeting

13 December 2021  
Fonterra Shareholders' Fund  
Annual Meeting



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

## Low volumes in early season in New Zealand. US and EU monthly production up. Australia ends season on lower monthly production

### NEW ZEALAND

**6.6%↑**

Change for July 2021 compared to July 2020

**2.7%↑**

Change for the 12 months to July 2021

**New Zealand milk production<sup>1</sup>** increased 6.6% on a litres basis, (up 7.3% on milk solids basis) in July compared to July last year but represent low volumes overall this early in the season.

New Zealand milk production for the 12 months to July was 2.7% higher than last year.

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

### AUSTRALIA

**1.1%↓**

Change for June 2021 compared to June 2020

**0.6%↑**

Change for the 12 months to June 2021

**Australia milk production** decreased 1.1% in June compared to June last year.

Lower head numbers, farm exits and labour shortages observed throughout last season are expected to continue into the new season.

Dairy Australia is forecasting milk production of 0% to 2% for the 2021/22 season.

Australia milk production for the 12 months to June was 0.6% higher than last year.

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

### EUROPEAN UNION

**0.8%↑**

Change for June 2021 compared to June 2020

**0.4%↑**

Change for the 12 months to June 2021

**EU milk production<sup>2</sup>** increased by 0.8% in June compared to the same period last year.

Higher production volumes were observed in Italy, Ireland, France and Poland.

EU milk production for the 12 months to June was up by 0.4% compared to the same period last year, driven by higher volumes from Ireland, Italy, Poland and Sweden.

### USA

**2.1%↑**

Change for July 2021 compared to July 2020

**2.5%↑**

Change for the 12 months to July 2021

**US milk production** increased by 2.1% in July, compared to the same period last year.

July production continued to improve year on year but was impacted by extreme temperatures across some regions and declining herd sizes due to high feed costs.

Milk production for the 12 months to July was 2.5% higher compared to the same period last year.

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

<sup>2</sup> Excludes UK.



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

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

### NEW ZEALAND

**8.1%↑**

Change for July 2021 compared to July 2020

**5.6%↑**

Change for the 12 months to July 2021

**Total New Zealand dairy exports** increased by 8.1%, or 20,507 MT, in July compared to the same period last year.

The increase was driven by sustained high volumes of WMP and cheese to China. SMP export volumes to Southeast Asia also remain strong. This was partially offset by lower demand of AMF and infant formula.

Exports for the 12 months to July were up by 5.6%, or 190,449 MT, on the previous comparable period. This was primarily driven by WMP, fluid milk product and cheese.

### AUSTRALIA

**6.6%↑**

Change for June 2021 compared to June 2020

**10.8%↑**

Change for the 12 months to June 2021

**Australia dairy exports** increased by 6.6%, or 5,052 MT, in June compared to the same period last year.

Continued strong demand, in WMP and fluid milk products, up a combined 8,606 MT, are driving this increase. This was partially offset by lower export volumes of whey and SMP, down 3,511 MT.

Exports for the 12 months to June were up 10.8%, or 78,223 MT, on the previous comparable period.

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

### EUROPEAN UNION

**4.4%↓**

Change for May 2021 compared to May 2020

**2.2%↑**

Change for the 12 months to May 2021

**EU dairy exports** decreased by 4.4%, or 27,675 MT, in May compared to the same period last year.

May exports were impacted by lower demand in butter from the US and Saudi Arabia, infant formula from China and Saudi Arabia and cultured products, down a combined 26,160 MT. This was partially offset by strong volumes of fluid milk products to China.

Exports for the 12 months to May were up 2.2%, or 159,314 MT, on the previous comparable period. Fluid milk products, whey, cheese and ice cream were the main drivers of this growth.

### USA

**3.3%↑**

Change for June 2021 compared to June 2020

**9.9%↑**

Change for the 12 months to June 2021

**US dairy exports** increased 3.3%, or 7,614 MT, in June compared to the same period last year.

Strong demand for SMP from Mexico, Vietnam and China as well as whey to China drove this increase. This was partially offset by lower cheese export volumes to South Korea and Japan.

Exports for the 12 months to June 2021 were up 9.9%, or 239,834 MT, on the previous comparable period driven by whey, SMP, WPC and butter, up a combined 243,939 MT.



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

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

### LATIN AMERICA

**11.5%↑**

Change for May 2021 compared to May 2020

**6.0%↑**

Change for the 12 months to May 2021

**Latin America dairy import volumes<sup>1</sup>** increased 11.5%, or 15,517 MT, in May compared to the same period last year.

The increase was driven by stronger volumes across most product categories and more specifically cheese to Chile, El Salvador and Mexico, as well as SMP and WPC to Mexico. This was partially offset by a decrease of WMP to Cuba.

Imports for the 12 months to May were up 6.0%, or 104,155 MT, compared to the same period last year.

### ASIA

**2.7%↑**

Change for May 2021 compared to May 2020

**3.5%↑**

Change for the 12 months to May 2021

**Asia (excluding China) dairy import volumes<sup>1</sup>** increased 2.7%, or 9,340 MT, in May compared to the same period last year.

The increase was driven by higher imports in fluid milk products to Malaysia and Pakistan, ice cream to the Philippines, and cultured products to Pakistan but partially offset by lower demand for lactose and WMP.

Imports for the 12 months to May were up 3.5%, or 172,064 MT, compared to the same period last year driven by large volumes of SMP, fluid milk products, cheese and lactose.

### MIDDLE EAST & AFRICA

**4.4%↓**

Change for May 2021 compared to May 2020

**5.1%↑**

Change for the 12 months to May 2021

**Middle East and Africa dairy import volumes<sup>1</sup>** decreased 4.4%, or 14,954 MT, in May compared to the same period last year.

The decrease was driven predominantly by lower volumes to Nigeria of WMP, SMP and infant formula, and partially offset by higher imports of fluid milk products and cheese to Iraq.

Imports for the 12 months to May were up 5.1%, or 189,840 MT, compared to May last year driven by increases in infant formula, WMP, and cheese, and partially offset by declines in butter and AMF.

### CHINA

**11.8%↑**

Change for July 2021 compared to July 2020

**25.4%↑**

Change for the 12 months to July 2021

**China dairy import volumes** continued to increase in July, up 11.8% or 37,108 MT, compared to the same period last year with sustained high demand across most categories.

Record volumes of WMP imports continued in July, sourced primarily from New Zealand. SMP, butter and fluid milk products also showed strong year-on-year growth. This was partially offset by a continuing decline in infant formula.

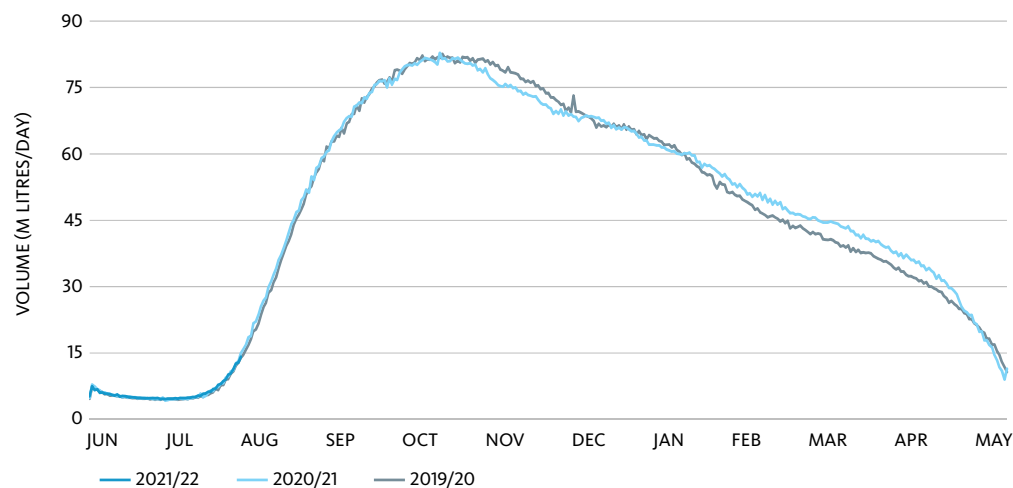
Imports for the 12 months to July were up 25.4%, or 833,499 MT, driven by fluid milk products, whey, WMP and SMP and offset by decreases in infant formula.

<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

**2.2%↑**

Change for July 2021  
compared to July 2020

**0.9%↑**

Season to date  
1 June to 31 July

**Fonterra's New Zealand collection** for July was 19.5 million kgMS, 2.2% higher than the same month last season.

Season-to-date collection was 34.1 million kgMS, 0.9% ahead of last season.

It is still early in the season and collections to date represent only around 2% of full season forecast collection.

July began with generally settled weather, but this was quickly followed by a series of severe weather watches and warnings, particularly in the South Island.

#### NORTH ISLAND

**4.6%↑**

Change for July 2021  
compared to July 2020

**6.4%↑**

Season to date  
1 June to 31 July

**North Island** milk collection in July was 17.9 million kgMS, 4.6% higher than July last season.

Season-to-date collection was 29.8 million kgMS, 6.4% ahead of last season.

Despite periods of cold south westerlies and rain, North Island collections remained ahead of last season.

#### SOUTH ISLAND

**18.0%↓**

Change for July 2021  
compared to July 2020

**25.9%↓**

Season to date  
1 June to 31 July

**South Island** milk collection in July was 1.6 million kgMS, 18% behind July last season.

Season-to-date collection was 4.3 million kgMS, 25.9% behind last season.

Parts of the South Island experienced heavy rain and severe gales, with a red severe weather warning for western areas. On-going and more widespread heavy rain led to above average soil moisture levels and pasture damage in central and lower South Island, adversely impacting milk collections.

#### AUSTRALIA

**6.6%↑**

Change for July 2021  
compared to July 2020

**6.6%↑**

Season to date  
1 July to 31 July

**Fonterra's Australia collection** for July, the first month of the new season, was 5.4 million kgMS, a 6.6% increase on July last season.

The increase was driven by additional farm milk collections from new suppliers joining Fonterra for the 2021/22 season. Third party collections were 2.3% down on July last season.

Total production remains flat as wetter and cooler than average winter conditions reduce pasture growth rates and consumption.

## OUR MARKETS

# Fonterra Global Dairy Trade Results



Fonterra GDT results at  
last trading event  
**17 August 2021:**

**0.8%**↑

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

**USD 3,870**

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

**21.9<sup>000</sup>' MT**

Fonterra product quantity  
sold on GDT

### BUTTER

**4.0%**↑

USD 4,771/MT

### CHEDDAR

**2.9%**↑

USD 4,184/MT

### AMF

**2.2%**↑

USD 5,791/MT

### SMP

**0.9%**↑

USD 3,056/MT

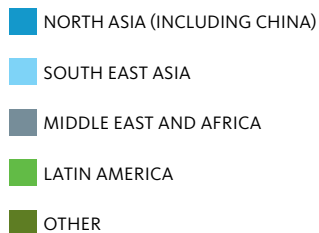
### WMP

**1.3%**↓

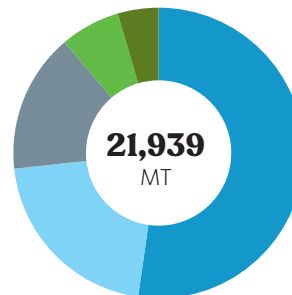
USD 3,552/MT

Fonterra GDT sales  
by destination:

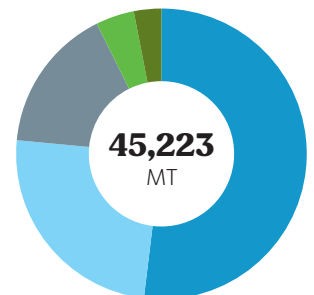
To view more information,  
including a snapshot of the  
rolling year-to-date results –



### LATEST AUCTION



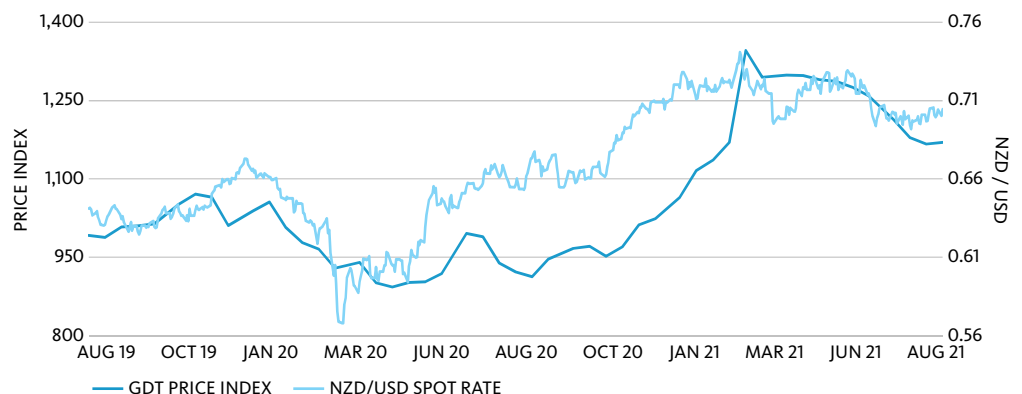
### FINANCIAL YEAR-TO-DATE



► The next trading event will be held on 7 September 2021. Visit [www.globaldairytrade.info](http://www.globaldairytrade.info) for more information.

## Dairy commodity prices and New Zealand dollar trend

During August the increasing number of COVID-19 Delta variant infections recorded globally resulted in continued demand for safe haven assets such as the USD. Furthermore, the RBNZ's decision to hold the OCR at 0.25% weighed on the NZD, with the NZD declining towards 68 US cents.





# Our Performance



## Putting an end to coal at Stirling



Fonterra has announced a decarbonisation double header at its New Zealand manufacturing sites, with the official opening of the wood pellet boiler at Te Awamutu and the announcement of a move to wood biomass at Stirling.

Minister for Energy and Resources Hon Dr Megan Woods was at Te Awamutu where Fonterra CEO Miles Hurrell made the announcement late last month.

Come next August, Stirling will be running on wood biomass creating an annual emissions reduction of 18,500 tonnes of CO<sub>2</sub> – that's the equivalent to taking more than 7,000 cars off the roads.

General Manager Operations Lower South Island, Richard Gray says it's a huge decarbonisation milestone for the Co-op and Stirling will be the first site powered on 100% renewable energy.

"Sustainability is at the heart of our strategy, and this project is something that will be good for the environment and local community."

"As well as the site being coal-free there are additional environmental benefits the move to biomass brings, including reductions in wastewater, noise, solid waste to landfill and air discharge emissions.

"There are also economic benefits for the community – the installation will contribute more than

\$10 million into the Clutha District, along with supporting an estimated 10 jobs in the wood biomass industry."

"Stirling exports to customers in 10 countries, including Japan and South Korea."

The wood biomass will be locally sourced from Pioneer Energy who are owned by Central Lakes Trust and distribute grants to charitable causes in the Central Otago region.

Pioneer Energy CEO, Fraser Jonker says, "Pioneer Energy is very proud to be involved with, and to support, Fonterra's move across from coal to biomass at their facility in Stirling."

Te Awamutu's conversion to wood pellets has resulted in a 10% reduction in the Co-op's coal use, and at Brightwater at the top of the South Island, the team is co-firing wood biomass.

These projects play a significant part in the work we're doing to get out of coal by 2037. When, combined with our other energy efficiency work, they will reduce our Co-op's emissions by 135,000 tonnes, the equivalent of taking close to 52,000 cars off the road.



## Charging up our electric vehicle fleet

As the Co-op works to support the good work in sustainability that's happening on its dairy farms, it's upping the ante on its fleet of electric vehicles (EVs).

Chief Operating Officer, Fraser Whineray, is leading the charge and says moving to EVs has positive benefits for New Zealand.

"As a country, the fastest growing source of emissions is road transport – it's doubled since 1990 and is now at the same level as methane from dairy cows, which is also a big challenge for the Co-op.

"Electricity is essentially made in New Zealand, and works out to be the equivalent of just 30 cents a litre. That's much cheaper than using imported liquid fuels, so it's important that as many New Zealanders who can, do their bit.

"While our bovine team of 6.3 million are already the lowest carbon dairy producers in the world, there's still more work to be done. It requires continued research, which Fonterra's investing in, to get the

methane reductions we need. In the meantime, we can make instant gains with a switch to EVs, particularly for light vehicles, because the technology is much further along in its development."

The Co-op is starting with replacing around 320 light vehicles with EVs as they come up for regular replacement by 2023.

"This is an opportunity for Kiwis, no matter what they do, or where they live, to play their part in reducing national emissions, as well as reducing the use of hard-earned Kiwi export income on importing fuel.

"Finding a solution to the methane issue is going to take time. We already have a solution to the biggest proportion of New Zealand's road transport emissions, being light vehicles, so we can make a difference here right now.

"Our move to EVs will increase demand for good, high quality EVs leading to a pool of quality second hand vehicles while also accelerating the development of

charging stations in rural New Zealand. We are also looking to support the move to electric vehicles for tankers and trucks, but that is at a much earlier stage of development", says Fraser.

More charging stations are to be installed at our manufacturing sites around the country, including at our Edendale, Darfield, Clandeboye and Stirling sites, where we have received funding from the Energy Efficiency and Conservation Authority (EECA) to help with installation.

While smaller EVs are becoming more common place, the trusty ute (utility vehicle) and other vehicles built for more rugged conditions aren't yet in market. Group Director Farm Source Richard Allen says the team are working through what an electrified fleet could look like.





# Supplementary Information

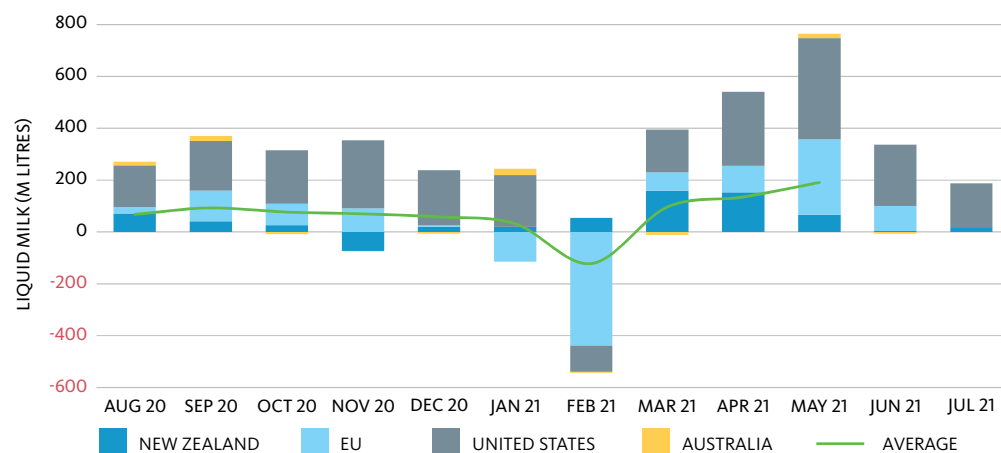
## Global Dairy Market

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.

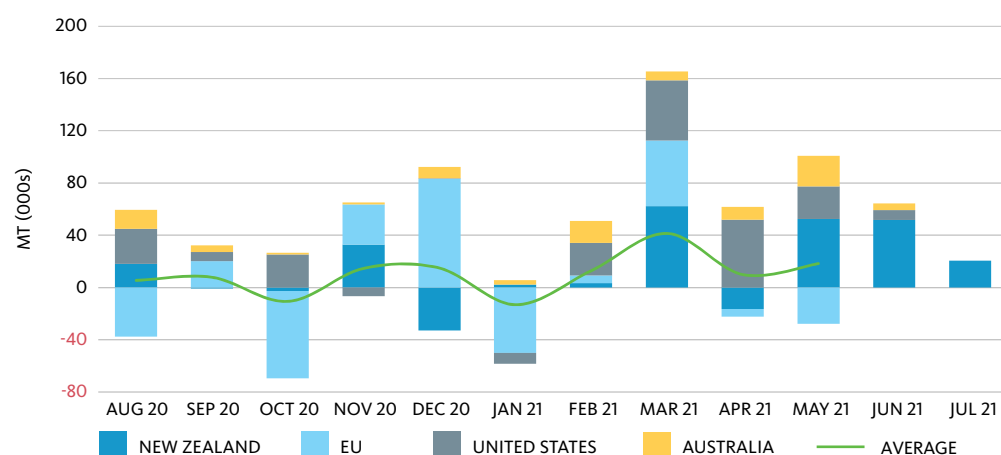
Averages are shown where data is complete for the regions presented.

## PRODUCTION



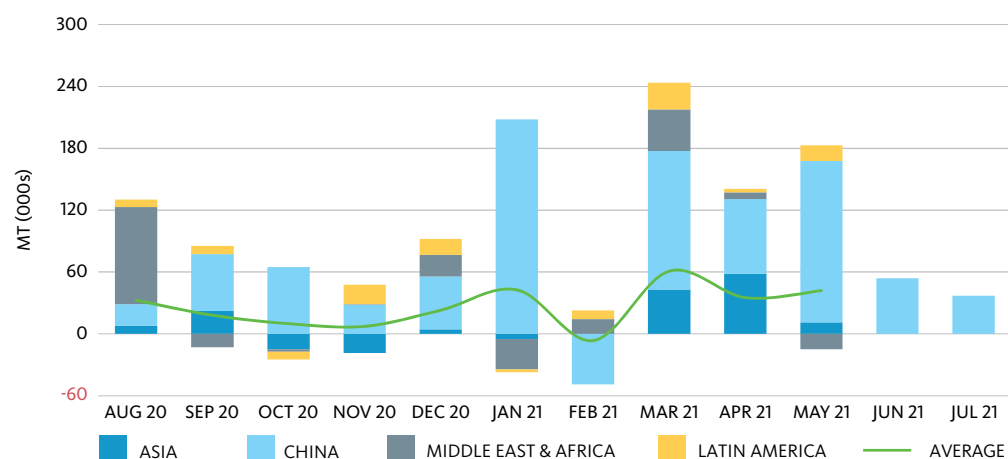
NOTE: Data for EU and Australia to June; New Zealand and US to July.

## EXPORTS



NOTE: Data for EU to May; US and Australia to June; New Zealand to July.

## IMPORTS



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

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)	JULY 2021	JULY 2020	MONTHLY CHANGE	SEASON- TO-DATE 2021/22	SEASON- TO-DATE 2020/21	SEASON- TO-DATE CHANGE
Total Fonterra New Zealand	19.5	19.1	2.2%	34.1	33.8	0.9%
North Island	17.9	17.1	4.6%	29.8	28.1	6.4%
South Island	1.6	2.0	(18.0%)	4.3	5.8	(25.9%)
Australia	5.4	5.1	6.6%	5.4	5.1	6.6%

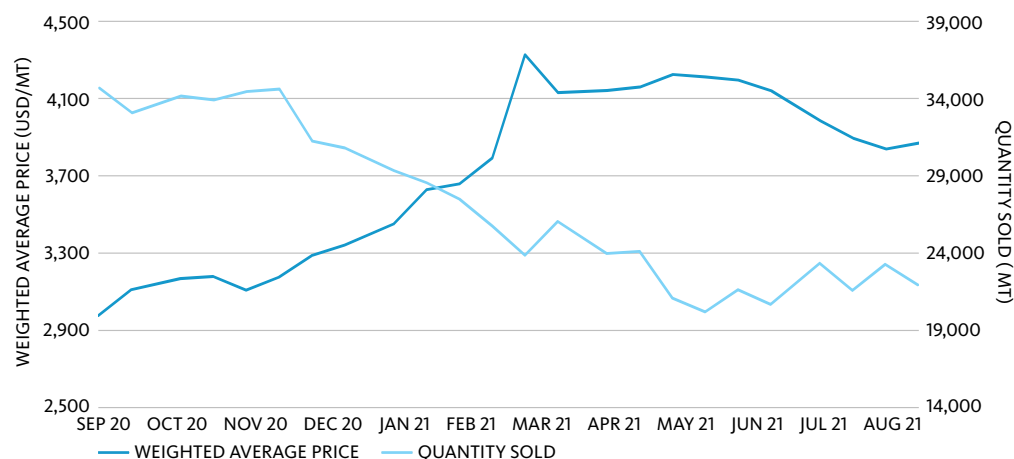
## Fonterra GDT results

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

	LAST TRADING EVENT (17 AUGUST 2021)	YEAR-TO-DATE (FROM 1 AUGUST 2021)
Quantity Sold on GDT (Winning MT)	21,939	45,223
Change in Quantity Sold on GDT over same period last year	(28.8%)	(27.8%)
Weighted Average Product Price (USD/MT)	3,870	3,854
Change in Weighted Average Product Price over same period last year	28.1%	26.6%
Change in Weighted Average Product Price from previous event	0.8%	–

## Fonterra GDT results

This chart shows Fonterra GDT prices and volumes over the past 12 months.



# Glossary

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## AMENA

Africa, Middle East, Europe, North Asia, Americas.

## 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.

## NZMP

New Zealand Milk Products.

## 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