



PERSPECTIVE

May 2020



The latest insights into global dairy markets

Your regular global overview of the dairy industry along with trends in milk production, commodity prices and dairy trade.

Ingredients by



Dairy for life



Welcome back to Perspective!

May 2020

In New Zealand we are heading into our second month of social distancing measures, and research is starting to emerge about how the global food & beverage industry is being influenced by COVID-19. It has been said a lot, but there is no play book for this kind of global event, and so we must all work together to navigate through this time. We are available to answer customers questions or provide guidance, and for the latest information on how Fonterra is responding to COVID-19 please refer to the webpage [here](#).

One clear impact that COVID-19 has had on today's consumers, is it has fuelled their immunity awareness. With global media putting so much emphasis on how having a healthy baseline will prove beneficial, many people are looking to improve their general health. As a result, immunity supporting products are both wanted and needed.

This month **Stephanie Mattucci**, Associate Director of Food Science at Mintel, discusses how COVID-19 has accelerated consumers immunity consciousness. Stephanie has over 10 years of experience in the food industry and brings her perspective to how this is playing out in the market.

Four key movements for the month:



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



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



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



Prices – GDT Event 259 had mixed movements, resulting in the GDT price index dropping -0.8% to USD \$2,866/MT. The largest changes came from Butter Milk Powder, Lactose & Cheddar, moving -10.3%, +7.9% and -6.8% respectively.

If you have suggestions for topics you would like to read about in Perspective, or any other general feedback, we would love to hear from you. You can contact us at nzmpbrand@fonterra.com or through your account manager.

Kind Regards,

Gillian Munnik

Director of Sales and Marketing Services

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COVID-19 has fueled consumers immunity awareness.



Stephanie Mattucci

Associate Director,
Food Science at Mintel

MINTEL

Stephanie Mattucci is the Associate Director, Food Science at Mintel. With over 10 years of experience in the food industry, Stephanie brings a food science background to her work at Mintel. She is responsible for analyzing and providing insight on ingredient and nutrition trends, regulations and food science innovations. She has a bachelor's degree in Food Science from the University of Wisconsin-Madison. Prior to Mintel, Stephanie worked as a food scientist in R&D for an ingredients company.

Consumers have made it clear that they do not want to wait for the negative effects of ageing or previous poor health decisions to take effect before taking action to reinforce their health. For example, 59% of UK consumers who have purchased health food products bought them to improve their general health.

Consumers, particularly the growing 'healthy agers' market, are focusing more on preventative health and undoing past negative health choices. In Canada, 54% of consumers aged 65+ agree that improving their health is a top priority over the next five years. Meanwhile, 48% of US consumers aged 65+ wish they could redo past choices that have negatively impacted their health. Preparing oneself for a longer, healthier lifespan is particularly relevant as consumers view health and wellness as an ongoing pursuit.

Consumers are more aware and knowledgeable about the importance of healthy eating for immunity protection. A healthy immune system is an important part of healthy aging. Nutrition and lifestyle play critical roles in balancing the immune system response and reducing incidence of immune-related illnesses.

Covid-19 has accelerated consumers' immunity consciousness

The COVID-19 crisis is making today's consumers more aware than ever before about immune health, how to protect against disease, and what it means to be more vulnerable to illness. As people around the globe brace for and respond to COVID-19, food and drink products that offer immune system support will appeal to consumers looking for ways to protect themselves.

In Singapore, demand for vitamin C and multivitamins have increased following the outbreak of COVID-19.

Local supermarket chain NTUC FairPrice said demand for health supplements like vitamin C and multivitamins has risen by "three to five times." And Indonesians are stocking up on jamu, a traditional medicine made from natural ingredients. The hoarding of jamu ingredients has resulted in the surge in the prices of herbs and plants such as jahe merah (red ginger) and temulawak (Javanese ginger).

People are turning to food for immunity benefits

Functional food and drink products have an opportunity to help consumers support their immune systems by giving them the nutrition they need to stay healthy. Some consumers are already turning to functional foods for immune benefits.

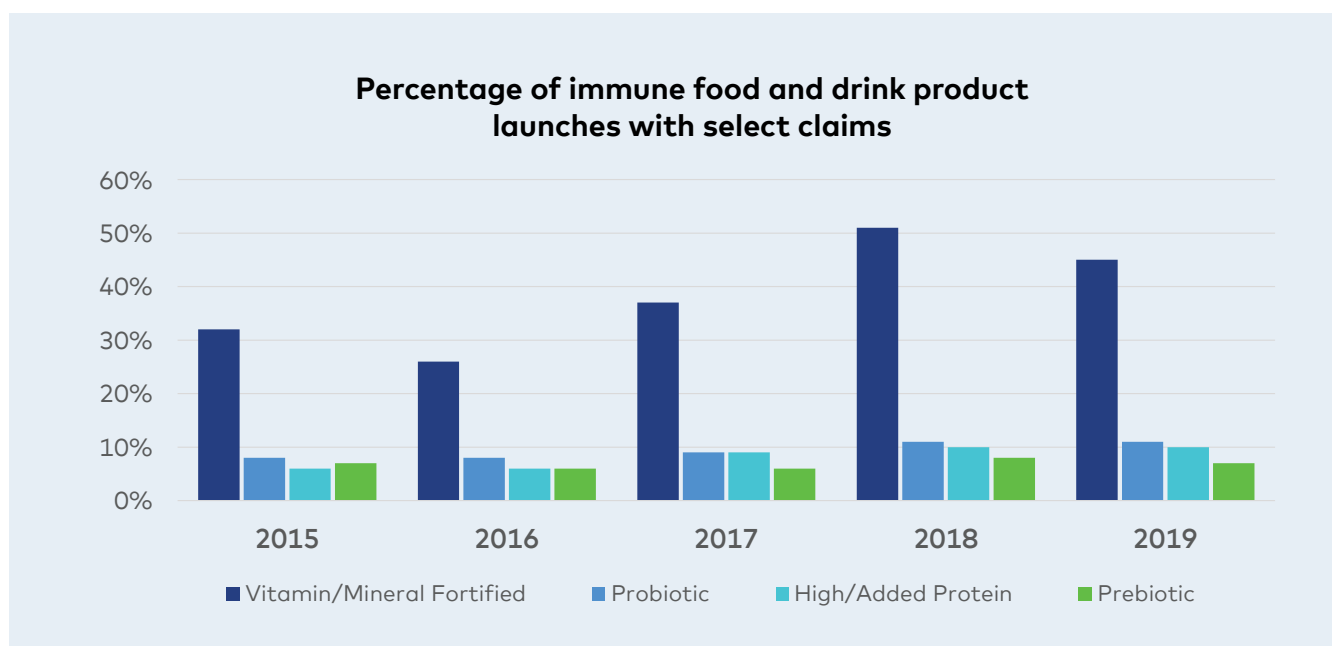
In China, 54% of seniors aged 55-74 are interested in foods to improve their immune system

and in the US, 36% of consumers are interested in beverages that feature immunity boosting benefits. Boosting the immune system is also an important reason that motivates European consumers, especially those aged 55+, to use functional food and drink.

Good nutrition is important for the immune system to function properly, yet immunity is still a relatively untapped opportunity in functional food and drink products.

Less than 1% of global food and drink launches have made a functional claim for immune health in the past five years.

Micronutrients like zinc, vitamins A, C and D are some of the more common and recognized ingredients found in products with immune-boosting benefits. In the past five years, from 2015 to 2019, there was an increase in vitamin/mineral fortified claims on global food and drink launches positioned with a functional benefit for immune health.





Dairy brings proteins & probiotics to the table

Protein also plays an important role in keeping the immune system strong, and high/added protein claims have nearly doubled on global immunity food and drink in the past five years

In 2019, nearly 11% of food and drink products with an immune functional claim also carried a high/added protein claim.

Whey protein concentrate, isolated soy protein, and whey protein isolate were the leading three protein ingredients found in global food and drink products that contain both a high protein claim and immune system functional claim in the past five years.

Probiotics too have a place to help support the immune system alongside immune-boosting nutrients, such as protein, vitamins, and minerals. For example, **GoLive Plus Immunity Functional Blend** from the US is a powdered consumer supplement mix that combines vitamins and minerals with probiotics and prebiotics to support immune health. GoLive Plus' immunity probiotic blend features a spectrum of targeted, clinically tested probiotic strains. The product also features complementary, functional ingredients, including echinacea, manganese, vitamin C, vitamin D3 and zinc. In 2019, 11% of food and drink products with an immune functional claim also carried a probiotic claim, up from 8% in 2015, driven by product launches in dairy and baby food categories.

Probiotics can offer several functional properties beyond gut health, including stimulation of the immune system.

Already 58% of consumers aged 20-49 in China believe probiotics can boost immunity and 43% of US consumers who take probiotics do so for immune system health. In the past five years, *L. acidophilus*, *B. coagulans* BGI-30, *B. lactis*, and *L. rhamnosus* were the leading probiotics found in global food and drink products that carry both a probiotic and immune health functional product claim. For example, **NutraCare ProBio Plus Adult Probiotic Drops**, launched in Australia, contain the clinically studied probiotic strain *Lactobacillus rhamnosus* SP1, said to contribute to immunity, as well as digestive health and skin health.

the time for manufacturers to offer all consumers support and education about ways to stay healthy. Ingredients with proven immune system benefits will resonate with consumers looking for nutritional solutions to support their health and wellness. Brands also have opportunities to educate consumers on the benefits of these products and how they can be used as wellness tools in addition to important practices like hand washing and social distancing.



See more from Stephanie:

<https://www.mintel.com/team/stephanie>

Conclusion

COVID-19 will have lasting effects on consumers' behavior. While immunity support has been a focus for some consumers for some time now, this may be





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

NEW ZEALAND	AUSTRALIA	EUROPEAN UNION	USA
-1%_{.9}	+8%_{.1}	+4%_{.4}	+2%_{.2}
Change for March 2020 compared to March 2019	Change for February 2020 compared to February 2019	Change for February 2020 compared to February 2019	Change for March 2020 compared to March 2019
-1%_{.1}	-4%_{.4}	+1%_{.0}	+1%_{.1}
Change for the 12 months to March 2020	Change for the 12 months to February 2020	Change for the 12 months to February 2020	Change for the 12 months to March 2020

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

New Zealand milk production¹ 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.

Production for the 12 months to February was down 4.4% on the previous 12 months.²

Australia milk production² 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.

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

EU milk production² 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.

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

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.

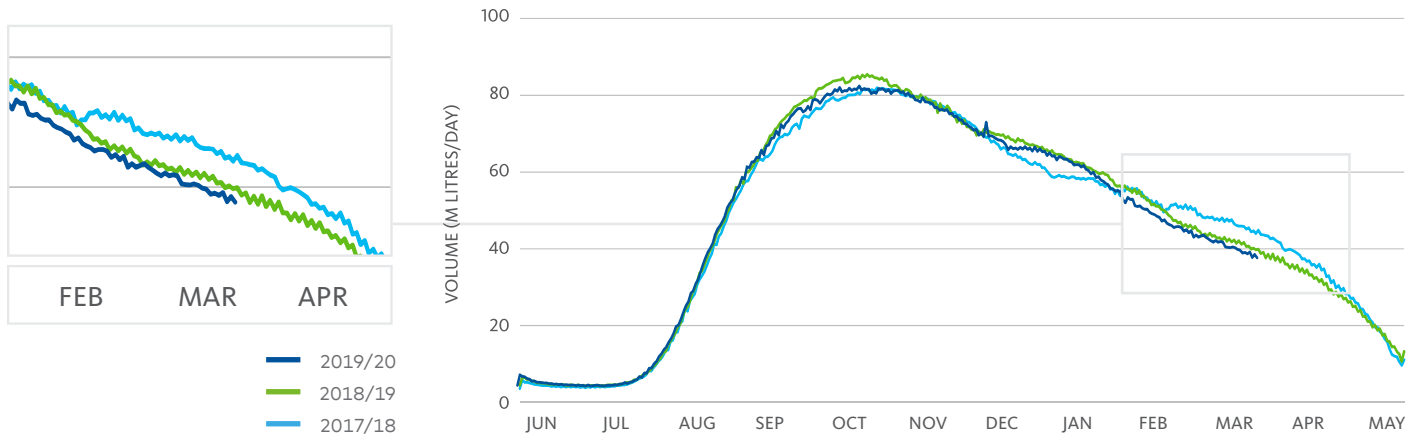
¹: New Zealand production is measured in litres.

²: 2020 production numbers include one extra day of production in February as 2020 is a leap year.

* Source: Data from Global Trade Information Services and from government and industry websites, including USDA, Eurostat, High Ground Dairy, Dairy Australia and Dairy Companies Association of New Zealand



FONTERRA MILK COLLECTION 2019/20 SEASON



NEW ZEALAND COLLECTION

-1%.₂Change for March 2020
compared to March 2019-0%.₃Season 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.

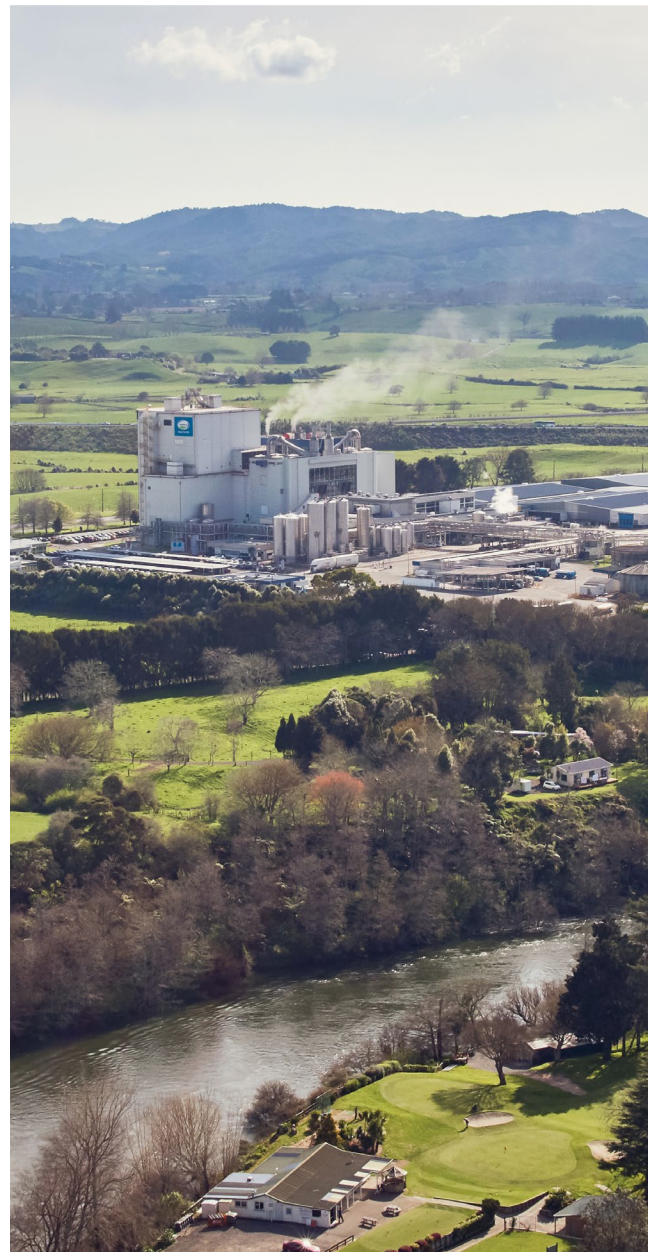
AUSTRALIAN COLLECTION

-2%.₉Change for March 2020
compared to March 2019-13%.₉Season 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.





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

NEW ZEALAND	AUSTRALIA	EUROPEAN UNION	USA
-5%_{.9}	-16%_{.0}	+0%_{.8}	+5%_{.4}
Change for February 2020 compared to February 2019	Change for February 2020 compared to February 2019	Change for January 2020 compared to January 2019	Change for February 2020 compared to February 2019
+3%_{.7}	-7%_{.6}	+6%_{.6}	-2%_{.0}
Change for the 12 months to February 2020	Change for the 12 months to February 2020	Change for the 12 months to January 2020	Change for the 12 months to February 2020

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.

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 January were down 7.6%, or 59,868 MT, on the previous comparable period.

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.

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.

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.

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.

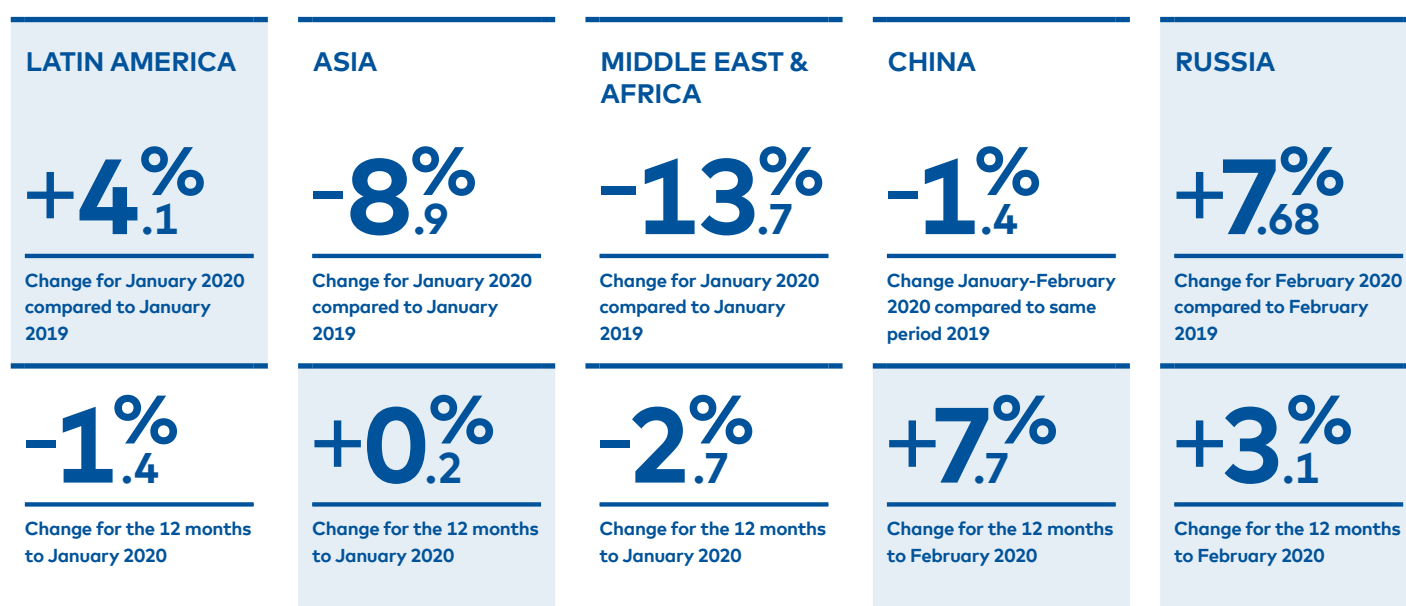
Exports for the 12 months to February 2020 were down 2.0%, or 48,190 MT, on the previous comparable period, driven by whey and AMF, down a combined 74,313 MT, but partially offset by an increase in WMP and fluid milk products.

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.



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



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.

Latin America dairy import volumes¹ 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 were up 0.2%, or 10,084 MT, compared to the same period the previous year.

Asia (excluding China) dairy import volumes¹ 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.

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.

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.

Middle East and Africa dairy import volumes¹ 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.

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

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.

Imports for the 12 months to February 2020 were up +3.1% or +31,698 MT compared to the same period the previous year. This was mainly driven by AMF, Butter, Casein, Cheese, Dairy Spreads, , Fluid & Fresh, Ice cream, Whey and WMP being up a combined +70,097 MT. Offset by Caseinate Infant Formula, Cultured Products, Lactose, SMP, MPC and WPC being down a combined -38,398 MT.

Russia import volumes were down -7.68% or -6,989 MT for February 2020 compared to the same month the previous year.

¹. Estimates are included for those countries that have not reported data.

Sources: Data from Global Trade Information Services; EU Milk Market Observatory; FAO; Highground Trading Group



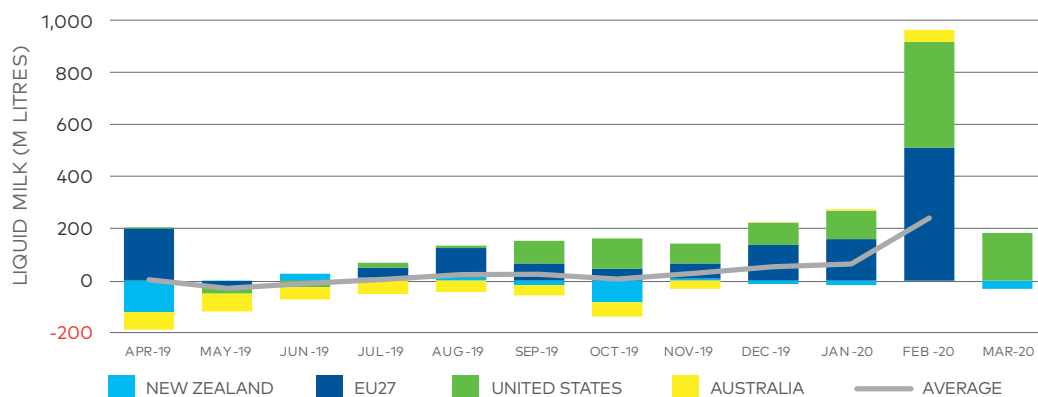
Global Dairy Market

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.

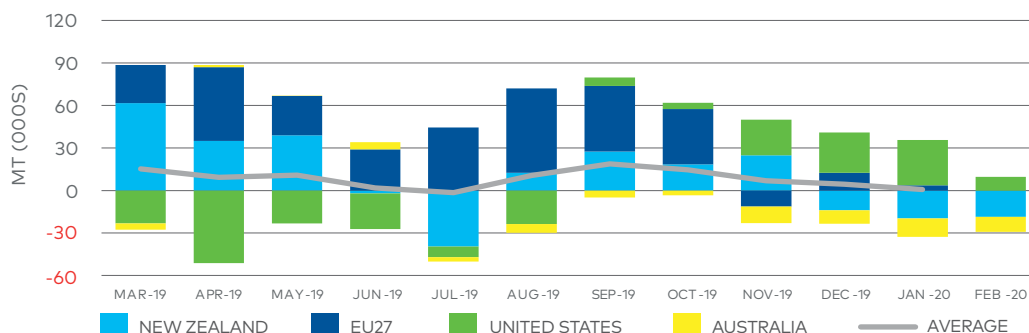
The absolute size of the bars represent the change in imports, exports or production, relative to the same period the previous year.

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

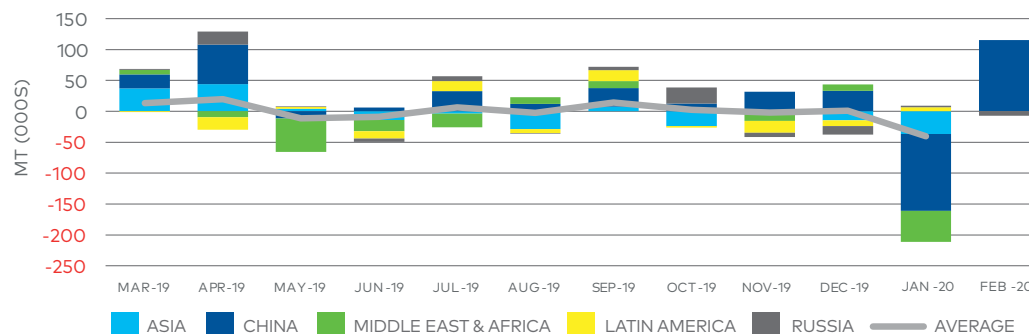
PRODUCTION



EXPORTS



IMPORTS





Food Price

The FAO Food Price Index (FFPI) averaged 165.5 points in April, representing a drop of 3.4%. It marks the third consecutive monthly fall for the index, which is now at its lowest level since January last year. It's largely due to several negative impacts on international food markets through the Covid-19 pandemic. With the exception of the cereal sub-index, all other sub-indices had significant month-on-month declines.

Meanwhile, the FAO Dairy Price Index averaged 196.2 points in April, down 3.6%. The sub-index is now down 8.8% from its value at the same time last year. Quotations for butter, skim milk powder (SMP) and whole milk powder (WMP) all fell by more than 10%, due to increased export availabilities, mounting inventories and weak import demand. However, cheese rebounded moderately, due to limited spot supplies from Oceania amid its seasonal decline in production.

Source: FAO



Economic

Composite leading indicators (CLIs) for March represented the largest drop on record for most major economies. This is due to the considerable economic shock of the Covid-19 pandemic and the immediate impact it's had on production, consumption and confidence.

However, care is being urged in interpreting the CLI. The ability of the leading indicators to predict future business cycle movements has been severely curtailed due to the uncertainty around how long current lockdown measures around the world will last. Also, the magnitude of the CLI decline shouldn't be regarded as a measure of contraction in economic activity. Instead, it should be seen as an indication of the strength of the signal that economies have entered a phase of contraction. For comparison, the current signal is stronger than that seen during the Global Financial Crisis.

Source: OECD

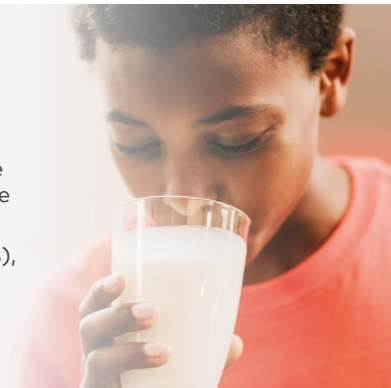


Consumer

The Covid-19 pandemic has seen the EIU revise its growth forecasts for 2020. They now believe global output will contract by 2.5% this year - down from the full-year forecast for growth of 2.3% prior to the coronavirus outbreak. The EIU also expects all G7 countries and most of the G20 countries to experience a full-year recession.

The US's output is now expected to contract by 2.9% in 2020 (down from a forecast for growth of 1.7%), while China's real GDP growth is expected to drop to just 1% this year (down from 5.9%). The EIU also says the euro zone will experience a contraction of 6% in GDP.

Source: Economist Intelligence Unit



Weather

There was continued drought for many regions across New Zealand in March, particularly in the upper North Island. This affected milk production for the month, prompting some farmers to dry-off their herds earlier than usual.

Across the Tasman, rainfall in many regions offset the impact of dry conditions, with Australia's milk production showing signs of recovery. This is being driven by growth in output from regions in Victoria and Tasmania.

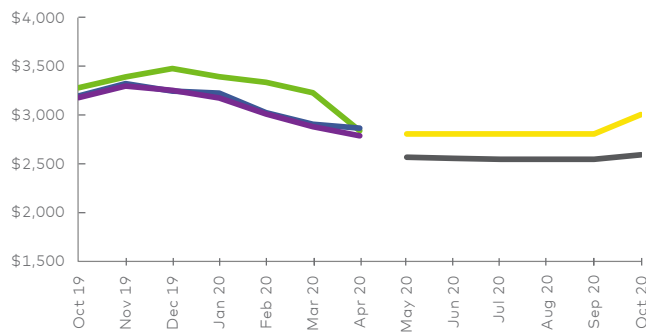
Meanwhile, warmer-than-normal weather over central and northern Europe eased winter crops out of dormancy in the east and accelerated wheat and rapeseed development in the warmer western growing areas. However, crop development slowed somewhat with cooler conditions by month's end.

Source: World Agricultural Weather Highlights USDA oCOE, Fonterra Ingredients Australia





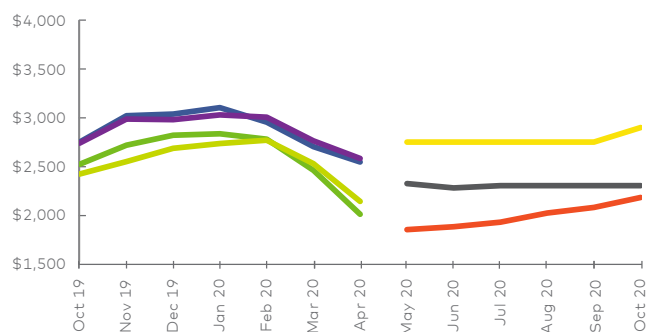
WMP



WMP prices dropped for the 4th month in a row across the board for April. The largest coming from Dutch Dairy Board which dropped -12.1% to USD \$2,834/MT. USDA Oceania & GDT down -3.3% and -1.4% respectively.

Futures and forecasts for the next six-months have shown mixed results. Rabobank Oceania has raised its average +1.2% to USD \$2,833/MT, predicting a slight upturn towards October. NZX Futures has decreased theirs a further -2.7% from last perspective to an average USD \$2,553 /MT.

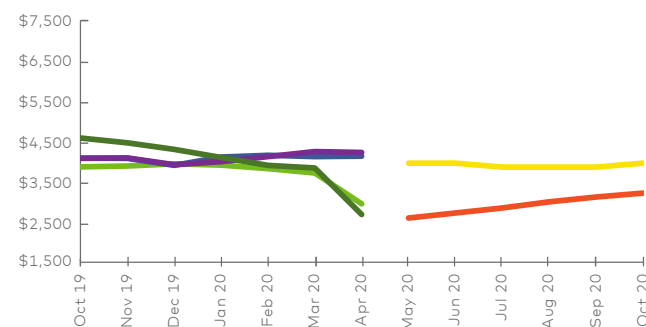
SMP



The decline continues for SMP prices as we see a third consecutive drop across the board, with some double-digit declines. USDA NASS has dropped -15.5% to USD \$2,136/MT. USDA Oceania dropped -6.6% to USD \$2,581/MT and Dutch Dairy Board showed a -18.4% drop to USD \$2,004/MT. GDT showed a decline of -5.9% to USD \$2,544/MT.

This has resulted in the Forecast and futures being revised down with some large drops in average prices over the next 6 months. Rabobank Oceania has stayed flat at USD \$2,775/MT. CME Futures has dropped its 6-month average -6.4% to USD \$1,985 /MT. NZX Futures has dropped theirs -2.1% to USD \$2,299/MT.

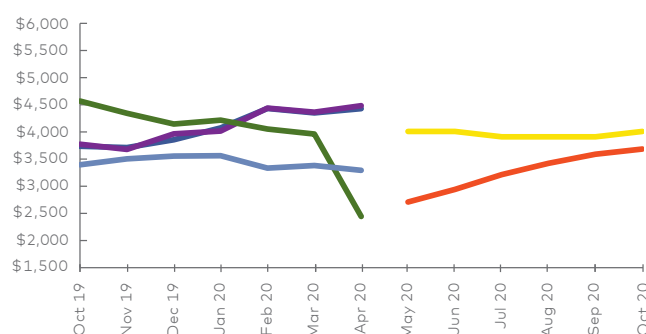
BUTTER



There were large movements this month in the Northern Hemisphere Butter prices. USDA Oceania and GDT both have stayed flat at USD \$4,275/MT and USD \$4,183/MT respectively. However double digit-declines have been reported with CME Spot dropping -30.6% to USD \$2,693/MT and Dutch Dairy Board declining a further -20.9% to USD \$2,965/MT

As a result, we see CME Futures drops their average another -17.5% to USD \$2,932/MT and Rabobank Oceania average prices remain flat at USD \$3,950/MT.

CHEESE



April brings mixed results for cheddar cheese. GDT has shown a slight +1.8% uplift to USD \$4,423/MT. USDA Oceania also saw a rise of +2.7% to USD \$4,475/MT. CME Spot saw the largest decline of -38.6% to USD \$2,426/MT and EU commission also saw a -2.6% drop to USD \$3,282/MT.

CME Futures 6-month average has dropped a further -7.8% to USD \$3,248/MT and Rabobank Oceania's average holds at USD \$3,950/MT

Actuals

GDT Fonterra Dutch Dairy Board USDA Oceania
USDA NASS CME Spot EU Commission

Forecasts

NZX Futures CME Futures
Rabobank Oceania



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GDT Results

TRADING EVENT 259

-0.8%

Change in GDT Price Index from previous event

USD 2,866

Average price (USD/MT, FAS)

WMP

+0.1%

\$2,745

AMF

-2.4%

\$3,973

SMP

+0.1%

\$2,373

BUTTER

-5.8%

\$3,867

RENNET CASEIN

-5.1%

\$8,891

CHEDDAR

-6.8%

\$4,115

LACTOSE

+7.9%

\$1,153

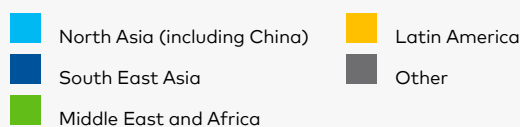
BMP

-10.3%

\$2,107

GDT SALES BY DESTINATION

TRADING EVENT 258



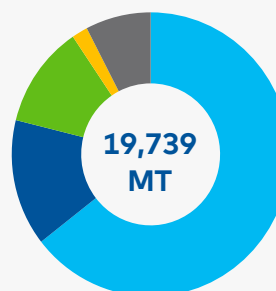
The next trading event will be held on 19 May 2020.
Visit www.globaldairytrade.info for more information.

Dairy commodity prices and New Zealand dollar trend

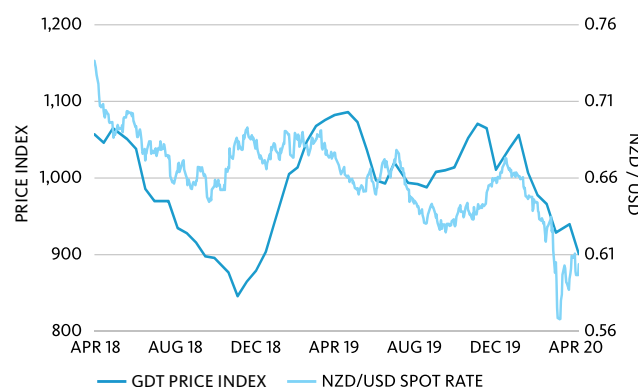
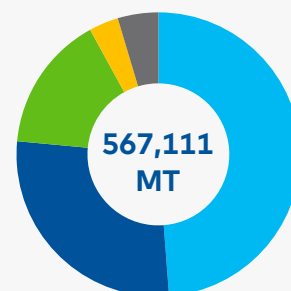
COVID-19 continued to spread across the globe and by mid-March the World Health Organisation had officially classified the outbreak a 'pandemic'. Most developed nations moved into various states of 'lock-down' in an effort to slow the spread of the

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.

Trade Event 258



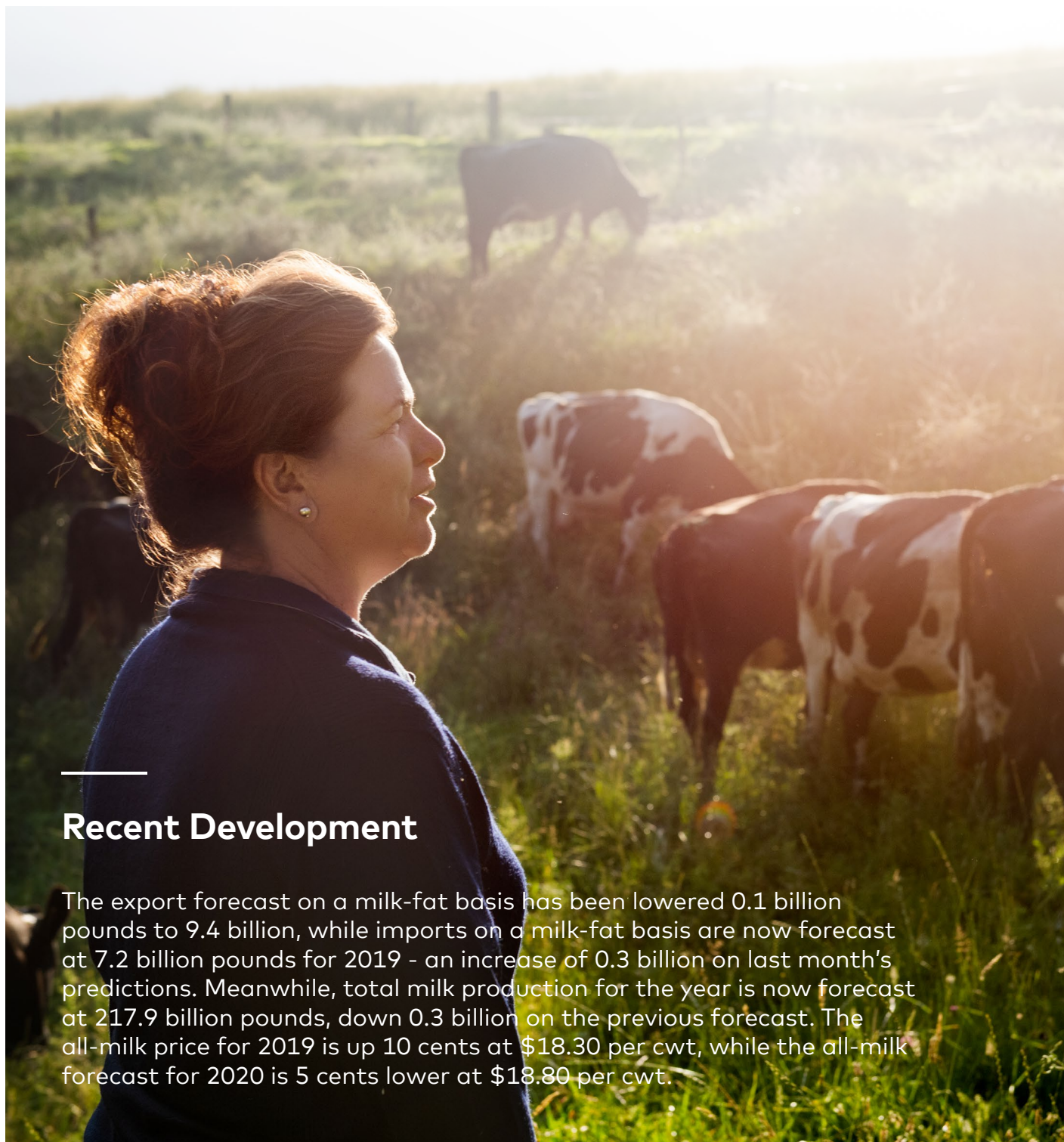
Financial Year to Date





USDA, Dairy Outlook

Published April 15, 2020



Recent Development

The export forecast on a milk-fat basis has been lowered 0.1 billion pounds to 9.4 billion, while imports on a milk-fat basis are now forecast at 7.2 billion pounds for 2019 - an increase of 0.3 billion on last month's predictions. Meanwhile, total milk production for the year is now forecast at 217.9 billion pounds, down 0.3 billion on the previous forecast. The all-milk price for 2019 is up 10 cents at \$18.30 per cwt, while the all-milk forecast for 2020 is 5 cents lower at \$18.80 per cwt.

While it's clear the Covid-19 pandemic has brought about messy market conditions in dairy markets, the extent of the problems is still very uncertain, with the situation continuing to evolve.

Domestic demand for dairy products has declined due to the crisis, with Americans likely scaling back consumption of some dairy products in the face of financial hardship. In addition, Americans typically consume large quantities of cheese, butter, and other dairy products through food service establishments. With the shift to more at-home food consumption now, people are eating less of these products. At the same time, the dairy industry is entering its peak season of milk production. Since similar dairy industry shocks are happening around the world, global dairy trade is also affected, limiting the ability of US suppliers to export their dairy products.

From the week ending February 29 to the week ending April 4, most wholesale dairy product prices reported in the USDA National Dairy Products Sales Report (NDPSR) declined significantly. The butter price fell by 14.8 cents to \$1.6209 per pound. The nonfat dry milk (NDM) price dropped by 14.7 cents to \$1.0773 per pound. Prices for Cheddar cheese 40-pound blocks and 500-pound barrels fell to \$1.8215 (-8.3 cents) and \$1.4784 (-12.6 cents), respectively. However, the dry whey price was little changed at \$0.3767 per pound (up 0.02 cents).

The most recent Chicago Mercantile Exchange (CME) spot prices for dairy products have been considerably lower than the most recent NDPSR prices. From the trading week ending February 28 to the trading week ending April 10, prices for butter, NDM, and dry whey fell to \$1.2669 (down 45.5 cents), \$0.8913 (-20.7 cents), and \$0.3375 per pound (-1.3 cents), respectively. Prices for Cheddar cheese 40-pound blocks and 500-pound barrels also fell to \$1.1094 (-63.7 cents) and \$1.0638 (-52.6 cents), respectively. CME average prices for butter and Cheddar cheese were the lowest since 2009.

According to USDA National Agricultural Statistics Service (NASS), milk production in the US during February totalled

17.865 billion pounds. Daily milk production in February averaged 616.0 million pounds, up 1.7 percent on February last year. NASS reported that milk cows averaged 9,370 million head, an increase of 9,000 head from January. Milk per cow was 1,907 pounds in February, meaning daily milk per cow averaged about 65.8 pounds - an increase of 1.5 percent on February last year.

In February, US exports on a milk-fat milk-equivalent basis totalled 733 million pounds, up 59 million on January, but down 74 million on the same time last year. On a skim-solids milk-equivalent basis, exports totalled 3.438 billion pounds, down 368 million on January, but up 277 million on February 2019. Exports of NDM and lactose both fell from January to February, to 120.1 million pounds (-33.3 million) and 69.1 million pounds (-4.8 million), respectively. Cheese exports totalled 68.2 million pounds in February, up 6.4 million on January, but down 3.5 million on February last year. Exports of butterfat products (anhydrous milk fat, butteroil and high-fat dairy spreads) totalled just 0.5 million pounds in February. This is about the same as January, but is 1.3 million lower than February 2019.

There's been concern about the impact of the pandemic on dairy exports to China, but despite some supply-chain disruptions during February, US dairy exports to China remained relatively strong.

US dairy imports on a milk-fat basis were 496 million pounds in February, down 47 million on January but up 66 million higher on February 2019. On a skim-solids basis, February imports totalled 492 million pounds, 16 million higher than January and 57 million higher than February last year. Imports of butter in January and February were low compared to 2019, at 3.5 million pounds (down 1.3 million) and 4.8 million pounds (down 0.3 million), respectively.

Dairy ending stocks for February were relatively high. On a milk-fat basis, they totalled 16.422 billion pounds, up 1.094 billion on the same time last year. On a skim-solids basis, they totalled 11.095 billion pounds, up 71 million on February 2019.





Dairy forecasts for 2020

Published April 15, 2020

Milk cow number estimates reported by NASS for January and February were both higher than expected. The milk cow forecast for the first quarter of 2020 has therefore been revised up to 9.365 million head, an increase of 15,000 on the previous forecast. However, due to the downturn in prices, milk cow numbers are expected to contract through the rest of the year. The annual average for 2020 is 9.350 million head, up 5,000 higher on last month's forecast. Lower expected prices will likely affect yields, with average milk per cow for 2020 forecast at 23,765 pounds – a decrease of 15 pounds per cow.

The 2020 forecast for exports on a milk-fat basis is 8.9 billion pounds, down 0.3 billion on last month's predictions. Exports on a skim-solids basis are forecast at 42.1 billion pounds, 1.8 billion lower than previously forecast. Expectations for exports of cheese, butterfat products, NDM and SMP, and lactose are also lower. The 2020 forecast for imports on a milk-fat basis is 6.6 billion pounds, down 0.2 billion on last month's forecast, as demand for butter and butterfat product imports is expected to be weaker. The annual forecast for imports on a skim-solids basis is unchanged at 5.6 billion pounds.

The forecast for domestic commercial use has been lowered to 217.0 billion pounds on a milk-fat basis, down 1.2 billion. The pandemic is expected to have negative effects on both cheese and butter demand. On a skim-solids basis, domestic use has been raised 0.6 billion pounds to 183.3 billion. (Note that milk marketed but not processed is included in the 2020 forecasts for domestic commercial use.) With weaker expected demand, stocks are expected to be much higher. The forecast for ending stocks has been raised to 15.3 billion pounds on a milkfat basis (up 1.2 billion) and to 11.4 billion pounds on a skim-solids basis (up 1.0 billion).

With recent price weakening and lower expected demand, 2020 price forecasts for cheese, butter, NDM, and dry whey have been lowered to \$1.380 (-37.5 cents), \$1.430 (-41.5 cents), \$0.955 (-22.0 cents), and \$0.345 per pound (-1.0 cent), respectively. The Class III milk price forecast has therefore been lowered by \$3.90 to \$12.75 per hundredweight (cwt), and the Class IV price forecast has been lowered by \$3.60 to \$12.15 per cwt. The all-milk price forecast for 2020 is \$14.35 per cwt, down from last month's forecast of \$18.25 per cwt.

Blimling, Forecast Update

Published April 2, 2020

Blimling predicts cheese prices will face continued pressure over the coming months, with unprecedented demand losses and heavy supply. But when lockdown restrictions relax and life begins to return to normal, they say the rebound will be fast and bigger than anticipated.

Meanwhile, a glut of butter in the US is about to become even bigger. Blimling expects this increased supply and collapsing demand to push spot butter values to new multi-year lows. They predict price rebounds will likely be modest.

More milk is expected to move into NDM production over the next few months – and not just in the US. Global demand will likely remain weak through the Covid-19 pandemic and US values will likely move lower before finding some support as EU intervention comes into play.

Dry whey prices will also likely take a step back, with a collapsing NDM market putting some indirect pressure on dry whey values, too. Blimling says export demand should help limit some downside, however the continuing spread of African Swine Fever could see interest dry up.



Fonterra draws the information in this update from a variety of principally external sources listed below. Also included are defined acronyms for better understanding.

AMF Anhydrous Milk Fat

BMP Butter Milk Powder

CME Chicago Mercantile Exchange

DDB Dutch Dairy Board

EIU Economist Intelligence Unit

FAO United Nations Food and Agriculture Organisation

Farmgate Milk Price The price for milk supplied in New Zealand to Fonterra by farmer shareholders

Fluid and Fresh Dairy 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

FTA Free Trade Agreement

GDI Global Dairy Intelligence group, Fonterra Cooperative Group Limited. GDI provides insights to Fonterra management based on a model of the global dairy market developed by GDI and populated with publicly available data. The model outputs referenced in this report do not reflect Fonterra's non-public production or sales data

GDP Gross Domestic Product

GDT Global Dairy Trade auction platform

GDT Price Index is an index that provides a measure of the weighted average percentage change in the movement in price of all products sold on GDT. This provides a simple measure of changes in dairy price between trading events

IMF International Monetary Fund

Informa Informa Economics Inc., Dairy Group, Global Dairy Market Report

LME Liquid Milk Equivalent

MAT Moving Annual Total (this is data averaged across the 12 month period)

MEA Middle East and Africa

NDM Non-fat Dry Milk

NZX NZ Stock Exchange

OECD Organisation for Economic Co-operation and Development

Q[1] [First] Quarter

Reference Products The dairy products used in the calculation of the Farmgate Milk Price, which are currently WMP, SMP, BMP, butter and AMF

SEA South East Asia

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

TE GDT Trading Event

USDA NASS US Department of Agriculture National Agricultural Statistics Service

USDA Oceania US Department of Agriculture Agricultural marketing service price series for specific products in the Oceania region

WMP Whole Milk Powder

YOY Year-on-year

YTD Year to date



Tracking the global dairy market Production, Export and Import charts

The production, export and import charts illustrate year-on-year changes in production, exports and imports for a range of countries that are important players in global dairy trade.

The absolute size of the bars represents the change in production, exports or imports compared to the same month the previous year. The portion of the bar below zero represents a year-on-year decrease and the portion above the line shows the year increase for that country. Where countries are not shown this is likely due to the data not yet being available.

Weather Source (Page reference – 13)

Comments on weather are obtained from various government weather sites as well as independent reports including Martell Crop Projections. Global milk production data is sourced from government and industry websites including US Department of Agriculture (USDA), EuroStat, Dairy Australia, Dairy Companies Association of New Zealand (DCANZ) and others.



Important note: The information and commentary contained in this 'Perspective from NZMP' is based on publicly available official government statistics; industry association reports; other published industry reports together with data and insights developed by Fonterra's Global Dairy Intelligence group ('GDI'). These sources are identified as appropriate in this 'Perspective from NZMP'. GDI insights and data are derived from a global dairy market model populated by publicly available data. The model inputs and outputs do not reflect Fonterra's non-public production, pricing or sales data. Fonterra Co-operative Group Limited and its group members involved in the manufacture or sale of NZMP branded products ('Fonterra') has provided this 'Perspective from NZMP' for informational purposes only. It does not constitute recommendations or advice for the purposes of making financial decisions regarding trading in dairy products or commodities, or dealing in financial instruments relating to dairy commodities. Although every effort is made to ensure the accuracy of reproducing and interpreting such information, no warranty or representation of such is made and Fonterra shall have no liability in respect of any reliance placed on such information in the formulation of any business decision.