



PERSPECTIVE

June 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!

June 2020

It has been several months since the World Health Organisation classified COVID-19 as a Pandemic. Since then we have seen unprecedented global impact, and we have been working hard to support our community, customers & partners now and into the future.

As an industry, we are looking forward, and making plans to get through this together. One of the first steps is to ensure you have all the information you need to make educated decisions. That is why this month, **James Caffyn**, joins us from GIRA to share his thoughts on how the COVID-19 Pandemic will continue to impact the dairy industry, and how we can prepare to get through this. Whilst the future is never certain, it is important to be prepared and aware that there will be COVID-19 influence across most sectors, including dairy.

Our team are here to support you, and as always, we are available to answer questions or provide guidance, and for the latest information on how Fonterra is responding to COVID-19 please refer to the webpage [here](#).

Four key movements for the month:



Production – Monthly New Zealand production flat. Australia production continues to improve. US and EU new season production up.



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



Imports – China monthly imports up. Latin America, Asia and Middle East and Africa imports down.



Prices – **GDT Event 261** had mixed movements, resulting in the GDT price index staying relatively flat with only a +0.1% change to USD \$2,902/MT. The largest movements came from Butter Milk Powder, Cheddar and Butter which moved +9.4%, -5.3% & -4.4% 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

In this issue

	Feature article	4
	Global production	8
	Fonterra milk collection	9
	Global exports	10
	Global imports	11
	Tracking the global dairy market	12
	Global indicators	13
	Commodity prices	14
	GDT results	15
	Industry commentary	16
	Glossary	20



COVID-19 Dairy Impact Analysis.



James Caffyn
Senior Consultant, GIRA



Gira is a strategy consulting and market research firm operating worldwide throughout the entire food and drink value chain, with a focus on the meat, dairy and bakery sectors.

James Caffyn is a Senior Consultant with Gira responsible for managing a wide range of strategy and due diligence projects throughout the value chain in emerging and developed markets. Whilst working in a range of food and drink industries, he specialises in the animal protein and dairy sectors, and has managed projects for leading global companies, with a focus on growth, market entrance & investment strategy.

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James Caffyn joins us from GIRA this month to share his thoughts on how the COVID-19 Pandemic has impacted the dairy industry, and how we can prepare to get through this. Whilst the future is never certain, it is important to be prepared and aware that there will be COVID-19 fall out across most sectors, including dairy.

The COVID-19 impact on dairy

COVID-19 has already had global effects, with significant economic implications across all regions. The dairy industry has already seen negative impacts, essentially due to the unprecedented global halt to foodservice and consumers downtrading away from added value.

But along with pharmacy and some hi-tech, dairy will certainly be more sheltered from the global downturn than most sectors.

As we saw in 2009/10, it can take some time for consumers to return to more expensive added value and convenience products.

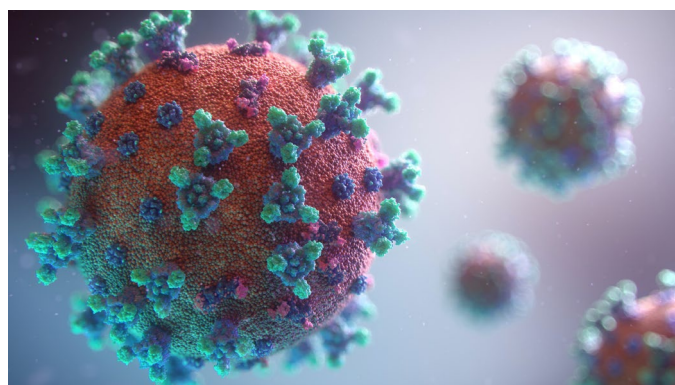
GIRA predicts that dairy consumption in the EU and the US will fall sharply in 2Q20 hit by the first wave of COVID-19 induced restrictions, with subsequent declines increasingly driven by the ensuing economic fallout.

However, unlike the long 2008 economic crash, a faster rebound in demand is expected, with China in particular helping.

Both the EU and US will be hard hit, but the stronger than anticipated lift in retail sales has helped temper the supply and demand imbalance.

Responses at a farm level have varied between markets, with efforts made in the US to reduce the volume of milk entering the formal channels and therefore temper the extent of the supply and demand imbalance. However, the greater foodservice exposure here will be an issue, particularly for cheese.

The tipping of US milk has not been mirrored in the EU, and as such, supply and demand is expected to be more imbalanced.



Government response impact

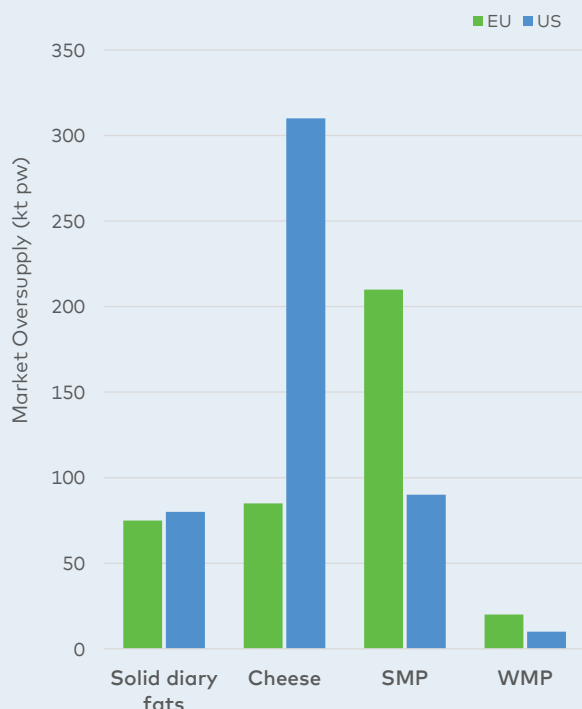
Major government efforts underway may provide some short-term support to the industry.

However, the inevitable market imbalances will result in the development of stocks,

particularly for cheese in the EU and cheese and SMP in the US; SMP intervention stocks could develop in the EU, and India is also accumulating significant SMP stocks. As we have seen not so long ago with SMP in the EU, any large public stock overhang will have negative price implications for some time into the future, and not just in the EU.

In both the EU and the US, policies to temper the impact of COVID-19 on dairy look to take product out of the supply chain. But they diverge when it comes to how this is to be done; EU policy will result in public and probably also private stock accumulation, whilst US policy will initially divert product to other sales channels such as food banks. US policy could result in greater short-term market stress but could result in a more rapid recovery. While EU policy may limit the immediate downside, it could well result in a prolonged period of suppressed dairy prices.

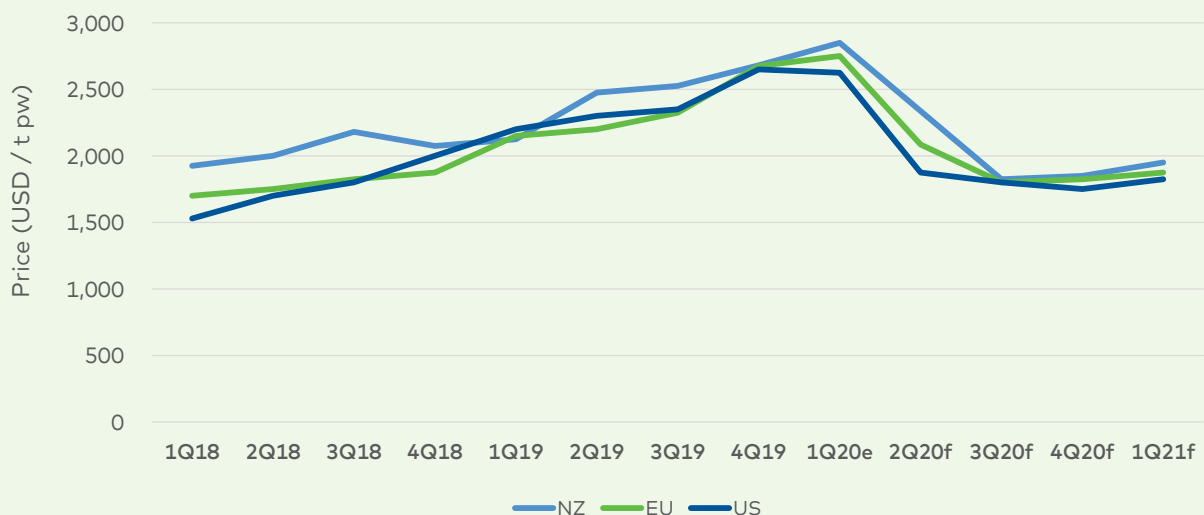
EU & US Stock Growth, 2Q-4Q 2020



Source: Gira estimates



EU, US & NZ SMP Prices, 1Q18-1Q21f



All dairy commodity prices are expected to trend down through 2020, with the largest drop expected in the second and third quarter of 2020.

The strong retail lift and disproportionate food expenditure is likely to impact the depth of the price decline. The major question remains whether this can be maintained as lockdown eases, government income support perhaps wanes, and expenditure patterns return to normal to the detriment of food and drink.

Whilst China currently represents the only bright spot, the scale of its imports will not be sufficient to support the industry.

The short-term price lifts in the EU & US markets are likely to be short-lived, with many of the limited fundamentals supporting these likely to dissipate and with this, much of the positive market sentiment.

It is likely the volume loss for markets will be less extreme than initially envisaged, but from a value

perspective, this will be a tough 12-18 months for the dairy industry globally.

Corporate evolution & opportunities

Those with stronger balance sheets will be best positioned to weather the storm and take advantage of the considerable opportunities for expansion and market share gains that will likely ensue when the recovery comes.

The best-equipped companies will look to rapidly adjust their strategies to fit with the "new normal" dairy world post COVID-19.

Several already underlying trends are likely to be accelerated by COVID-19. Sustainability has been gaining traction for years already; assuming consumer spending power is not too badly hit, it is plausible to imagine a post-Covid world where sustainability will have an even greater impact on consumer purchasing. Increased supply chain scrutiny is likely to take place.

It will be key for dairies to capitalise on sales channel shifts, with more lean, flexible and agile corporate structures required to take advantage of these opportunities.

In the wake of COVID-19, health and food-as-medicine could take off again;

the importance of science in consumer choice will likely further increase, with major implications for both products and production methods. This could also act to accelerate the advance of dairy alternatives.

Conclusion

Most dairy processor margins will be highly pressured in the coming months. Any unjustifiably high corporate valuations will fall sharply, and for some, opportunities will develop to expand by acquisition into new product categories, growing brand portfolios and entering new geographies.

Want to read more?



COVID-19 drives immunity awareness:

<https://www.nzmp.com/global/en/news/coronavirus-fueling-immunity-awareness.html>



10 statements on nutritional management of COVID-19:

<https://www.nzmp.com/global/en/news/nutrition-malnutrition-coronavirus.html>



Ingredients to support immunity:

<https://www.nzmp.com/global/en/news/ingredients-for-immunity.html>





Monthly New Zealand production flat. Australia production continues to improve. US and EU new season production up

NEW ZEALAND	AUSTRALIA	EUROPEAN UNION	USA
-0%.₆	+7%.₁	+0%.₉	+1%.₅
Change for April 2020 compared to April 2019	Change for March 2020 compared to March 2019	Change for March 2020 compared to March 2019	Change for April 2020 compared to April 2019
-0%.₅	-3%.₄	+1%.₀	+1%.₃
Change for the 12 months to April 2020	Change for the 12 months to March 2020	Change for the 12 months to March 2020	Change for the 12 months to April 2020

New Zealand milk production for the 12 months to April was also relatively flat, 0.5% lower than last year.

New Zealand milk production¹ was relatively flat, down 0.6% on a litres basis (down 0.8% on milk solids basis) in April compared to April last year.

Dry conditions continued across most of New Zealand and affected April milk production. The ongoing lack of rain resulted in soils remaining considerably drier than normal in many parts of the North Island.

Production for the 12 months to March was down 3.4% on the previous 12 months.

Australia milk production increased 7.1% in March compared to the same period last year.

Milk production is continuing to increase in the second part of the season especially from Victoria and Tasmania as a result of more favourable weather conditions.

EU milk production increased by 0.9% in March compared to the same period last year as the EU season gets underway.

The largest production growth was seen in Spain (up 7.1%), followed by The Netherlands (3.0%) and Poland (1.9%) but decreases were experienced by Italy (2.8%) and the UK (2.4%).

With a demand slowdown in response to the pandemic, milk is being redirected towards powders and the European Milk Board is pushing for excess supply to be reduced through a voluntary supply reduction.

Milk production for the 12 months to April was 1.3% higher compared to the same period last year.

US milk production increased by 1.5% in April compared to the same period last year.

Despite lower foodservice demand, US milk production continued to grow year on year. Supply restrictions were put in place by some co-operatives given the lower demand and prior months' milk growth.

Herd sizes decreased for the first time since December as cow cull numbers ramped up.

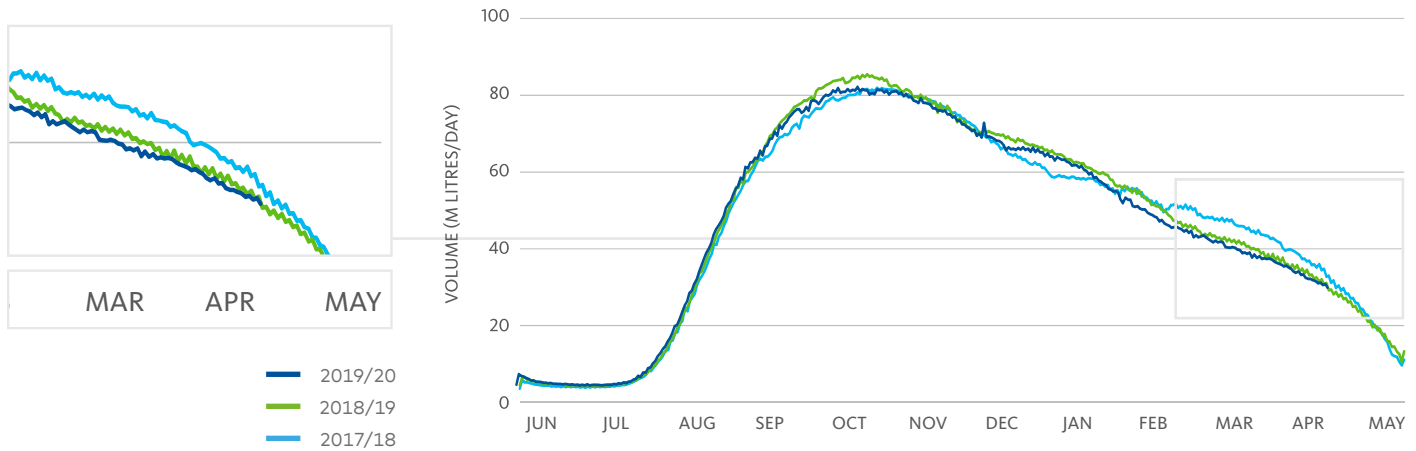
¹: New Zealand production is measured in litres.

Note: 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

-2%.₆

Change for April 2020 compared to April 2019

-0%.₅Season to date
1 June to 30 April

Fonterra's New Zealand collection in April was 106.3 million kgMS, 2.6% less than the same month last season.

Season-to-date collection was 1,447.2 million kgMS, down 0.5% on last season.

Drought conditions lingered throughout April as rainfall across northern and eastern areas of both islands was less than 50% of normal levels. Even so, many regions had more rain in April than in the entire first quarter of the year.

AUSTRALIAN COLLECTION

+0%.₆

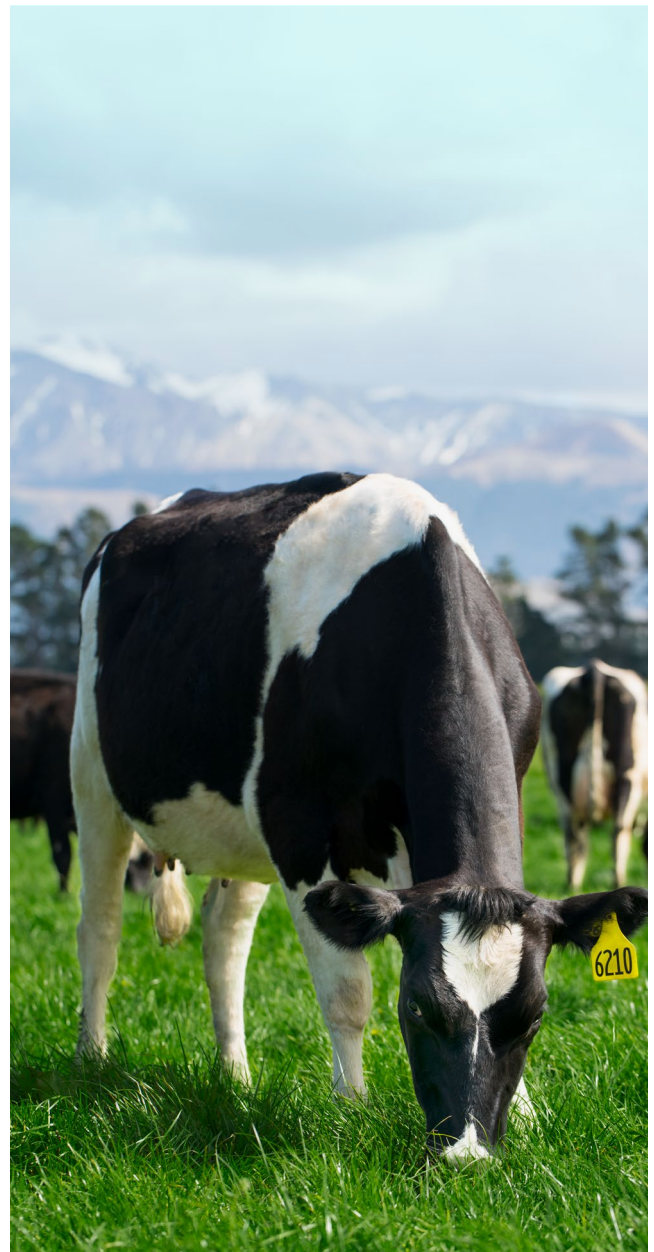
Change for April 2020 compared to April 2019

-12%.₉Season to date
1 July to 30 April

Fonterra's Australia collection in April was 7.9 million kgMS, an increase of 0.6% on April last season.

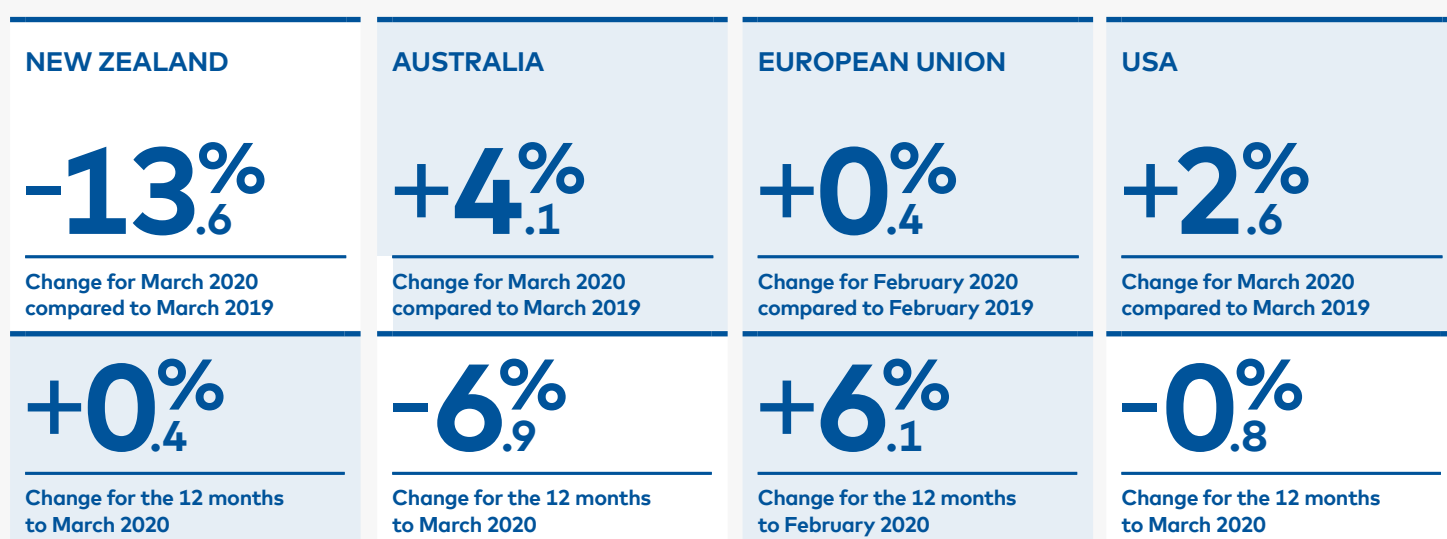
Milk collections are stabilising on improved seasonal conditions over the February-April period. Milk production outlooks are improving for the remainder of the season and into FY21.

Season-to-date collections reached 93.2 million kgMS, down 12.9% on the same period last season with losses primarily to milk brokers in a highly competitive milk supply market.





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



Exports for the 12 months to March were up 0.4%, or 13,962 MT, on the previous comparable period. This was primarily driven by WMP and fluid milk products.

Total New Zealand dairy exports decreased by 13.6%, or 46,715 MT, in March compared to the same period last year. However, March 2019 was a strong export month.

March exports were primarily driven by lower demand for WMP from Thailand (down 5,000 MT), China (2,700 MT), and Saudi Arabia (2,600 MT).

Exports for the 12 months to March were down 6.9%, or 54,004 MT, on the previous comparable period.

Declines were recorded across a broad range of products with SMP, whey, infant formula and cheese down 70,606 MT but partially offset by increases in fluid milk products, up 29,524 MT.

Australia dairy exports increased by 4.1%, or 2,700 MT, in March compared to the same period last year. This was primarily driven by whey and cheese, up a combined 2,941 MT.

Exports for the 12 months to February were up 6.1%, or 332,657 MT, on the previous comparable period. Fluid milk products, SMP, butter and cheese were the main drivers of this growth, up a combined 313,937 MT.

EU (including UK) dairy exports increased by 0.4%, or 1,560 MT, in February compared to the same period last year but at a slower pace than the past two months. This was mainly driven by increases in butter, cheese, and fluid milk products to China, up a combined 16,188 MT, and largely offset by a decrease in SMP exports to Asia of 13,844 MT.

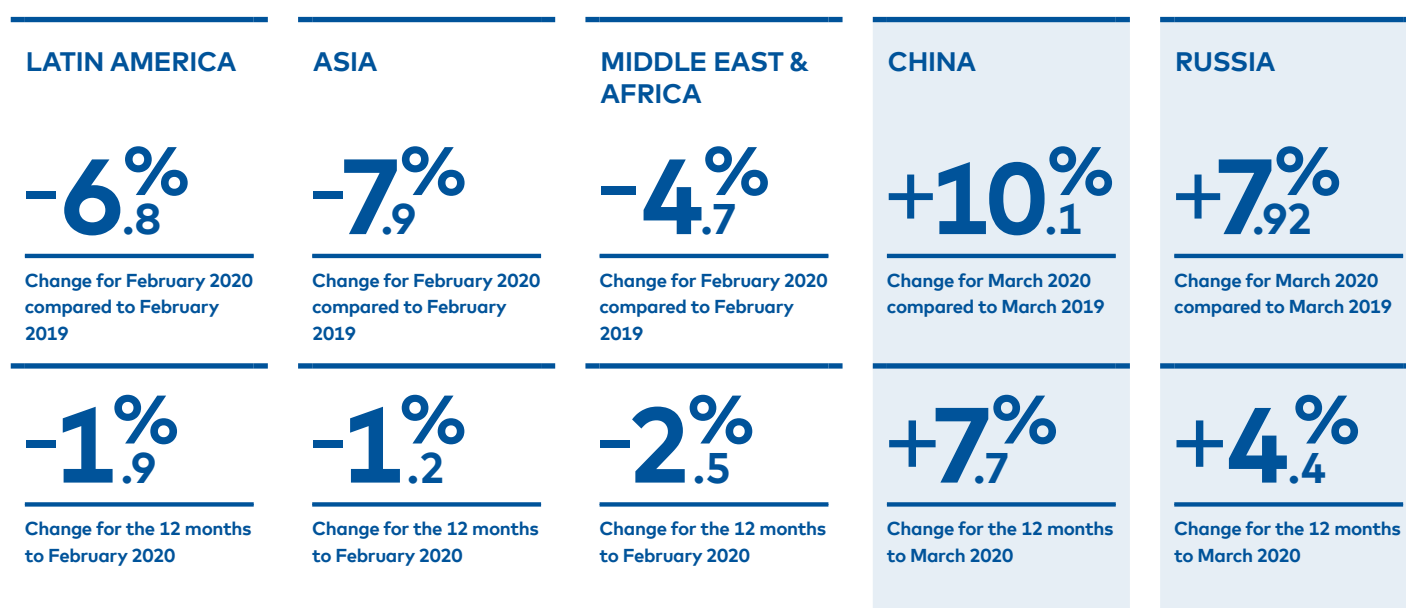
Exports for the 12 months to March 2020 were down 0.8%, or 19,775 MT, on the previous comparable period, driven by whey and AMF, down a combined 65,122 MT, but partially offset by an increase in SMP up 29,527 MT.

US dairy exports increased 2.6%, or 5,278 MT, in March compared to the same period last year, although the pace continued to slow compared to prior months.

The increase was driven by SMP to Indonesia, whey to China and WMP to Peru, up a combined 8,050 MT.



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



Imports for the 12 months to February were down 1.9%, or 37,566 MT, on the prior comparable period. Decreases were driven primarily by infant formula, WMP and whey, down a combined 67,848 MT, largely offset by increased WPC, up 19,981 MT.

Latin America dairy import volumes¹ decreased 6.8%, or 10,296 MT, in February compared to February last year. This was driven by lower demand for SMP to Mexico, WMP to Brazil and infant formula to Colombia and Guatemala, down a combined 14,940 MT. Cheese imports to Mexico and El Salvador increased by 3,297 MT.

Imports for the 12 months to February were down 1.2%, or 59,855 MT, compared to the same period the previous year.

Decreases were recorded for SMP, fluid products, WMP and whey, down a combined 95,675 MT, but offset by increases in cheese and lactose of 30,423 MT.

Asia (excluding China) dairy import volumes¹ decreased 7.9% or 31,804 MT, in February compared to the same period last year. Decreases were recorded for SMP to Vietnam and Philippines, fluid milk products to Philippines and whey to Indonesia, down 34,799 MT.

Imports for the 12 months to February 2020 were down 2.5%, or 102,864 MT, compared to the same period last year. This was driven by large decreases in WMP and fluid milk products, down a combined 121,766 MT, and partly offset by an increase in SMP of 31,760 MT.

Middle East and Africa dairy import volumes¹ decreased 4.7%, or 15,659 MT, in February compared to the same period last year. Decreases were recorded principally in infant formula to Nigeria and fluid milk products to Iraq and Libya, down a combined 23,723 MT.

Imports for the 12 months to March were up 7.7%, driven by fluid milk products and WMP.

China dairy import volumes increased by 10.1%, or 23,958 MT, in March compared to the same period last year.

The increase was the result of higher volumes across most products with whey, butter, SMP, cheese and WMP, up a combined 22,373 MT.

As the peak of the pandemic passes and the economy begins to slowly reopen, the increase in imports may not be sustained once inventory levels are rebuilt.

Imports for the 12 months to March 2020 were up +4.4% or +45,310 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 +83,682 MT. Offset by Infant Formula, Cultured Products, Lactose, SMP, MPC and WPC being down a combined -37,853 MT.

Russia import volumes were up +7.92% or +7,346 MT for March 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



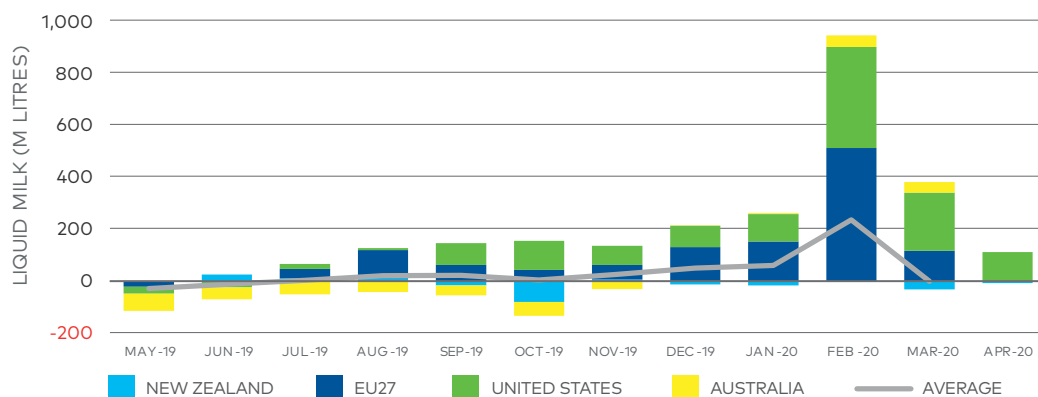
Global Dairy Market

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.

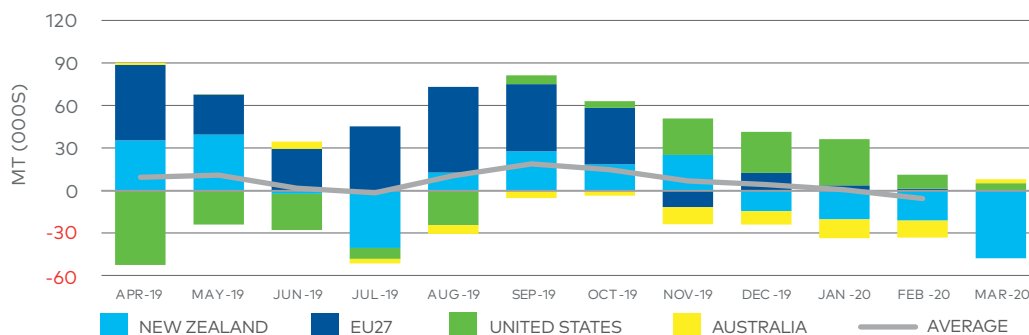
The absolute size of the bars represent the change in imports, exports or production, relative to the same period the previous year.

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

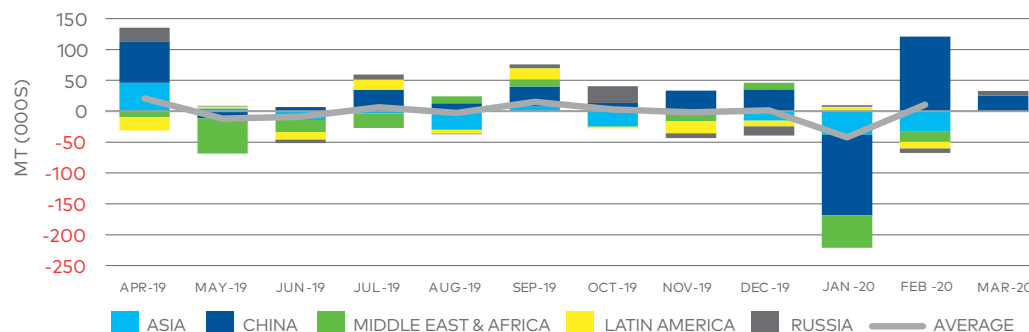
PRODUCTION



EXPORTS



IMPORTS





Food Price

The FAO Food Price Index (FFPI) averaged 162.5 points in May, down by 3.1 points. This represents the lowest month average since December 2018. The FFPI has now been on a downward trend for four months in a row, following the continued negative economic impact of the Covid-19 pandemic.

Meanwhile, the FAO Dairy Price Index averaged 181.8 points in May, down by 14.4 points. It's the third consecutive month of declines, with the index value now 19.6% below its level a year ago. Quotations for all dairy products in the index fell last month, however butter and cheese saw the steepest drops. Quotations for whole milk powder (WMP) and skim milk powder (SMP) declined only moderately, with low prices and renewed economic activity in China fuelling buying interests.

Source: FAO



Economic

Containment measures for the Covid-19 pandemic continued to have a severe impact on production, consumption and confidence in April, which saw the composite leading indicators (CLIs) for most of the major economies collapsing by unprecedented levels.

However, the CLI for China's industrial sector is tentatively pointing towards a positive change in momentum, with containment measures there already eased*.

* Some care is needed in this interpretation, as only partial information was available for China for April.

Source: OECD



Consumer

The Economist Intelligence Unit predicts global output will contract by 4.2% this year, down from the full-year forecast of 2.3% growth before the Covid-19 outbreak. The EIU expects GDP to contract in all regions across the world, with the drop in output especially severe in OECD countries. They say global GDP won't recover to pre-Covid levels until at least 2022. They predict the US' output will contract by 4% this year, while China's real GDP growth is expected to drop to 1%, down from a forecast of 5.9% pre-coronavirus.

Source: Economist Intelligence Unit



Weather

Dry conditions continued across most of New Zealand in April, affecting milk production. The continued lack of rain means soils in many parts of the North Island are much drier than normal.

Meanwhile, above-normal rainfall in south-eastern Australia helped refill soil moisture there. Drier-than-normal weather in Western Australia enabled winter crop planting, albeit at a modest pace with farmers awaiting more abundant rainfall before sowing.

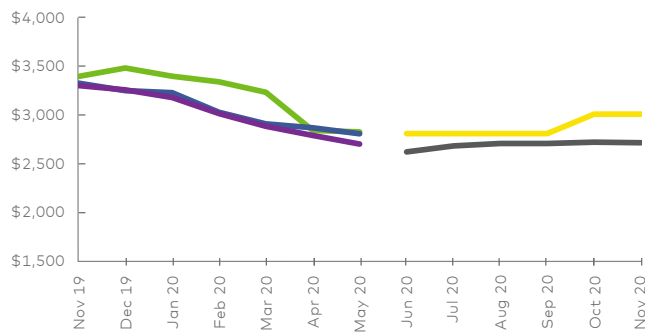
April saw acute dryness in much of central and northern Europe, meaning reduced moisture supplies for winter crops. Dry weather was especially pronounced in England, Germany, Poland, and the northern regions of Italy and the Balkans.

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





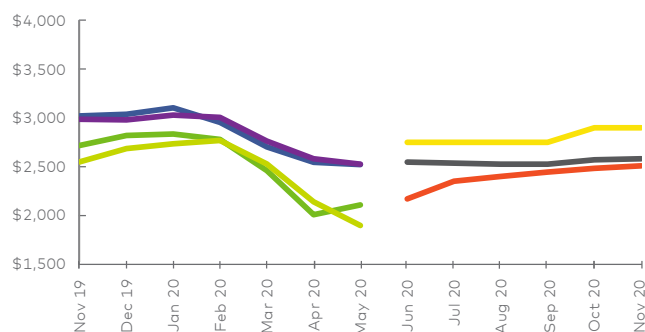
WMP



WMP prices dropped for the 5th month in a row across the board for May. The largest coming from USDA Oceania which dropped -3.1% to USD \$2,694/MT. Dutch Dairy Board & GDT down -0.5% and -2.2% respectively.

Futures and forecasts for the next six-months have shown mixed results. Rabobank Oceania has remained unchanged at an average of USD \$2,867/MT, predicting a slight upturn towards October. NZX Futures has increased theirs a further +5.2% from last perspective to an average USD \$2,685/MT.

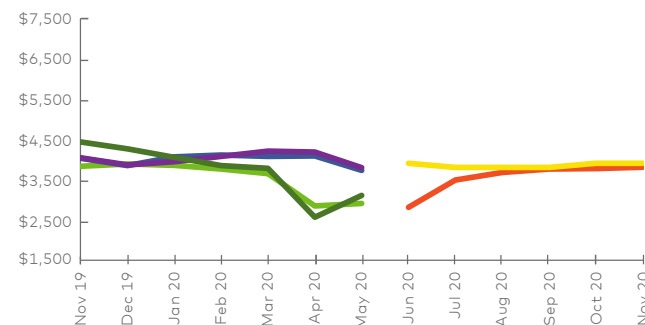
SMP



The downturn continues for SMP prices as we see further declines. The only uplift was from the Dutch Dairy Board up +5% to USD \$2,105/MT. USDA NASS has dropped a further -11.4% to USD \$1,893/MT. USDA Oceania dropped -2.2% to USD \$2,525/MT and GDT showed a decline of -0.9% to USD \$2,520/MT.

However, the Forecast and futures have started to recover with some large increases in average prices over the next 6 months. Rabobank Oceania has stayed flat at USD \$2,800/MT. CME Futures has increased its 6-month average +20.4% to USD \$2,391/MT. NZX Futures has also increased +10.8% to USD \$2,547/MT.

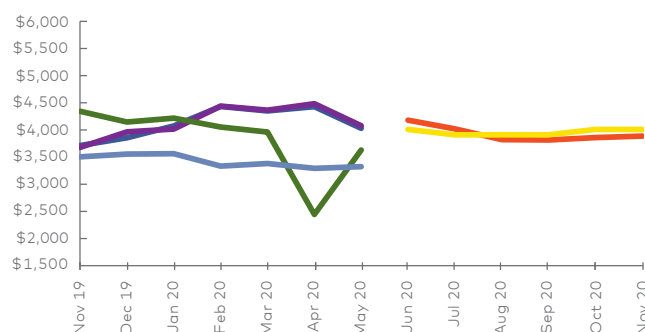
BUTTER



There were mixed movements this month in the Butter prices. USDA Oceania and GDT both dropped approx. -8% to USD \$3,894/MT and USD \$3,832/MT respectively. CME Spot increased +19.6% to USD \$3,221/MT and Dutch Dairy Board showed a +2.1% uptake to USD \$3,026/MT

As a result, we see CME Futures revise their average up +24.8% to USD \$3,659/MT and Rabobank Oceania average prices remain flat at USD \$3,950/MT.

CHEESE



May brings mixed results for cheddar cheese. GDT and USDA Oceania both saw a decline of -9.1% to USD \$4,020/MT and \$4,069/MT respectively. CME Spot saw a large rebound from last month with a +49.1% increase to USD \$3,618/MT and EU commission stayed flat at USD \$3,311/MT.

CME Futures 6-month average has also recovered +20.7% to USD \$3,921/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 261

+0.1%

Change in GDT Price Index from previous event

USD 2,902

Average price (USD/MT, FAS)

WMP

+2.1%

\$2,761

AMF

-2.9%

\$3,960

SMP

-0.5%

\$2,530

BUTTER

-4.4%

\$3,631

CHEDDAR

-5.3%

\$3,520

LACTOSE

-4.1%

\$1,279

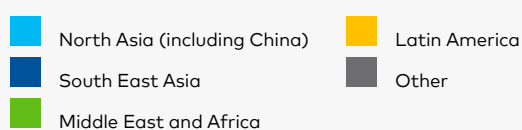
BMP

+9.4%

\$2,344

GDT SALES BY DESTINATION

TRADING EVENT 260



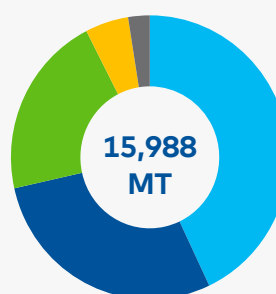
The next trading event will be held on 16 June 2020.
Visit www.globaldairytrade.info for more information.

Dairy commodity prices and New Zealand dollar trend

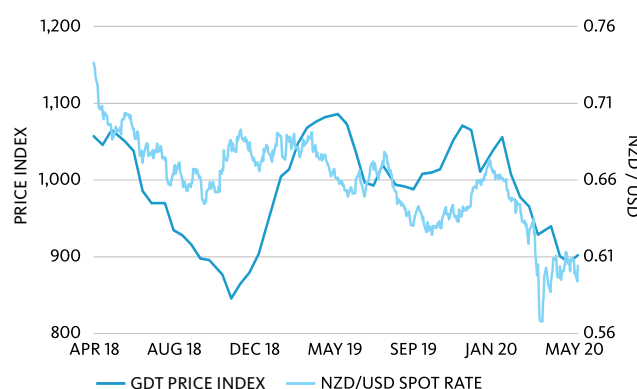
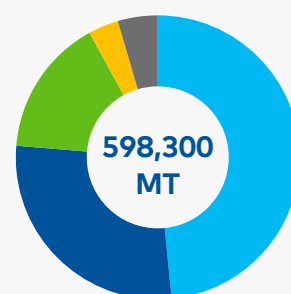
The promise of strong fiscal spending by governments to help cushion the economic effects stemming from COVID-19, combined with swift monetary policy actions from central banks, helped to produce a calming effect within financial markets. Following the heightened levels

of volatility witnessed in March, the New Zealand dollar has since displayed relative stability around 60 US cents.

Trade Event 260



Financial Year to Date





USDA, Dairy Outlook

Published May 18, 2020



Recent Development

The all-milk price forecast for 2020 is \$14.55 per hundredweight (cwt), up from last month's forecast of \$14.35. The milk production forecast has increased by 0.2 billion pounds to 222.4 billion. Export forecasts for 2020 are up 0.3 billion pounds on a milk-fat milk-equivalent basis and by 2.3 billion pounds on a skim-solids milk-equivalent basis. For 2021, milk production is forecast to grow to 224.1 billion pounds, with the all-milk price forecast at \$15.00 per cwt.



The effects of the Covid-19 pandemic have been very challenging for the dairy industry and the extent of those problems still remains uncertain.

Throughout April, there was low domestic demand for dairy products due to financial hardships and the shift from consumption at foodservice establishments to at-home consumption. At the same time, milk production was reaching its peak season. There were reports that milk loads from various parts of the US were not being processed in April due to low demand and logistical problems. There have also been reports of milk being sold at distressed prices.

During the month of April, most wholesale dairy product prices reported in the USDA National Dairy Products Sales Report (NDPSR) continued to sink lower. Weekly butter and cheese prices fell to levels as low as those seen in 2009. The butter price fell to \$1.1229 per pound for the week ending April 25, before increasing the following two weeks. For the week ending May 9 the butter price was \$1.1850 per pound. The price for 500-pound barrels of Cheddar cheese (adjusted to 38% moisture) fell to \$1.0736 per pound for the week ending May 2, before rising to \$1.1228 per pound for the week ending May 9. The price for 40-pound blocks of Cheddar cheese fell to \$1.1349 for the week ending May 9. The nonfat dry milk (NDM) price reached a low point for 2020 at \$0.8396 per pound for the week ending May 9. Dry whey prices were relatively steady, with the price for the week ending May 9 sitting at \$0.3794 per pound.

Chicago Mercantile Exchange (CME) wholesale spot prices for butter and Cheddar cheese fell, then rose in April. For the trading week ending May 8, the average prices for Cheddar cheese 40-pound blocks and 500-pound barrels had risen to \$1.2770 and \$1.2465 per pound, respectively.

That same week, the average butter price had risen to \$1.2480 per pound.

Milk production growth was robust in March. According to USDA National Agricultural Statistics Service (NASS), the United States' milk production for March totalled 19.260 billion pounds, up 2.2% on March last year. NASS reported milk cows averaged 9.380 million head, an increase of 5,000 head from February. Milk per cow in March was 2,053 pounds per head, up 34 pounds (1.7%) on the same time last year.

In March, US exports on a milk-fat milk-equivalent basis totalled 824 million pounds, up 85 million on February, but down 34 million on March 2019. On a skim-solids milk-equivalent basis, March exports totalled 3.888 billion pounds, 398 million higher than February and 168 million higher than March last year. Exports of dry skim milk products were 137.4 million pounds, up 4.8 million on March 2019. Exports of whey products totalled 97.8 million pounds, representing an increase of 6.4 million on March 2019.

US dairy imports on a milk-fat basis were 487 million pounds in March, down 9 million on February. On a skim-solids basis, March imports totalled 501 million pounds, up 9 million on February and up 127 million on March 2019.

Dairy stocks at the end of March were comparatively high. On a milk-fat basis, they totalled 16.874 billion pounds, an increase of 759 billion on March 2019. On a skim-solids basis, they totalled 11.589 billion pounds, up 518 million on March 2019. Although exports of dry skim milk products were reasonably high in March, high production and low domestic use led to high ending stocks. Stocks of NDM and dry skim milk for animal use at the end of March totalled 360.6 million pounds, up 66.3 million on March 2019.



Dairy forecasts for 2020

Published May 18, 2020

Milk cows for the first quarter averaged 7,000 head more than expected last month, however those numbers are expected to decline gradually through the remainder of the year. Milk cows are expected to average 9.355 million head for 2020, an increase of 5,000 from the previous forecast. Although milk per cow was higher than expected in the first quarter, yield forecasts for the remaining quarters of 2020 are unchanged as some farmers are expected to take steps to limit yields. Milk per cow for the year is forecast at 23,770 pounds, up 5 pounds on last month's prediction. The milk production forecast for 2020 is now 222.4 billion pounds, up 0.2 billion pounds on last month's forecast.

The 2020 forecast for exports on a milk-fat basis is 9.2 billion pounds, up 0.3 billion. On a skim-solids basis, exports are now forecast at 44.4 billion pounds, an increase of 2.3 billion on last month's forecast. Expectations for exports of dry skim milk products, whey products, and several other

types of products have also been raised. Due to higher expectations for imports of milk protein products and cheese, imports on both a milk-fat basis and skim-solids basis have been increased by 0.1 billion pounds to 6.7 billion and 5.7 billion pounds, respectively.

Price forecasts for Cheddar cheese and dry whey in 2020 have been raised to \$1.420 per pound (+4.0 cents) and 0.380 per pound (+ 3.5 cents), respectively. Meanwhile, the butter price forecast has been lowered to \$1.410 per pound (-2.0 cents). The NDM price forecast has also been lowered to \$0.940 per pound (-1.5 cents). With higher price forecasts for Cheddar cheese and dry whey, the 2020 Class III milk price forecast has been raised to \$13.35 per cwt (+\$0.60). With lower price forecasts for butter and NDM, the Class IV milk price forecast has decreased to \$11.90 per cwt (-\$0.25). The allmilk price forecast for 2020 is now \$14.55 per cwt.

Blimling, Forecast Update

Published May 6, 2020

Blimling expects cheese prices to rebound in the coming months as the US economy comes back to life. Weaker milk production, food aid purchases and increased exports should help with the push higher, however those moves will likely be choppy heading into late 2020.

Meanwhile, a slow recovery is predicted in the butter market into year-end, with the US' butter inventories climbing and cream remaining ample. Improving demand dynamics for butter should help prop the market up.

Meanwhile, the NDM/SMP markets remain vulnerable. Blimling predicts heavy supply across the global market will continue to weigh on any potential price recovery. They expect weaker export demand from Mexico will pressure US prices, but improving interest out of south-east Asia should help plug some gaps there.

Dry whey prices have bucked the weaker trend, with predictions they will likely hold in the high 30s in the near to medium term.





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.