



PERSPECTIVE

November 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.





Welcome back to Perspective!

November 2020

It's hard to believe that we are already in November, approaching the final stages of 2020. A year that has brought unprecedented global events. Two of the biggest challenges of 2020 have been navigating the pandemic and continuing to focus on global sustainability priorities despite the chaos. We have been working hard to adapt to a post COVID-19 world and still invest in our sustainability priorities going forward, to put both our people and the environment at the heart of our strategy.

We have talked a lot this last year about how reducing and offsetting our carbon emissions is one of our most important sustainability goals. There are a lot of buzzwords out there like "Carbon-neutral" "offsetting" and "Carbon-zero". But what does that actually mean in reality for our customers and the consumer? We invited Becky Lloyd, CEO of Toitū Envirocare, to clearly explain why the dairy industry needs to focus on reducing emissions, how consumers are demanding it, and what 'carbon-zero' actually means.

Four key movements for the month:



Production – New Zealand production in line with last season. Favourable start to Australia's new season. US monthly production increases, EU softens.



Exports – US and EU exports continue to increase. Significant increase in New Zealand and Australia monthly exports.



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



Prices – **GDT Event 271** resulted in the GDT price index decreasing -2.0% to USD \$3,096/MT. The largest movements came from Skim Milk Powder, Butter and Anhydrous Milk Fat which moved -4.4%, +3.9% & +2.6% 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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Pathway to net zero carbon emissions



Becky Lloyd

CEO Toitū Envirocare



Becky is Chief Executive of Toitū Envirocare, a New Zealand-based business providing environmental programmes and services to organisations in New Zealand and overseas. Based on science and backed by proof, Toitū's carbon certifications give organisations the tools to reduce their emissions and take meaningful climate action.

This month we are talking to Toitū Envirocare (pronounced: Toy-Too) about their carbon zero certifications, and why they believe both carbon reduction and offsetting will play a vital role in mitigating the impacts of climate change and realising our net carbon zero future.

Climate change is one of the biggest challenges of our time – and an unprecedented opportunity for business transformation. By embedding sustainability into their strategy, businesses will future-proof their markets and build resilience and innovation into their products and supply chain.

Why do businesses need to reduce carbon emissions?

Carbon emissions absorb solar energy and keep heat close to Earth's surface, increasing the global temperature.

In 2020, atmospheric levels of greenhouse gases are the highest ever recorded and are predicted to keep rising unless we dramatically reduce our carbon emissions.

It is no secret that people are demanding their businesses and government take sustainable action to protect our environment from climate change. The best strategy we have to reduce these impacts is to decrease the levels of carbon in our atmosphere. This is a large challenge, that is best tackled in two parts. Firstly, we'll need to reduce and offset our emissions with existing technology and methods. This addresses the immediate need to buy us time to work on part two; removing carbon from the atmosphere to limit global temperature increase to 1.5 degrees Celsius, using currently unknown technologies.

Food & beverage manufacturers will play a vital role in reducing our emissions and are expected to. Customers worldwide are making this clear with their wallets.

Nearly half (48%) of U.S. consumers say they would definitely or probably change their consumption habits to reduce their impact on the environment¹

The dairy industry plays a key role.

The global dairy industry must play a role in reducing emissions throughout the supply chain and on-farm. Pasture-based farming nations like New Zealand (NZ) continue to be world-leaders in sustainable dairy-farming practices and low-carbon dairy products, for example the on-farm carbon footprint for Fonterra's milk production in New Zealand is about one third the global average². However, there is still more work to be done as 48% of NZ's total emissions come from the agricultural sector.

Not only can NZ reduce and offset agricultural carbon emissions at-home, but we can share our technology, products, practices and learnings beyond our borders.

New Zealand businesses are already playing their part in reducing emissions and developing techniques that can be shared globally. In 2018 the Climate Leaders Coalition launched with 105 Chief Executives from NZ's largest businesses, including Fonterra. They were coming together and committing to act on climate change. It was a signal that climate action had moved from being a strategic business 'nice to have' to a 'must do'. Increasingly, it signals that

businesses that do not act on the climate will be left behind by customers and stakeholders looking for leadership.

Initiatives by climate leaders show that while the journey to net zero might be a challenging one, all businesses can take effective action. The critical step is the first one, to measure your emissions and identify the best place to start.





Consumers want to know your products are sustainable.

Sustainability is a concern for many consumers, and they want to know the companies that make their products are taking it seriously. 53% of global consumers believe food & drink brands should be doing more to protect the planet³ and 45% said they had already changed their diet to lead a more sustainable lifestyle³. Research by UK organisation, Carbon Trust, found that

67% of consumers supported carbon labelling on products, which showed whether the manufacturer was measuring and reducing their carbon footprint⁴.

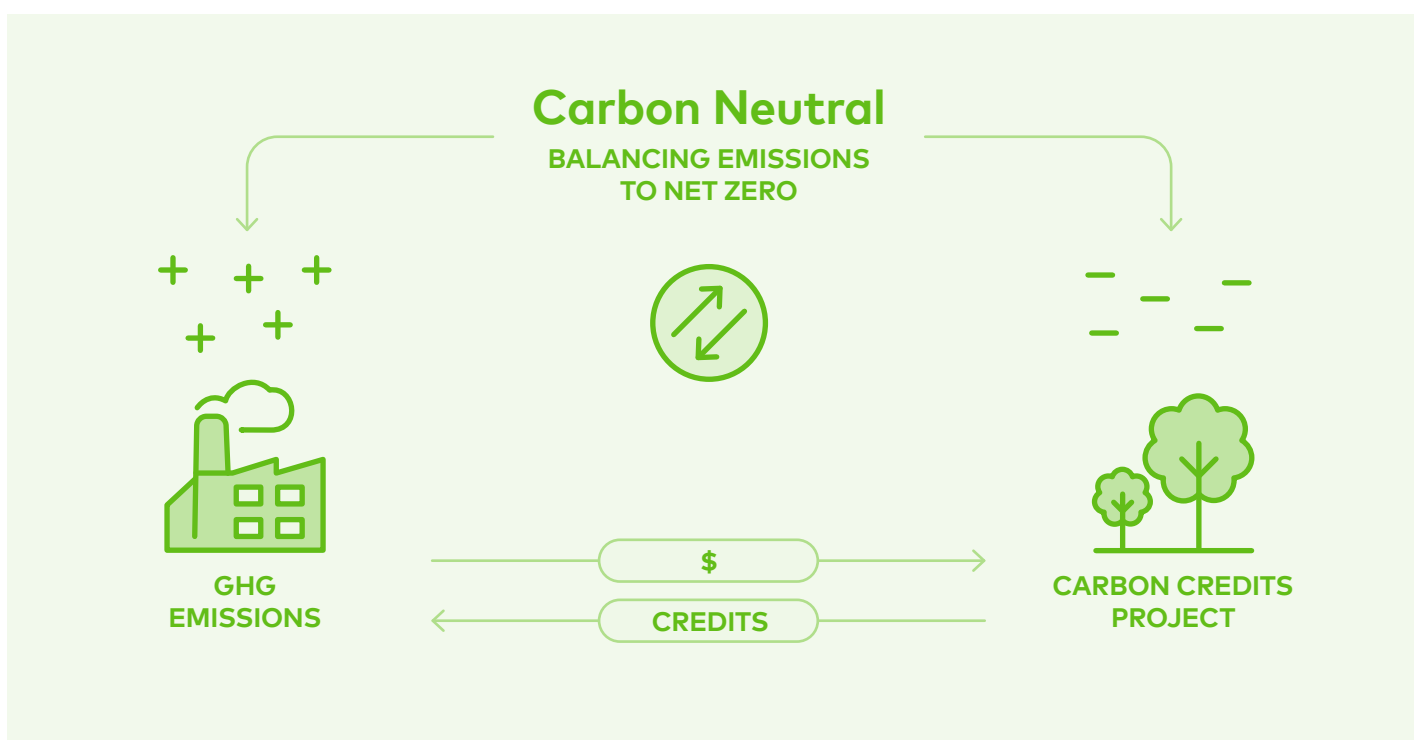
In order to show consumers that your business and products are supporting sustainable initiatives, and reducing carbon emissions, you must first measure your emissions, and make a plan. We need to balance total global emissions to zero by 2050, in order to avoid more than 1.5°C change in global temperature.

Measure your emissions and make a plan.

Toitū Envirocare is New Zealand's leading environmental certification organisation. We work with companies such as Fonterra to measure, offset and reduce emissions. Our mission is to catalyse NZ businesses to reach our net zero 2050 goal. We offer [carbon management and carbon neutral certifications](#) for organisations, goods and services, farms and building operations, including all the tools you need to measure, reduce and offset greenhouse gas emissions.

Our [Toitū carbon zero programme](#) requires its members to continually reduce emissions, not just offset them. However, we understand significantly reducing emissions will take time. Offsetting your unavoidable emissions with high quality carbon credits can play a vital role in reducing overall emissions immediately while longer term reduction goals are achieved.

A carbon credit is a financial instrument that represents a unit of carbon dioxide equivalent or CO₂e. One carbon credit is equal to 1 tonne of CO₂e. Carbon credits are awarded for projects that store, avoid or reduce greenhouse gas (GHG) emissions in the atmosphere. These carbon credits can be purchased by GHG emitting businesses to help balance emissions to net zero and keep the carbon credit project funded.



Conclusion

The future of business is decarbonised. Consumers and stakeholders are expecting businesses to take climate action, and those that don't risk being left behind. The first place to start is to measure and manage the emissions from your organisation or product, and then put in place effective reduction strategies. High quality carbon credits can be a great way of offsetting your carbon footprint while you invest in longer term reduction projects.



Learn more about carbon credits and offsetting here.



Learn more about our sustainability story here.



Read Fonterra's 2020 Sustainability Report here.



References

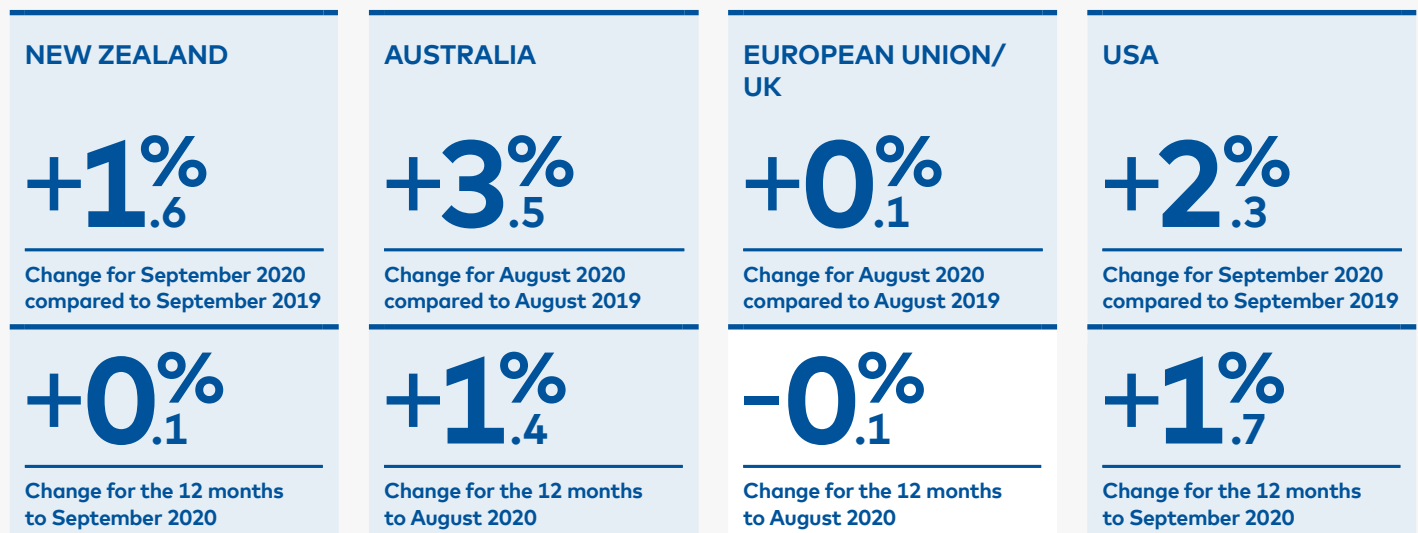
- [1 https://www.nielsen.com/us/en/insights/article/2018/was-2018-the-year-of-the-influential-sustainable-consumer/](https://www.nielsen.com/us/en/insights/article/2018/was-2018-the-year-of-the-influential-sustainable-consumer/)
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Disclaimer: The views expressed above are the opinion of the author, not those of Fonterra, and Fonterra is not responsible for any decisions taken in reliance on the same.



New Zealand production in line with last season. Favourable start to Australia's new season. US monthly production increases, EU softens.



New Zealand milk production for the 12 months to September was 0.1% higher than last year.

New Zealand milk production¹ increased 1.6% on a litres basis in September compared to September last year.

Following a favourable start to the season, milk production growth has eased in September as a result of dry weather across most of the North Island and a cold snap in the South Island.

Australia milk production for the 12 months to August was 1.4% higher than last year.

Australia milk production increased 3.5% in August compared to August last year.

Milk production is increasing as most regions have benefitted from rain, despite parts of Queensland starting to dry and more moisture is needed.

Dairy Australia has forecast a 1% to 3% increase in production for the 2020/21 season.

EU milk production for the 12 months to August was down by 0.1% compared to the same period last year.

EU (including UK) milk production increased by 0.1% in August compared to the same period last year.

The modest increase in production was led by Poland (up 2%) and Ireland (2.9%) but largely offset by declines from key producing countries such as the Netherlands (down 1.5%), Germany (0.8%), France (0.9%) and UK (0.9%) as a result of heatwaves impacting milk collections.

Milk production for the 12 months to September was 1.7% higher compared to the same period last year.

US milk production increased by 2.3% in September, compared to the same period last year.

Stronger milk per cow and recovering herd sizes are driving the higher US milk production in September.

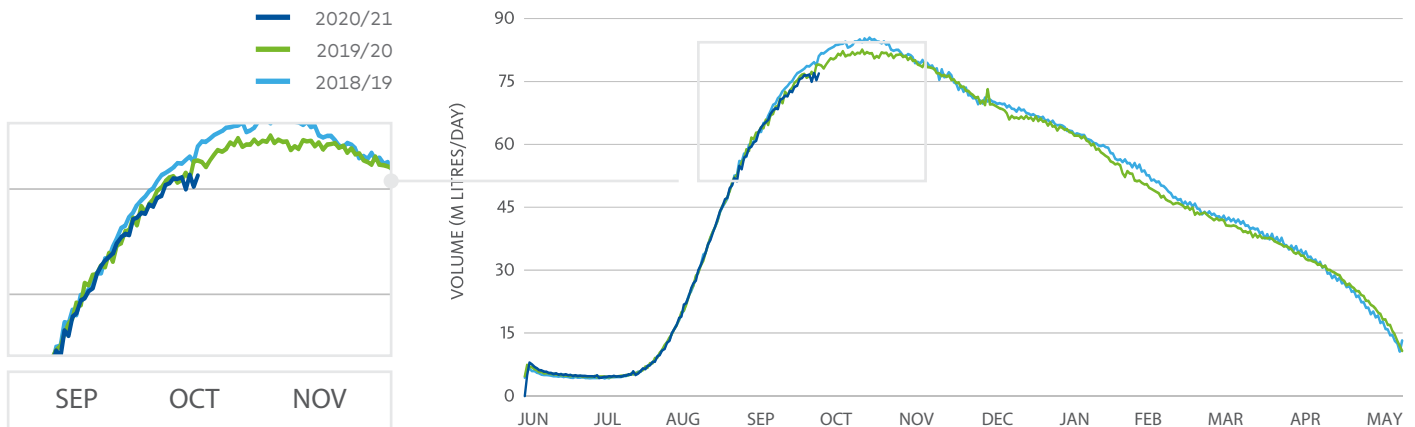
¹ New Zealand production is measured in litres.

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 2020/21 SEASON



NEW ZEALAND COLLECTION

+0%.4

Change for September 2020 compared to September 2019

+1%.6

Season to date
1 June to 30 September

AUSTRALIAN COLLECTION

+1%.3

Change for September 2020 compared to September 2019

+0%.3

Season to date
1 July to 30 September

Fonterra's New Zealand collection for September was 179.8 million kgMS, up 0.4% on last September.

Season-to-date collection to the end of September was 314.4 million kgMS, up 1.6% on the same point last season.

September milk production is largely in line with the prior season, reflecting the good early season conditions this year, partially offset by the impact of late September snow in the lower South Island.

Conditions became increasingly dry across the month, particularly in the northern and eastern regions of both islands. Production has begun to flatten in October as a result of the continuation of these dry conditions.

Fonterra's Australia collection was 10.9 million kgMS, a 1.3% increase on September last season.

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

The La Niña weather system is delivering wetter and cooler conditions, and this is starting to hamper pasture production, silage and fodder harvest.

However, the La Niña is also delivering a much needed recovery in soil moisture profiles and water storage.





US and EU exports continue to increase. Significant increase in New Zealand and Australia monthly exports.

NEW ZEALAND

+13%.₈

Change for August 2020
compared to August 2019

-1%.₂

Change for the 12 months
to August 2020

Exports for the 12 months to August were down by 1.2%, or 40,505 MT, on the previous comparable period.

This was primarily driven by SMP, fluid milk products, infant formula and AMF but offset by increases in WMP.

Total New Zealand dairy exports increased by 13.8%, or 17,973 MT, in August compared to the same period last year.

Exports increased in August, driven mainly by higher WMP shipments to China, up 15,599 MT, and cheese to Japan and China, up 4,737 MT.

AUSTRALIA

+32%.₆

Change for August 2020
compared to August 2019

-5%.₈

Change for the 12 months
to August 2020

Exports for the 12 months to August were down 5.8%, or 45,323 MT, on the previous comparable period.

Declines were recorded across a broad range of products with infant formula, SMP, WMP, cheese, and whey down a combined 53,555 MT, and partially offset by fluid milk products, up 11,922 MT.

Australia dairy exports increased by 32.6%, or 16,720 MT, in August compared to the same period last year.

This was primarily driven by fluid milk products, SMP and cheese to China, up a combined 15,222 MT.

EUROPEAN UNION/ UK

+10%.₈

Change for July 2020
compared to July 2019

+6%.₁

Change for the 12 months
to July 2020

Exports for the 12 months to July were up 6.1%, or 335,963 MT, on the previous comparable period. Butter, cheese, fluid milk products and whey were the main drivers of this growth, up a combined 323,682 MT. This was partially offset by a decline in SMP of 77,443 MT.

EU (including UK) dairy exports increased by 10.8%, or 54,391 MT, in July compared to the same period last year.

This was driven by increases across most product categories but more specifically, fluid milk products and whey to China, cheese to Japan, and WMP to Algeria.

USA

+14%.₇

Change for August 2020
compared to August 2019

+12%.₂

Change for the 12 months
to August 2020

Exports for the 12 months to August 2020 were up 12.2%, or 271,027 MT, on the previous comparable period, driven by SMP, WPC and lactose, up a combined 240,622 MT.

US dairy exports increased 14.7%, or 21,372 MT, in August compared to the same period last year.

Exports continue to grow for the 12th consecutive month, with large volumes of SMP to South East Asia, cheese to Mexico, and whey to China as China rebuilds its inventory levels and hog herds following last year's African swine flu.



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

LATIN AMERICA

-26%.₄

Change for July 2020 compared to July 2019

-4%.₂

Change for the 12 months to July 2020

Imports for the 12 months to July 2020 were down 4.2%, or 74,752 MT, compared to the same period the previous year.

Decreases were driven primarily by WMP, infant formula, SMP and butter, down a combined 66,863 MT.

Latin America dairy import volumes¹ decreased 26.4%, or 42,993 MT, in July compared to the same period last year. This was driven by lower volumes of SMP to Mexico.

ASIA

+1%.₇

Change for July 2020 compared to July 2019

-3%.₈

Change for the 12 months to July 2020

Imports for the 12 months to July were down 3.8%, or 193,180 MT, compared to the same period the previous year.

Decreases were recorded across WMP, SMP, fluid products, down a combined 228,306 MT, and offset partially by increased volumes of lactose, up 46,394 MT.

Asia (excluding China) dairy import volumes¹ increased 1.7%, or 7,139 MT, in July compared to the same period last year. Increases were recorded primarily in SMP to South East Asia, lactose to India and the Philippines, up a combined 24,873 MT, and partially offset by lower imports of WMP and whey.

MIDDLE EAST & AFRICA

+10%.₁

Change for July 2020 compared to July 2019

-7%.₅

Change for the 12 months to July 2020

Imports for the 12 months to July 2020 were down 7.5%, or 300,703 MT, compared to July last year, driven by decreases in fluid milk products, infant formula, butter and cheese, down a combined 424,952 MT, and offset by increases in SMP.

Middle East and Africa dairy import volumes¹ increased 10.1%, or 28,764 MT in July 2020 compared to the same period last year.

Increases were driven principally by higher volumes of WMP to Algeria and SMP to Ethiopia and Saudi Arabia, up a combined 39,653 MT, and partially offset by lower volumes of fluid milk products and infant formula.

CHINA

+7%.₈

Change for August 2020 compared to August 2019

+8%.₃

Import change for the 12 months to August 2020

Imports for the 12 months to August were up 8.3%, or 252,529 MT, driven by fluid milk products, whey and WMP.

China dairy import volumes increased by 7.8%, or 20,619 MT, in August compared to the same period last year.

The increase was the result of higher volumes of fluid milk products and whey, up a combined 32,226 MT. China is working towards rebuilding its hog herds and hence increasing its whey imports for feed consumption. WMP imports continued to decline, likely due to high levels of inventories.

RUSSIA

+4%.₁₆

Change for August 2020 compared to August 2019

+0%.₉

Import change for the 12 months to August 2020

Imports for the 12 months to August 2020 have increased +0.9% or +10,145 MT compared to the same period the previous year. This was mainly driven by AMF, Butter, Casein, Cheese, Dairy Spreads, Fresh, Ice cream, Lactose, and Whey being up a combined +73,018 MT. Offset by Infant Formula, SMP, Caseinate, MPC, Cultured Products, WMP and WPC being down a combined -62,903 MT.

Russia import volumes were down +4.16% or +3,749 MT for August 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



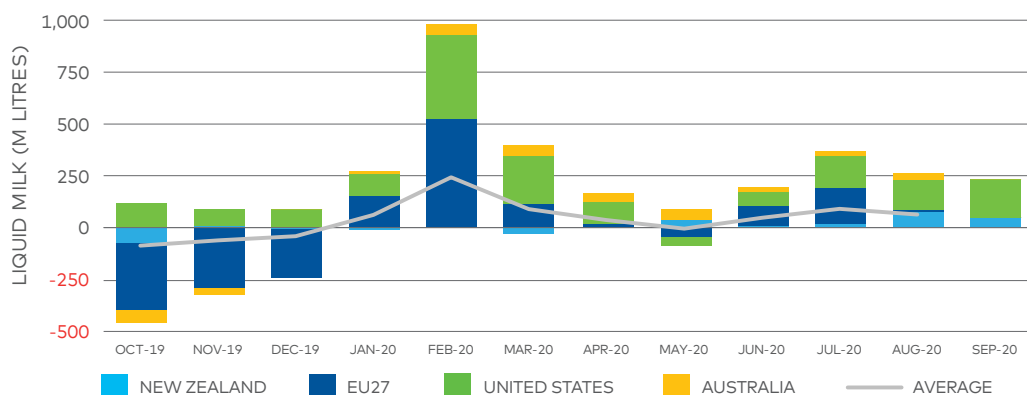
Global Dairy Market

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.

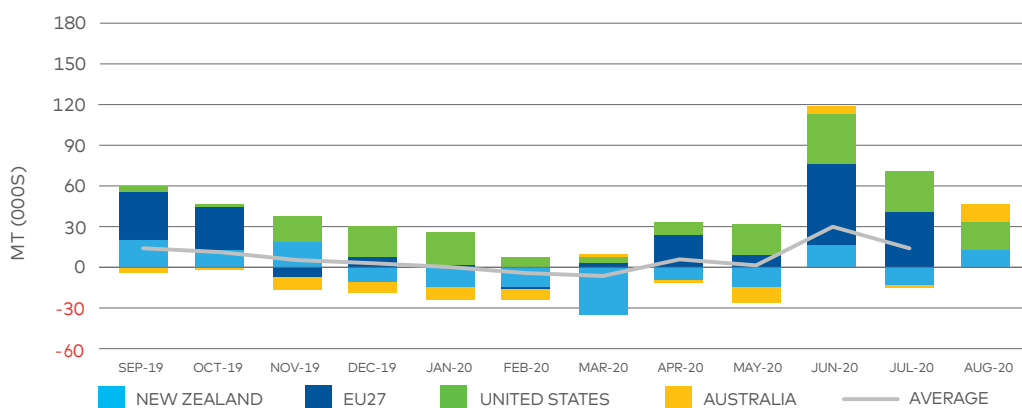
The absolute size of the bars represent the change in imports, exports or production, relative to the same period the previous year.

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

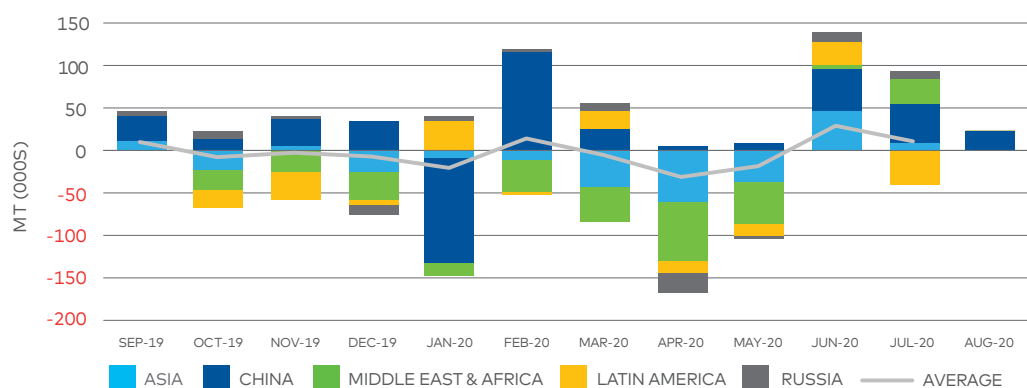
PRODUCTION



EXPORTS



IMPORTS





Food Price

The September 2020 FAO Food Price Index (FFPI) is up 2.0 points since August and now sits 4.6 points (5.0 percent) higher than its value a year ago. The September value, the highest since February 2020, represented the fourth consecutive monthly increase. The rise can be attributed to much firmer prices of vegetable oils and cereals. By contrast, dairy products remained stable, while those of sugar and meat retreated from August levels.

The Dairy Price Index averaged 102.2 points in September, almost unchanged from August and up 2.5 points (2.5 percent) from the corresponding month last year. Moderate increases in price quotations for butter, cheese and skim milk powder (SMP) were offset by a fall in those of whole milk powder (WMP), resulting in a largely stable index in September.

Source: FAO



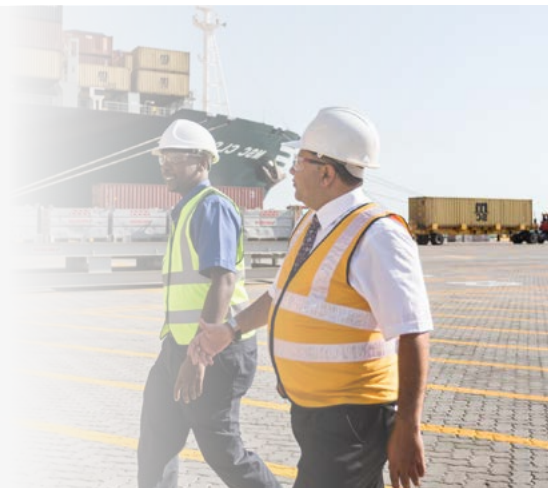
Economic

Composite leading indicators (CLIs) continue to recover from Covid-19 crisis lows, but at a moderating pace. For all major OECD countries, CLIs in September signal that GDP will remain below trend.

In France and Germany the CLIs are now pointing to a stabilisation in growth. In the United States, Japan, United Kingdom, Canada and Italy they continue to point to a moderation in growth. Among major emerging economies, India and Russia signal moderating growth, with Brazil's level of GDP expected to be above trend. In China, the CLI for manufacturing presents a stable growth momentum.

With the resurgence of Covid-19 in many countries, it is noted that CLIs should continue to be interpreted with care.

Source: OECD



Consumer

The EIU believes global output will contract by 5% this year, an upward revision from its previous forecast recession of 5.2%. This is mostly due to an upward adjustment to US and China forecasts and revisions to projections for OECD countries. Global GDP will not recover to pre-coronavirus levels before at least 2022; 2020 and 2021 will be lost years for growth. However Asian countries will recover fastest, some as early as 2021. Major economies will broadly recover in 2022, and emerging markets in 2023-24. The most likely long-term scenario for advanced economies is one of low growth, low inflation and high debt levels, as is already the case in Japan.

Source: Economist Intelligence Unit



Weather

New Zealand's weather patterns became more aligned with La Niña throughout October. Tasman Sea and coastal water temperatures warmed considerably, particularly near the North Island. Over the coming three month period, air temperatures are very likely to be above average in all regions of the country. Rainfall is projected to be near normal in the northern North Island, and near or below normal for all remaining regions.

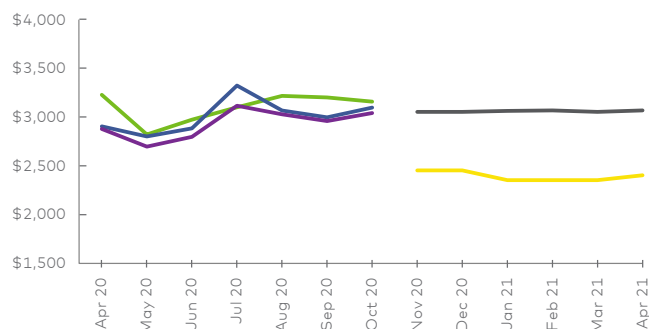
In Australia it remained dry in the west with widespread rain in the south and east. Heavy showers in central and northern Europe maintained good soil moisture for winter crop establishment. Much needed rain across Western Turkey and Western Russia eased short-term dryness.

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





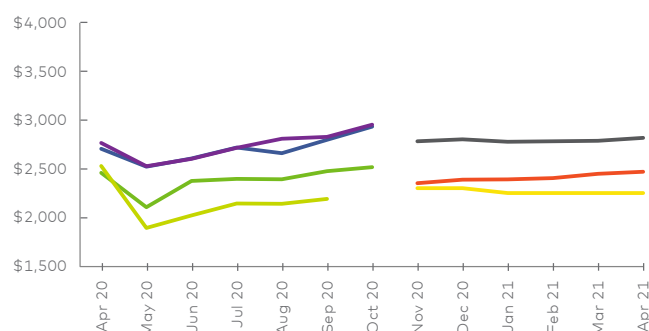
WMP



October WMP prices were mixed. Dutch Dairy Board dropped a further -1.3% to USD \$3,155/MT. USDA Oceania & GDT both increased to USD \$3,038/MT, USD \$3,094/MT respectively.

Futures and forecasts for the next six-months have reflected those mixed results. Rabobank Oceania has stayed flat at an average of USD \$2,392/MT. NZX Futures has increased theirs +1.8% from last perspective to an average USD \$3,057/MT.

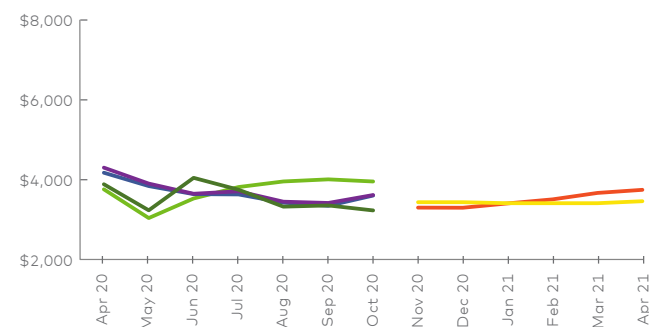
SMP



SMP prices have increased across the board for October, with USDA NASS Oct results not available at time of publication. Dutch Dairy Board increased +1.7% to USD \$2,515/MT. USDA Oceania increased a further +4.4% to USD \$2,950/MT. GDT increased +4.8% to USD \$2,930/MT.

The Forecast and futures have however all revised down. Rabobank Oceania has dropped -0.4% from previous projections to an average of USD \$2,267/MT. CME Futures has dropped its 6-month average -5.1% to USD \$2,408/MT. NZX Futures has dipped -0.5% to USD \$2,789/MT.

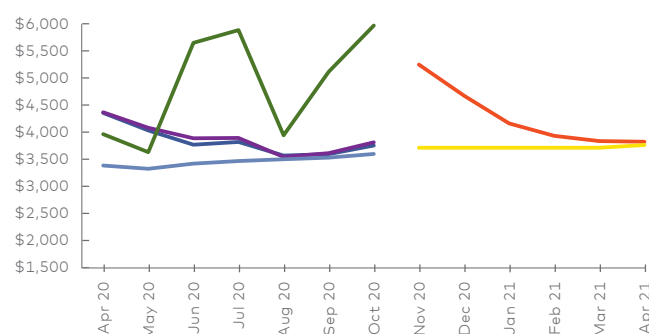
BUTTER



There were mixed movements again this month in the Butter prices. USDA Oceania showed a +5.9% increase to USD \$3,606/MT and GDT also increased +7.8% to USD \$3,593/MT. CME Spot dropped -3.8% to USD \$3,218/MT. Dutch Dairy Board dipped -1.3% to USD \$3,947/MT

As a result, we see CME Futures drop -5% to USD \$3,477/MT and Rabobank Oceania average prices hold steady at USD \$3,417MT.

CHEESE



October brings continued volatility from CME Spot with them increasing another +19.7% to USD \$5,960/MT. GDT increased +4.4% to USD \$3,741/MT and USDA Oceania increased +5.6% to USD \$3,800/MT. EU commission also increased +1.9% to USD \$3,585/MT

CME Futures 6-month average has also been revised up +4.9% to USD \$4,268/MT and Rabobank Oceania's stays flat.

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 271

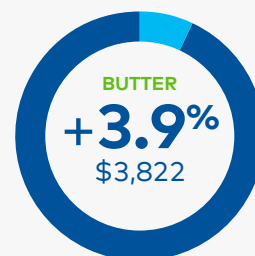
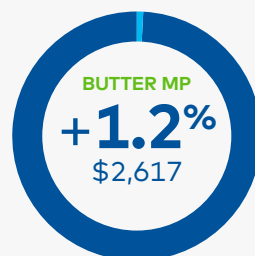
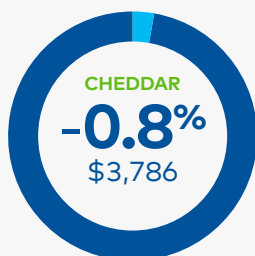
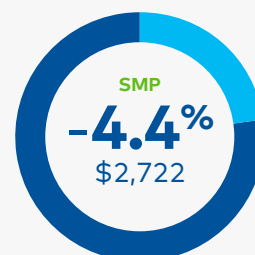
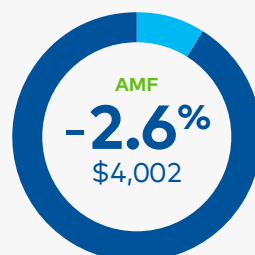
-2.0%

Change in GDT Price Index from previous event

USD 3,096

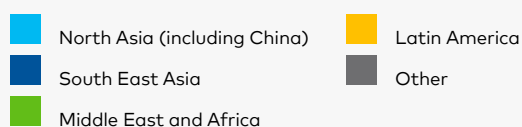
Average price (USD/MT, FAS)

The shaded dials indicate the proportion of each product group sold versus total quantity sold during the previous 12 months, with a 3 month lag. Figures within the dials represent the percentage change in GDT Price Index and the weighted average price. All information published on this page may be reproduced provided the user acknowledges Global Dairy Trade as the source.

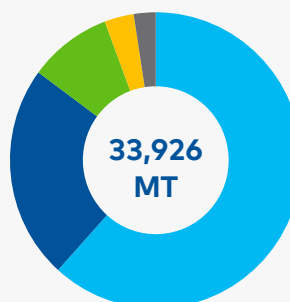


GDT SALES BY DESTINATION

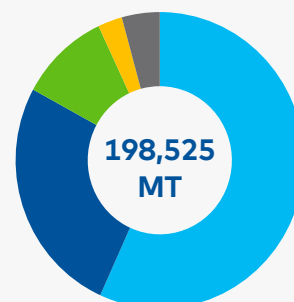
TRADING EVENT 270



Trade event 270



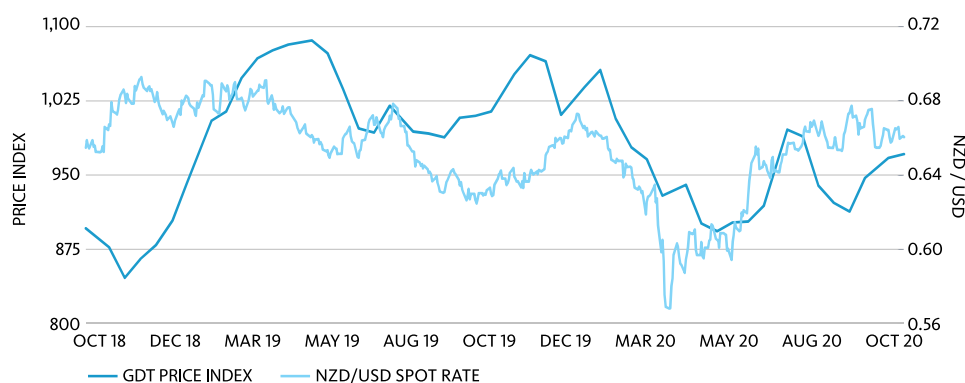
Financial Year to Date



The next trading event will be held on 17 November 2020. Visit www.globaldairytrade.info for more information.

Dairy commodity prices and New Zealand dollar trend

Global economies, including New Zealand, continued to recover from the considerable collapse experienced as a result of COVID-19 and the implementation of associated lockdown measures. This return toward economic normality resulted in relative stability for the NZD and financial markets.





USDA, Dairy Outlook

Published October 16, 2020



Recent Developments

All major dairy product wholesale prices increased significantly from the week ending September 5 to the week ending October 3, with the price difference between 40-pound blocks of Cheddar cheese and 500-pound barrels reaching a record high. The all-milk price forecast for 2020 is \$18.00 per hundredweight (cwt), an increase from last month's forecast of \$17.75. For 2021, the all-milk price forecast is \$17.60 per cwt, up from last month's forecast of \$17.00.

The price of 40-pound blocks of Cheddar cheese, as reported in the USDA National Dairy Products Sales Report (NDPSR), rose 55.6 cents to \$2.3629 per pound, with 500-pound barrels (adjusted to 38-percent moisture) up 24.1 cents to \$1.7197 per pound. Reasons for changes in the price spread for Cheddar cheese blocks and barrels cannot be determined with certainty because supply and use data specific to each type of cheese are not available. Butter, nonfat dry milk (NDM), and dry whey rose to \$1.5786 (+10.6 cents), \$1.0383 (+6.6 cents), and \$0.3378 (+2.6 cents) per pound, respectively.

Recently, prices for cheese sold on the Chicago Mercantile Exchange (CME) have been higher than NDSPR prices. Average prices for 40-pound blocks and 500-barrels of cheddar cheese for the week ending September 25 were \$2.5764 and \$1.6385 per pound, respectively. That 93.8 cent spread was the largest on record. In the week ending October 9, the gap narrowed to 63.7 cents with blocks at \$2.6465 and barrels averaging \$2.0100 per pound.

For the same week, average CME prices for butter, NDM, and dry whey were \$1.4420, \$1.1265, and \$0.3955 per pound, respectively.

Improving economic conditions are likely to have contributed to price strength of dairy products, with export demand robust in recent months. In August, U.S. milk production was up 1.8 percent from August the previous year, totalling 18.600 billion pounds. Milk per cow averaged 1,987 pounds, 27 pounds above August 2019. The milking herd averaged 9.360 million head, 42,000 head more than August 2019 but unchanged from July 2020. The milk-feed ratio was 2.50 in August, down from 2.69 in July, but higher than 2.26 in August 2019.

On a milk-fat milk-equivalent basis, August's dairy exports totalled 792 million pounds, 26 million lower than the previous month, but 13 million higher than August last year. On a skim-solids milk-equivalent basis, August exports totalled 4.039 billion pounds, 129 million lower than July but 649 million higher than August 2019. Exports of cheese rose, totalling 68.4 million pounds in August, 3.8 million more than July and 9.8 million higher than August 2019. However, from July to August, exports of butterfat products declined to 4.3 million (-1.4 million).

U.S. dairy imports on a milk-fat basis were 573 million pounds in August, 54 million lower than July and 61 million lower than August last year. On a skim-solids basis, August imports totalled 409 million pounds, 117 million lower than July and 38 million lower than August 2019.





Dairy forecasts for 2020

Milk cows for the third quarter of 2020 are expected to number 5,000 more than last month's forecast. For the year, the rounded forecast for the average number of milk cows is unchanged from last month at 9.365 million head. The milk per cow forecast for 2020 has been raised by 25 pounds to 23,735 pounds per head. The milk production forecast is 222.3 billion pounds, 0.3 billion higher than last month's forecast.

The forecast for 2020 exports on a milk-fat basis has been lowered 0.1 billion pounds to 9.3 billion pounds due to lower expected shipments of butterfat products. For skim-solids, the export forecast has been lowered by 0.1 billion pounds to 47.1 billion pounds, due to lower expected exports of dry whey and lactose. Import forecasts for 2020 are unchanged at 6.9 billion pounds on a milk-fat basis and 5.7 billion pounds on a skim-solids basis.

Dairy product price forecasts for Cheddar cheese and nonfat dry milk for 2020 have been raised to \$1.910 per pound (+7.5 cents) and \$1.035 per pound (+1.0 cent), respectively. The rounded forecast for dry whey remains unchanged at \$0.350 per pound for the year. The butter price has been lowered for the fourth quarter to \$1.595 per pound, due to recent declines in CME prices and high stock level. This is 0.5 cents lower than last month's forecast. Due to the expected higher Cheddar cheese price, the 2020 forecast for the Class III milk price has been raised to \$18.00 per hundredweight (cwt), \$0.75 above last month. Class IV milk price forecast has been raised by \$0.10 to \$13.50 per cwt. The all-milk price forecast for 2020 is \$18.00 per cwt, an increase on September of \$17.75 per cwt.

Blimling, Forecast Update

Published October 1, 2020

Blimling expects continuation of the current 'saw-toothed' pattern on the U.S cheese market price chart. More pressure on cheese prices in coming months seems likely, with increased milk supplies, new production capacity and continued demand uncertainty all contributing factors.

With the Thanksgiving holiday looming, seasonally increased demand is expected to firm the butter market in the fourth quarter. However, Blimling notes that this strength may not last, given heavy available inventories, increased butterfat output and struggling food service demand ongoing.

Blimling reports bullish momentum building in the NDM/SMP market, fuelled by increasing interest from Mexican buyers and ongoing stockpiling efforts globally.

It also signals demand from Asia as a factor. Increased milk production in the U.S and elsewhere in the world, plus slow fluid sales domestically may temper any significant upside as we approach 2021.

Finally, good news from the dry whey market with strong export demand, particularly from China, helping to keep the bottom end of the whey space supported. Blimling notes that heavy cheese output may support further supply expansion in the near to medium term, while improving whey protein values could redirect more whey solids in WPC/WPI dryers, especially out west.



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.