



PERSPECTIVE

February 2021

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!

February 2021

Welcome back to our first edition of NZMP Perspective for 2021!

In the name of tradition, the new year inevitably comes with a desire to review what is important and select new goals. It's often a way for us to set ourselves in a positive direction for the year ahead. I also know many of us had been looking forward to the end of 2020, and whilst the vaccines rolling out bring a lot of hope, globally there is still uncertainty about what is to come.

Research has shown that many people are going into 2021 focusing on their mental health and wellness goals in response to the stress that uncertainty can cause. 64% of global consumers choose 'mental wellbeing' as their top criteria when asked to define Health¹. This increased recognition of the importance of mental health has resulted in a greater level of interest in and searching for lifestyle choices that support this.

Our diet and what we put into our bodies has a major role to play in supporting health and wellbeing goals. For example, my 2021 health and wellness resolutions include cooking with more simple, whole-food ingredients for my family. To dive into this issue further we've invited Michelle Teodoro, Associate Director of Food Science at Mintel (APAC) as our feature writer this month. She speaks to us about how she believes people's diets, and dairy in particular, can play a role in supporting stress management and holistic health. Perhaps reading her article will inspire some wellness goals for you as it has for me.

Four key movements for the month:



Production – December production in New Zealand flat on last year. Australia monthly production flat. US and EU monthly production increased relative to last year.



Exports – New Zealand and Australia exports increased in November. EU and US monthly exports down.



Imports – China imports continue to increase and Latin America monthly imports also up. Decline in Middle East and Africa and Asia imports.



Prices – **GDT Event 277** resulted in the GDT price index increasing +1.8% to USD \$3,614/MT. The largest movements came from Butter Milk Powder, Butter & Lactose which moved +10.7%, +6.2% & +3.8% 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

¹ Euromonitor (Euromonitor's Health and Wellness Survey 2020)

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Dairy's Role in Stress Management



Michelle Teodoro

Associate Director
Food Science, Asia Pacific, Mintel



Michelle Teodoro is an industry expert in food and nutrition, with over eight years of experience in the field. Her role entails researching, conducting analysis and providing thought leading insights on key market developments, industry trends and latest consumer demands across a range of food and beverage categories. Michelle is also a regular speaker at industry tradeshows and conferences.

She holds a Bachelor of Science in Nutrition and Dietetics from the University of Santo Tomas Philippines.

Consumer attention on health and wellness is not a new phenomenon. However, COVID-19 and the challenges that have arisen with it have accelerated the focus on holistic wellbeing. People are more aware how important staying physically and mentally healthy is in coping with the heightened stress and anxiety levels, especially in this new normal.

Across all ages and genders, brain health, emotional wellbeing, stress management and reduction are growing priorities for consumers globally.

In South Korea, 66% of adult internet users are actively looking for ways to reduce stress.

In the US, 45% of consumers are putting a higher priority on mental wellbeing. At the same time, the link between sleep, relaxation and stress has been recognised by consumers, with 43% of US adults attributing a lack of sleep to stress levels.

Consumers recognise the connection between nutrition and stress

As part of the new holistic health paradigm, there has been a shift in consumer focus from treatment to prevention. More people are adopting lifestyle habits such as exercise and meditation and actively seek solutions for desired outcomes.

Over 50% of US consumers have tried or are interested in functional food and drink that can aid sleep, is calming or helps with relaxation.

Backed by growing scientific evidence that diet is as important to mental wellbeing as it is to physical health, consumers turn to nutrition to support stress management and help improve sleep and concentration. In fact, 42% of people in the UK aged 25-34 would like their diet to improve their mood.



While busy modern lifestyles are often at odds with consumers' aspirations to eat healthily, knowledge towards the benefits of balanced diets has grown. People are proactively seeking everyday nutrition solutions for their overall wellbeing, rather than conventional drugs and pills. Several food categories have been proven to be beneficial to consumers' mental health. Still, an area gaining interest is the relationship between dietary habits, the gut microbiome and brain function.

Recent research has provided strong evidence for the gut microbiome's role in supporting brain performance and reducing inflammation and signs of stress¹, with diet being cited as one of the most integral factors.

As consumer understanding towards this relationship grows, nutrient-rich ingredients that have been proven to positively impact the body's gut-brain axis will be able to capture emerging demand.

Invest in products targeting stress management and cognitive performance

With stress management becoming a global focus, food and beverage manufacturers are in a unique position to capture consumer demand by tapping into their needs around cognitive performance and mood enhancement.

In Mintel's opinion, dairy foods and beverages can be positioned as functional solutions not only for physical but also all facets of cognitive wellness throughout the lifespan.

Cognitive wellness has been under-explored in the global dairy category, with functional claims appearing on less than 12% of product launches, according to Mintel's Global New Products Database. Furthermore, less than 1% are carrying brain and nervous system-related claims. This is despite emerging scientific evidence showing certain dairy ingredients' ability to improve mood and overall mental [wellbeing](#).

Certain probiotics may help to manage some common mental wellness conditions.



Consumption of dairy-derived probiotic strains (including Fonterra's *Lactobacillus rhamnosus* HN001™) were found to support the management of depression and anxiety in women after giving birth².

Also, other components of dairy may support stress management in adults. Phospholipids are the fundamental building blocks in our brains, and they decline as we age, potentially impacting cognitive functions such as mental energy, focus and concentration. Digested dietary milk phospholipids can supplement this decline and have been shown to help manage the effects of stress by supporting mental performance to stay focused and positive³.

As its benefits become more widely known, Mintel believes

dairy can be a differentiating point for brands targeting consumers' desire for natural, science-backed ingredients that support mental wellness.

By highlighting such health benefit areas, the category will also be able to expand its target market and appeal to a larger audience. While existing products are aimed at adults to support healthy and active ageing, dairy companies could consider teenagers and working adults who may need additional help dealing with daily stress and to support brain development.

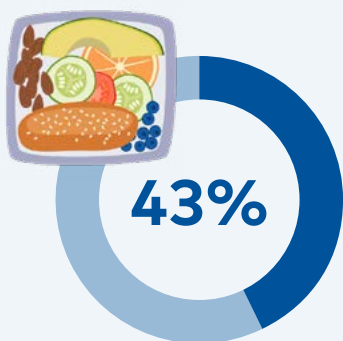
Snacking is shifting from "on-the-go" to "in-the-house"

The functional snack sector was one of the fastest-growing prior to COVID-19, and the resulting shift in consumer preferences observed over the past year is expected to continue to drive this upward trajectory.

The pandemic has disrupted consumer snacking habits, with at-home snacking enjoying a rapid increase in popularity and out-of-home occasions, including impulse and on-the-go consumption, diminishing from daily routines.

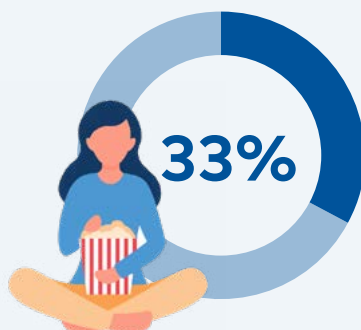
In addition to satiating hunger and cravings, consumers are now increasingly looking towards snacks to help them manage stress and its effects on their mental wellbeing.

IN THE UK



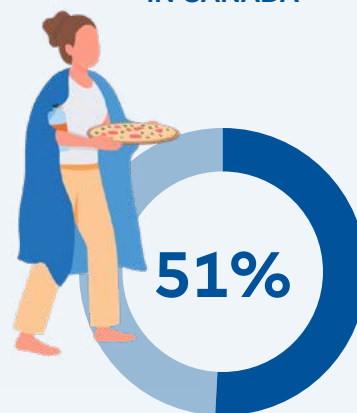
of **snackers** agree that snacking is a planned part of their diet*

IN POLAND & SPAIN



of **consumers** have been snacking in between meals more often since the start of the COVID-19 outbreak

IN CANADA



of **Canadian snackers** eat snacks when they are stressed*



What this means for the F&B industry

With consumers showing an increasing propensity to snack during times of stress, and there currently being **few products** launched in the food and beverage category with stress or sleep functional claims, there is a space in the market for food and beverage companies to target.

In particular, dairy can form an integral ingredient for new snack products with functional benefits including stress, cognitive performance and mood, for all consumers³.

While working adults are an obvious target for products with such calming and relaxing properties, dairy can also be beneficial for high school and college students who are coping with daily stresses of academic life such as exams along with other emotional challenges of young adulthood.

Looking ahead

As the world begins to move forward into a new normal, how consumers approach their health will evolve drastically and some trends are likely here to stay.

The next frontier in food will be anchored in enabling cognitive wellness through natural and scientifically backed solutions. In this setting, there is great potential for manufacturers and brands to build connections between functional ingredients such as dairy and brain health, mental performance, mood or relaxation by highlighting its innate nutrition profile. Specialty functional ingredients like probiotics and milk phospholipids can also play a more significant role in product formulations to capture emerging demand.

The article is based on insights and data provided by the world's leading market intelligence firm Mintel. For more information, please visit www.mintel.com.

References

- 1 Deans, E. (2017). Microbiome and mental health in the modern environment. *Journal of Physiological Anthropology*, 36: 1.
- 2 Slykerman, R. F., et al. (2017). Effect of *Lactobacillus rhamnosus* HN001 in Pregnancy on Postpartum Symptoms of Depression and Anxiety: A Randomised Double-blind Placebo-controlled Trial. *EBioMedicine*, 24, 159–165.
- 3 Benton, D., Donohoe, R. T., Sillance, B., & Nabb, S. (2001). The Influence of Phosphatidylserine Supplementation on Mood and Heart Rate when Faced with an Acute Stressor. *Nutritional Neuroscience*, 4(3); 169-78.

***as of March 2020** Base: UK: 1,883 internet users aged 16+ who ate snacks in the past two weeks; Poland & Spain: 2,000 internet users 16+ in each country; Canada: 1,970 internet users aged 18+ who consumed snacks in the past month
Source: Lightspeed/Mintel

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.

Women in the US aged 18-34 are interested in nutrition drinks with anxiety or stress relief formulations, as well as those that can improve sleep.

Pre-COVID-19, snack bars were a popular option for consumers on-the-go. With life moving to the new normal, they continue to provide comfort, with 56% of snackers in the UK saying it gives them an opportunity to take a break from responsibilities.

While botanicals, vitamins, and minerals currently lead the healthy snacking segment, dairy ingredients have a role to play as people look for recognisable, trustworthy, science-backed, and efficient solutions that are clean label, healthy and indulgent.

Product formulations with a particular focus on mental wellness can incorporate dairy with ingredients such as lavender, chamomile, lemon balm and L-theanine as well as adaptogens.

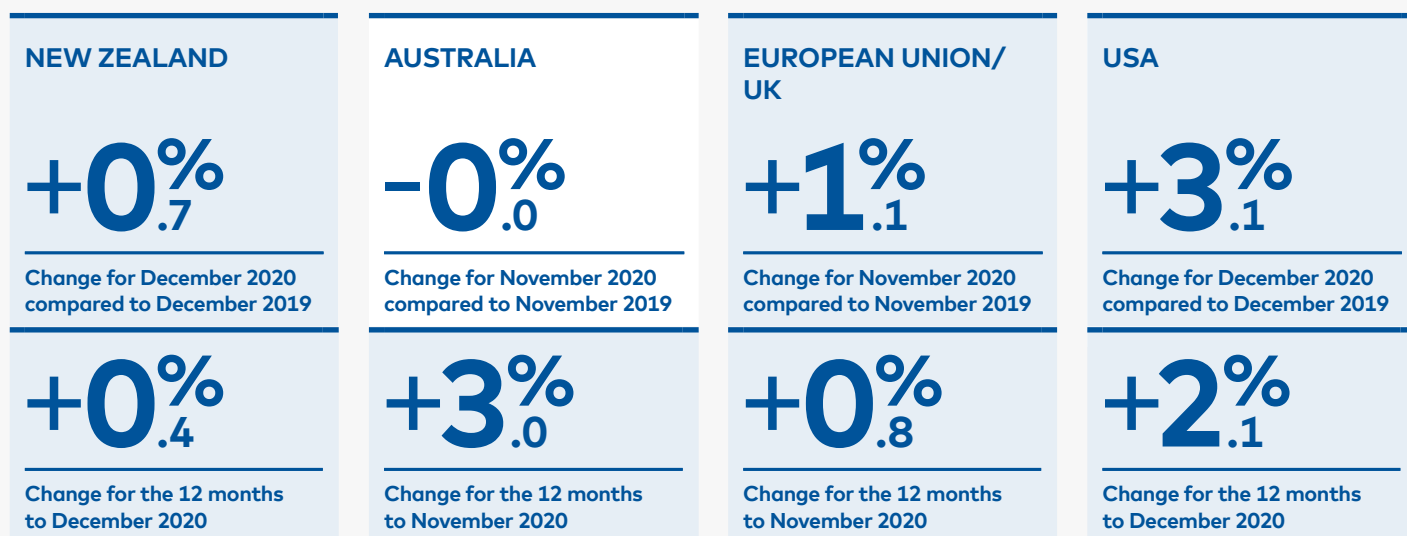
However, there is an opportunity to innovate beyond traditional snack bars and yoghurts. Ice cream brands have recently sought to advertise fibre content in products and use probiotics to make gut health claims, making these snacks a more attractive option for all ages.

In addition, ready-to-drink (RTD) nutritional products can also provide additional benefits beyond weight management and nutrition.

This shows that the connection between stress, mood and sleep is present in consumers' minds when they look for food and beverages that support their daily lives.



December production in New Zealand flat on last year. Australia monthly production flat. US and EU monthly production increased relative to last year.



New Zealand milk production for the 12 months to December was also relatively flat on last year at 0.4% higher.

New Zealand milk production¹ was relatively flat in December compared to December last year increasing 0.7% on a litres basis (up 1.0% on a milk solids basis).

Following a 2.5% drop year-on-year in November driven by challenging weather conditions, milk production growth has improved in December as milder and drier weather settled in.

Australia milk production for the 12 months to November was 3.0% higher than last year.

Australia milk production was flat in November compared to November 2019. Warm and wet weather continued to improve pasture growth through spring though smaller herds, a drop in farm numbers and labour challenges impacted milk production growth. Dairy Australia expects milk production to track towards the lower end of the current 2020/21 growth range of 1-3%

EU milk production for the 12 months to November was up by 0.8% compared to the same period last year.

EU (including UK) milk production increased by 1.1% in November compared to the same period last year.

The increase in production was observed across key producing countries such as Ireland (up 8.6%), Italy (2.0%), UK (1.9%) and Poland (1.5%). This increase was partially offset by a continuing decline in France and Germany.

Milk production for the 12 months to December was 2.1% higher compared to the same period last year.

US milk production increased by 3.1% in December compared to the same period last year.

December saw continued strong production volumes as farmers drive higher milk per cow yields and herd sizes. There is some concern that this sustained growth rate will lead to pressure on processing capacity during spring peak.

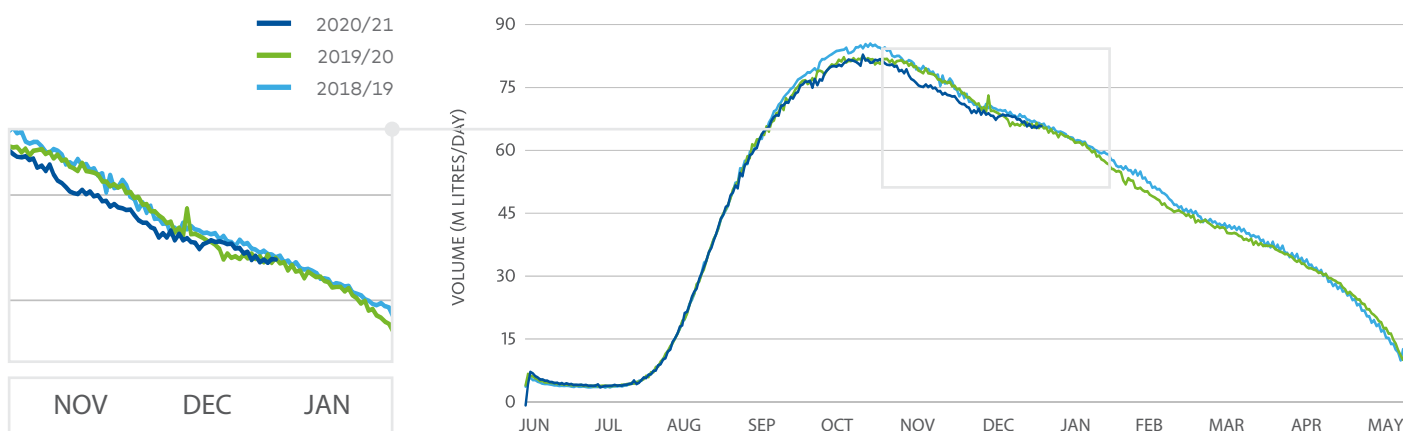
¹ New Zealand production is measured in litres.

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%.7

Change for December 2020 compared to December 2019

-0%.7

Season to date
1 June to 31 December

Fonterra's New Zealand collection for December was 183.1 million kgMS, down 0.7% on December last season.

Season-to-date collection to the end of December was 902.8 million kgMS, down 0.7% on last season.

The poor pasture conditions experienced in some areas in early November turned around with production at near normal levels by later in the month. December saw a wide range of weather conditions across the country but indications of good levels of supplementary feed production across most parts of the country.

AUSTRALIAN COLLECTION

+1%.3

Change for December 2020 compared to December 2019

-2%.2

Season to date
1 June to 31 December

Fonterra's Australia collection in December was 111.4 million kgMS, a 1.3% increase on December last season.

Above average rainfall and cooler conditions, driven by a La Niña weather pattern have assisted milk production moving into summer.

Season-to-date collections are down 2.2% on last year due to an unseasonably wet spring and lower herd numbers which hampered milk volumes across peak months.





New Zealand and Australia exports increase in November. EU and US monthly exports down.

NEW ZEALAND

+8%_{.7}

Change for November 2020
compared to November 2019

-2%_{.3}

Change for the 12 months
to November 2020

Exports for the 12 months to November were down by 2.3%, or 81,486 MT, on the previous comparable period. This was primarily driven by butter, infant formula, SMP, and cheese.

Total New Zealand dairy exports increased by 8.7%, or 32,823 MT, in November compared to the same period last year.

Record volumes of WMP to China and South East Asia of 31,421 MT led this increase. This was offset by decreases in butter and fluid milk products, down a combined 6,852 MT.

AUSTRALIA

+6%_{.9}

Change for November 2020
compared to November 2019

-2%_{.2}

Change for the 12 months
to November 2020

Exports for the 12 months to November were down 2.2%, or 16,430 MT, on the previous comparable period.

Declines were recorded across a broad range of products with infant formula, cheese, WMP, SMP, down a combined 35,353 MT, partially offset by fluid milk products, up 11,099 MT.

Australia dairy exports increased by 6.9%, or 4,415 MT, in November compared to the same period last year.

This was primarily driven by increased demand for fluid milk products and WMP, up a combined 6,329 MT, and partially offset by decreases in infant formula, down 2,306 MT.

EUROPEAN UNION/ UK

-9%_{.5}

Change for October 2020
compared to October 2019

+2%_{.7}

Change for the 12 months
to October 2020

Exports for the 12 months to October were up 2.7%, or 152,175 MT, on the previous comparable period. Fluid milk products, cheese, butter, whey and WMP were the main drivers of this growth, up a combined 299,504 MT. It was partially offset by a large decline in SMP down 163,387 MT.

EU (including UK) dairy exports decreased by 9.5%, or 49,277 MT, in October compared to the same period last year.

This was driven by decreases in SMP to Saudi Arabia, infant formula to Hong Kong and Russia and butter to the United Arab Emirates and Morocco.

USA

-3%_{.1}

Change for November 2020
compared to November 2019

+11%_{.7}

Change for the 12 months
to November 2020

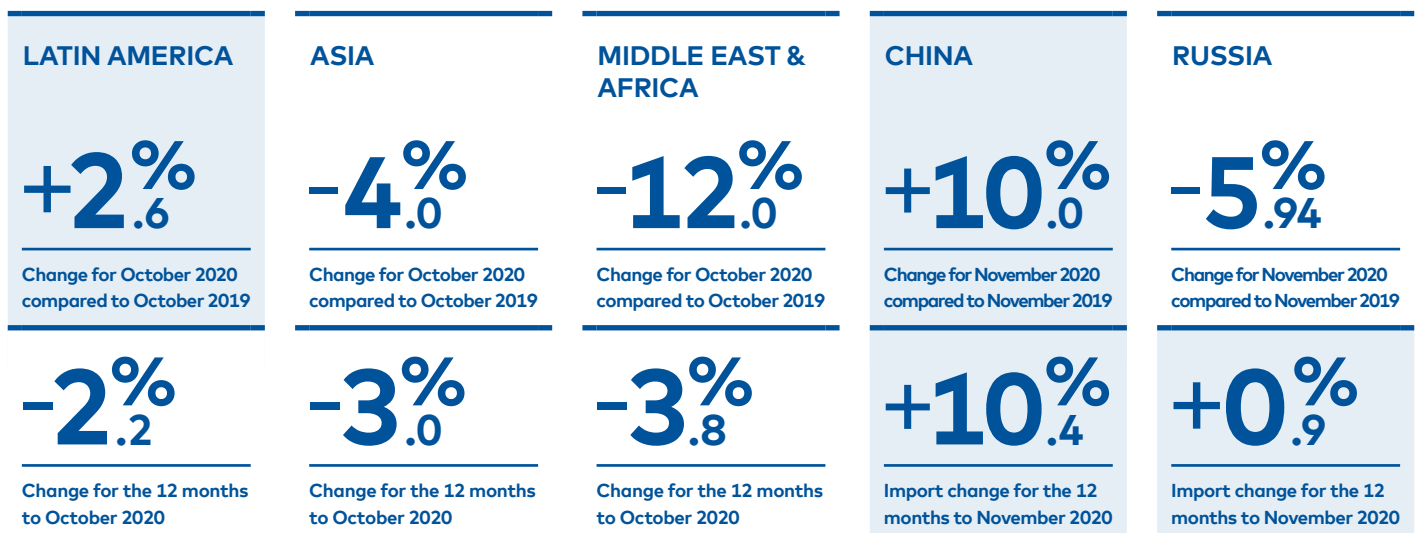
Exports for the 12 months to November 2020 were up 11.7%, or 262,870 MT, on the previous comparable period driven by SMP, whey and WPC, up a combined 248,998 MT.

US dairy exports decreased 3.1%, or 6,189 MT, in November compared to the same period last year.

Exports volumes decreased for the first time in over a year. This was led by lower demand for SMP from South East Asia and for cheese by Mexico. Demand for whey from China continued to increase, attributable to recovering hog herds.



China imports continue to increase and Latin America monthly imports also up. Decline in Middle East and Africa and Asia imports.



Imports for the 12 months to October were down 2.2%, or 38,998 MT, compared to the same period the previous year.

Decreases were driven primarily by SMP, infant formula and butter, down a combined 58,702 MT and partly offset by increased volumes of cheese and WMP.

Latin America dairy import volumes¹ increased 2.6%, or 3,941 MT, in October compared to the same period last year.

This was driven by higher volumes of WMP to Brazil but partly offset by lower shipments of SMP to Mexico.

Imports for the 12 months to October were down 3.0%, or 147,838 MT, compared to the same period the previous year.

Decreases were recorded across WMP, SMP and fluid milk products, down a combined 187,680 MT, and offset partially by increased volumes of lactose, up 48,282 MT.

Asia (excluding China) dairy import volumes¹ decreased 4.0%, or 15,381 MT, in October compared to the same period last year.

Decreases were recorded for WMP to Vietnam, Hong Kong and Singapore, and whey to Indonesia. This was partially offset by an increase in cheese to Japan.

Imports for the 12 months to October 2020 were down 3.8%, or 149,867 MT, compared to October last year driven by decreases in fluid milk products, infant formula and cheese, down a combined 331,774 MT, and partially offset by increases in SMP.

Middle East and Africa dairy import volumes¹ decreased 12.0%, or 31,383 MT in October 2020 compared to the same period last year.

Decreases were driven principally by lower volumes of infant formula and SMP to Nigeria and fluid milk products to Kenya.

Imports for the 12 months to November were up 10.4%, or 325,647 MT, driven by whey, fluid milk products, butter and lactose.

China dairy import volumes increased by 10%, or 28,565 MT, in November compared to the same period last year.

Import volumes of fluid milk products, up 23,401 MT, from Germany and New Zealand continued to increase as dairy consumption is widely promoted to boost immunity.

Whey imports were also up 19,739 MT, primarily from the US as China continues to rebuild its hog herds using whey as feed.

Imports for the 12 months to November 2020 have increased +0.9% or +9,806 MT compared to the same period the previous year. This was mainly driven by AMF, Cultured Products, Butter, Caseinate, Casein, Cheese, Dairy Spreads, Fresh, Ice cream, and MPC being up a combined +75,186 MT. Offset by Infant Formula, SMP, WMP, Whey, Lactose, and WPC being down a combined -65,380 MT.

Russia import volumes were down -5.94% or -5,445 MT for November 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



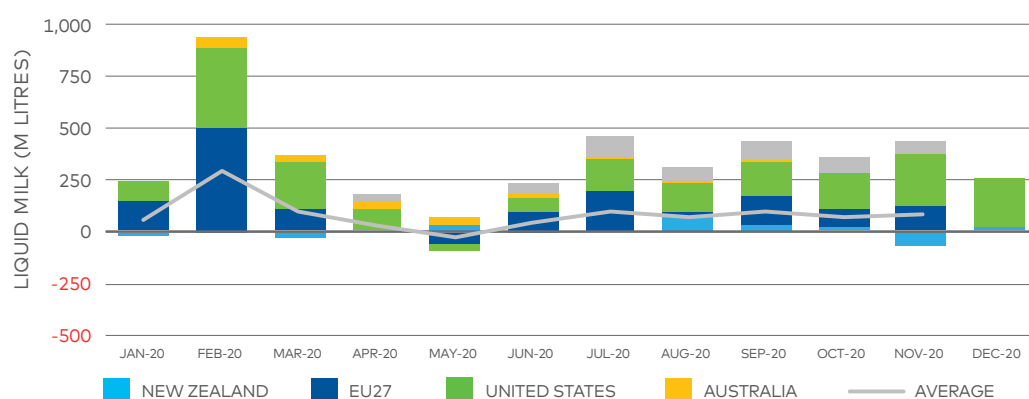
Global Dairy Market

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.

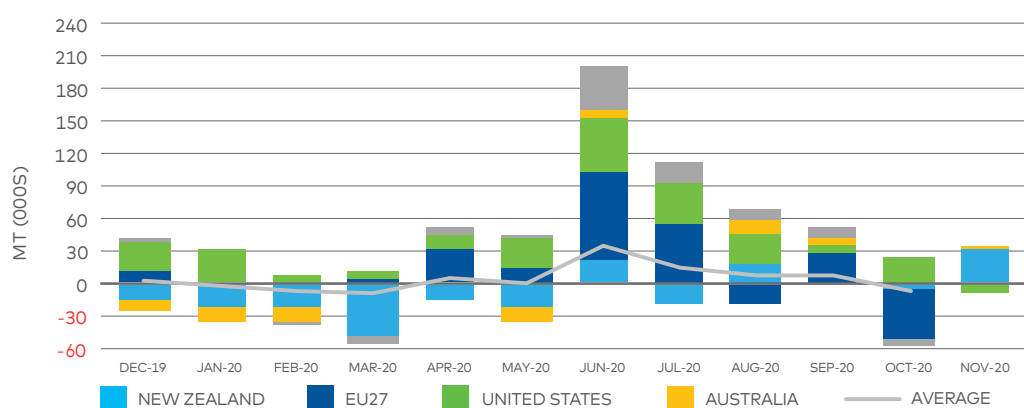
The absolute size of the bars represent the change in imports, exports or production, relative to the same period the previous year.

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

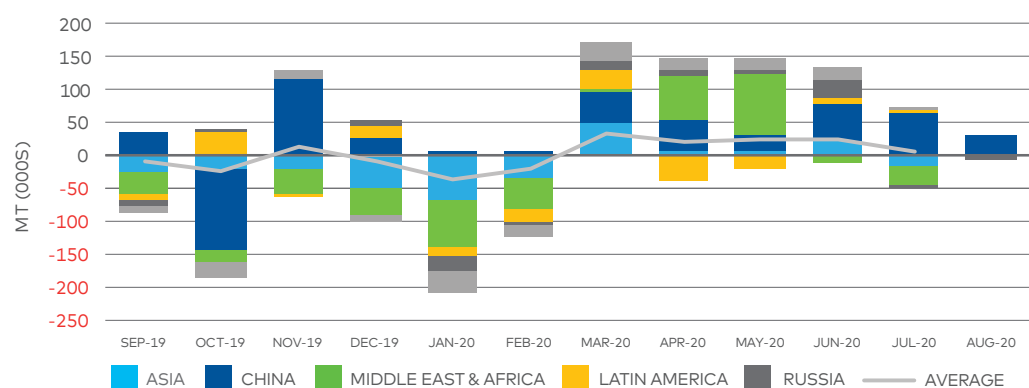
PRODUCTION



EXPORTS



IMPORTS





Food Price

The January 2021 FAO Food Price Index (FFPI) averaged 113.3 points, 4.7 points (4.3 percent) higher than in December 2020, marking the eighth month of consecutive rises and its highest monthly average since July 2014. This is attributed to strong gains in the sugar, cereals and vegetable oils sub-indices, while meat and dairy values were also up, but to a lesser extent.

The Dairy Price Index averaged 111.0 points in January, up 1.7 points (1.6 percent) from December 2020, rising for the eighth consecutive month, and 7.1 points (6.9 percent) above its value in the same month last year. This continued rise was underpinned in January by China's purchases for upcoming New Year festivities and seasonally lower exportable supplies in New Zealand. Skim milk powder (SMP) prices also climbed, pressured by high import demand for spot supplies and lagging production in Western Europe. By contrast, cheese prices fell slightly from December 2020 highs, due to limited internal sales in Europe, coupled with a stock build-up in the United States of America.

Source: FAO



Economic

Composite leading indicators (CLIs) continue to recover from COVID-19 crisis lows in most major economies, although the pace of growth varies. Among large OECD economies, the CLIs for the United States and Japan continue to indicate stable growth. Similar patterns are visible for the euro area as a whole including Germany, France and Italy. The CLI for Canada is improving steadily, however in the United Kingdom, the CLI continues to point to a slowdown. Among major emerging economies, Brazil and the manufacturing sector of China signal a steady increase. In India and Russia, CLIs continue to point to stable growth.

Although vaccinations have begun, governments' efforts to contain COVID-19 are ongoing and rapidly changing, therefore indicators used in the CLI compilation may fluctuate. CLIs should be interpreted with care in the current circumstances.

Source: OECD



Consumer

In 2021 many countries will be looking to immunisation programmes to deliver a permanent solution to the coronavirus (Covid-19) pandemic. Israel and the UAE are currently far ahead, followed by the EU, the UK and the US. Many other countries, some even wealthy, have not yet even begun. Demand for the vaccine far outstrips supply, with 6.4bn doses pre-ordered, most of them by wealthy nations. This is just not an option for poorer countries. Mass immunisation programmes will not be cheap. In addition, there are concerns that the current vaccines may not be effective against future mutations of the coronavirus; whereby immunisation campaigns would have to be renewed regularly. We therefore expect that global economic prospects will brighten from mid-2021, with the global economic rebound gaining speed in the third and fourth quarters. However, life will not be back to normal even by then, as immunisation programmes in advanced countries will continue until mid-2022.

Source: Economist Intelligence Unit



Weather

Soil moisture decreases feature across nearly all of New Zealand's North Island, with the driest soils found in Northland, northern and western Waikato, and parts of the east coast. The prolonged dryness in this part of the country is atypical of La Niña. While substantial rainfall has occurred across the West Coast and Fiordland, the remainder of the South Island has received only minimal rainfall.

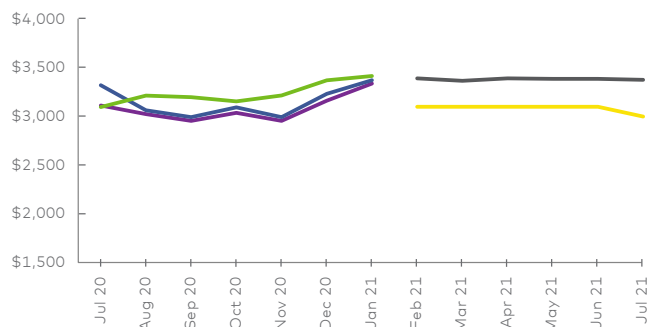
In Australia, southern Queensland and northern New South Wales' sunny, warmer-than-normal weather spurred crop development and helped maintain good yield prospects.

In Europe, above normal temperatures dominated, while widespread rain and snow sustained good moisture supplies for winter grains and oilseeds.

Source: NIWA, U.S Department of Agriculture



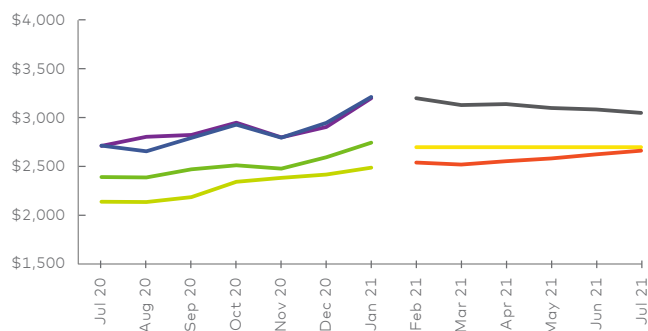
WMP



January WMP prices were sloping upwards and growing closer together across the indexes. Dutch Dairy Board increased +1.3% to USD \$3,414/MT. USDA Oceania & GDT both increased to USD \$3,337/MT and USD \$3,371/MT respectively.

Futures and forecasts for the next six-months have reflected positive growth. Rabobank Oceania has an average of USD \$3,083/MT. NZX Futures has an average of USD \$3,382/MT.

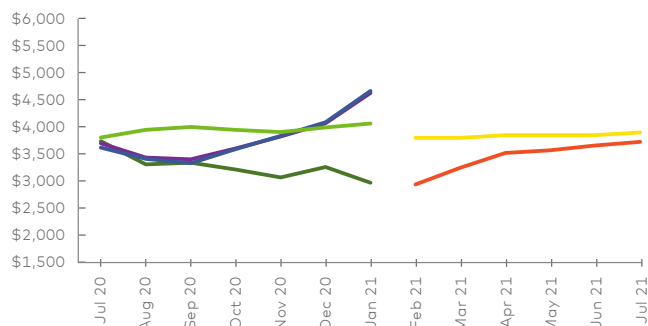
SMP



SMP prices have increased across the board for January, with USDA NASS increasing +2.9% to USD \$2,491/MT. Dutch Dairy Board increased +5.7% to USD \$2,746/MT. USDA Oceania increased a further +10.1% to USD \$3,200/MT. GDT increased +9% to USD \$3,213/MT.

The Forecast and futures have also reflected this uplift. Rabobank Oceania has increased +20% from previous projections to an average of USD \$2,700/MT. CME Futures has increased its 6-month average +1.3% to USD \$2,583/MT. NZX Futures has averaged at USD \$3,118 /MT.

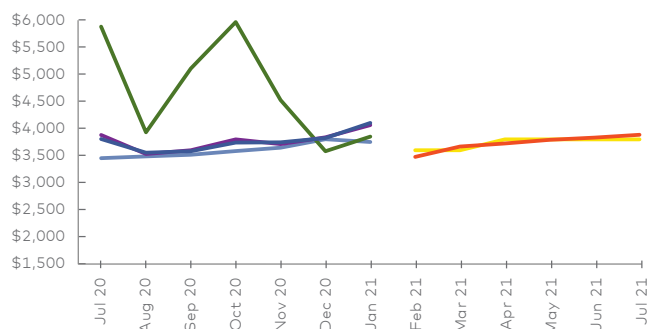
BUTTER



There were mixed movements again this month in the Butter prices. USDA Oceania showed a further +13.7% increase to USD \$4,625/MT and GDT also increased +14.1% to USD \$4,663/MT. CME Spot dropped -8.9% to USD \$2,975/MT. Dutch Dairy Board had a slight uplift to +1.8% to USD \$4,064/MT.

As a result, we see CME Futures drop -2.8% to USD \$3,446/MT and Rabobank Oceania average prices increase +12.2 to USD \$3,842MT.

CHEESE



The long-term volatility between the cheese market indexes seems to have settled recently as all our indexes are within USD \$351/MT of each other in January. This following a similarly close USD \$256/MT spread in December. CME Spot increased +7.5% to USD \$3,851/MT. GDT increased +7.3% to USD \$4,103/MT and USDA Oceania increased +5.9% to USD \$4,063 /MT. EU commission had a slight drop of -1.3% to USD \$3,752/MT.

CME Futures 6-month average has been revised down -1.6% to USD \$3730/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 277

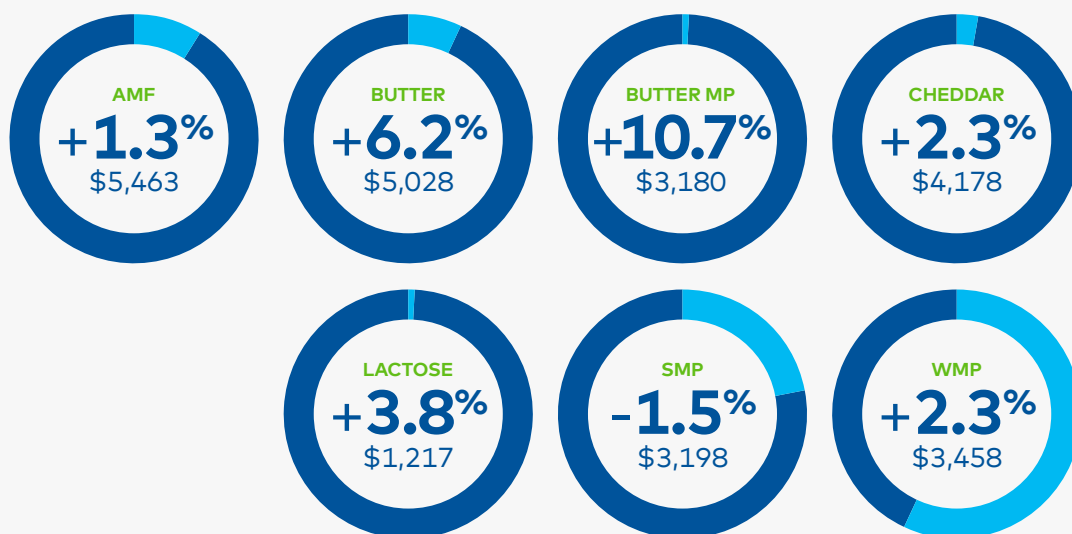
+1.8%

Change in GDT Price Index from previous event

USD 3,614

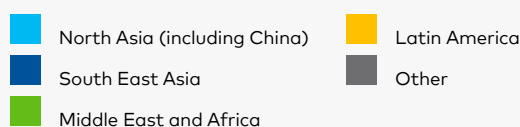
Average price (USD/MT, FAS)

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.

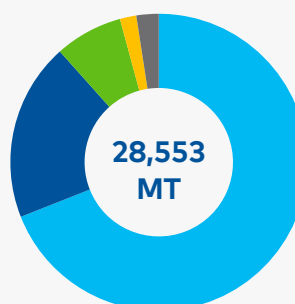


GDT SALES BY DESTINATION

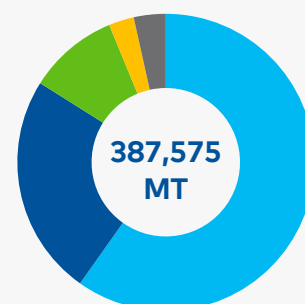
TRADING EVENT 276



Trade event 276



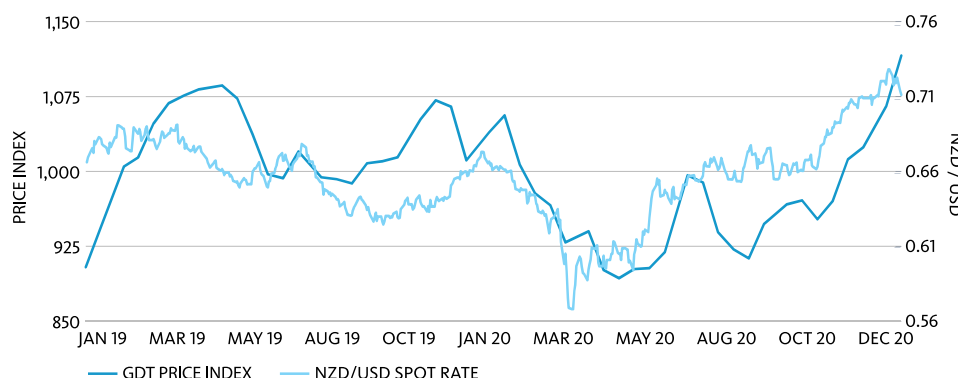
Financial Year to Date



The next trading event will be held on 16 February 2021. 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 January 19, 2021



Recent Developments

Most wholesale dairy product prices from the week ending December 12 to the week ending January 9 rose, with the exception being 40-pound blocks of Cheddar cheese, which fell 8.5 cents to \$1.6671 per pound. The price for 500-pound barrels of Cheddar cheese (adjusted to 38-percent moisture) rose 4.9 cents to \$1.5260 per pound. Prices for butter, nonfat dry milk (NDM), and dry whey all increased, at \$1.4905 (+5.1 cents), \$1.1238 (+2.3 cents), and \$0.4404 (+3.2 cents), respectively.

Chicago Mercantile Exchange (CME) spot prices for 40-pound blocks and 500-pound barrels of Cheddar cheese for the trading week ending January 8, were significantly higher than the most recent National Dairy Products Sales Report (NDPSR) prices, averaging \$1.7790 and \$1.5965 per pound, respectively. CME spot prices for NDM and dry whey were also higher than the most recent NDPSR prices, averaging \$1.1795 and \$0.4860 per pound, respectively. The CME weekly average spot price for butter was lower than the most recent NDPSR price, averaging \$1.4095 per pound.

U.S. milk production during November was up 3.0 percent on November 2019, totalling 18.025 billion pounds (averaging 600.8 million pounds per day). This follows year-over-year milk production growth of 1.8 percent in August and 2.3 percent in September and October. The milking herd numbered 9.407 million head, 62,000 head more than November 2019 and 12,000 more than October 2020. Milk per cow averaged 1,916 pounds in November, 43 pounds above November 2019.

Dairy exports on a milk-fat milk-equivalent basis totalled 643 million pounds in November, 63 million lower than October and 55 million lower than November the previous year. On a skim-solids milk-equivalent basis, November exports totalled 3.670 billion pounds, 607 million lower than October but 1 million higher than November 2019. Exports of dry skim milk products were 137.1 million pounds in November, 32.2 million less than October. Exports of whey products (dry whey, whey protein concentrate, modified whey, and milk albumin) were 187.1 million pounds in November, 15.6 million less than October.

Dairy imports on a milk-fat basis were 472 million pounds in November, 56 million lower than October and 24 million pounds lower than the previous November. Notably, imports of butter were 4.0 million pounds in November, 2.7 million less than October. On a skim-solids basis, November imports totalled 431 million pounds, 60 million higher than October but 53 million lower than November 2019.





Dairy forecasts for 2021

The milk production forecast for 2021 has been raised to 226.7 billion pounds, 0.4 billion higher than last month's forecast. Milk cows are projected to average 9,410 million head, 15,000 higher than last month. Milk per cow is projected to average 24,095 per head, 5 pounds more than the previous forecast.

The forecast for 2021 dairy exports on a milk-fat basis has been raised to 9.7 billion pounds, 0.1 billion higher than last month. Expectations for butter exports are greater than the previous month due to U.S. price competitiveness. On a skim-solids basis, the 2021 dairy export forecast is unchanged at 48.7 billion pounds. Dairy import forecasts have been lowered on both the milk-fat and skim-solids bases to 6.6 billion pounds (-0.2 billion) and 5.5 billion pounds (-0.1 billion), respectively, due to lower expected imports of butterfat products and milk protein concentrate.

Due to an improved economic outlook, enhanced by Federal Government actions to stimulate the economy and USDA's announcements regarding purchases of dairy products, domestic demand expectations for dairy products have strengthened.

The forecast for 2021 domestic use on a milk-fat basis is 222.6 billion pounds, 0.1 billion higher than last month's forecast. On a skim-solids basis, the forecast for domestic use has been raised by 0.1 billion pounds to 182.4 billion pounds. Ending stock forecasts for 2021 have been lifted to 15.2 billion pounds on a milk-fat basis (+0.7 billion) and 10.3 billion pounds on a skim-solids basis (+0.1 billion).

Due to stronger expected demand, price forecasts for 2021 are also up for Cheddar cheese, dry whey, butter, and NDM to \$1.740 (+10.5 cents), \$0.450 (+4.5 cents), \$1.605 (+3.5 cents), and \$1.100 (+3.5 cents), respectively. With higher dairy product prices expected across the board, Class III and IV milk price forecasts for 2021 are \$16.90 per cwt (+\$1.30) and \$14.10 per cwt (+\$0.50), respectively. Thus, the all-milk price forecast for 2021 is \$17.65 per cwt, a \$1.05 increase on last month's forecast.

Blimling, Forecast Update

Published December 31, 2020

Blimling expects more cheese production throughout 2021, with U.S cheddar cheese supplies picking up, as growing milk production fills existing and expanding cheese plant capacity. While retail sales are currently holding up, food services may struggle in the near term.

Butter stocks are heavy and ample cream supplies will keep churns busy through the build season. Blimling notes manufacturers may hold onto fresh production a little tighter over the near term. As with cheese, retail demand may help keep butter moving, but could struggle to offset weak food service butter use.

The NDP/SMP market remains competitive with healthy demand out of South-east Asia keeping U.S powder moving internationally. Mexico may remain hit or miss. Dryers will be processing growing milk supplies over the first half of 2021, particularly in the Western half of the country.

Strong exports continue to limit dry whey availability. Blimling reports that dry whey supplies are poised to improve as rising whey input costs force some manufacturers to reallocate solids to commodity sweet whey. Sales may begin to slow early 2021 due to well-supplied buyers feeling the effects of higher U.S prices.



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.