

# PERSPECTIVE

NOVEMBER 2017



## The latest insights in 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!

This month, Nicola Fox, Senior Manager FMCG at Nielsen, shares insights into the increased focus consumers have on health and wellness.

## **Production, exports, imports and pricing**

- Milk production in New Zealand improved in October. European milk production increased for the fourth consecutive month.
- Further decline in dairy exports from New Zealand and Australia. EU showing strong export growth.
- Strong growth in dairy imports continues in China and Asia. Middle East and Africa imports continue to soften.
- GDT Price Index was affected by the New Zealand dollar depreciation during October due to the strengthening of the US dollar and uncertainty around the New Zealand Government election.
- WMP and SMP prices decreased, butter price changes were mostly negative with Dairy Dutch Board (DDB) declining significantly down -18.2%. Cheese prices were slightly down.

If you have any 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](mailto:nzmpbrand@fonterra.com) or through your account manager.

**Kind regards,**

**The Perspective team**



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# HEALTHY PRODUCTS, HEALTHY CONSUMERS: A HEALTHIER BOTTOM LINE



## NICOLA FOX

Senior Manager, Nielsen NZ

With more than 20 years of experience in the New Zealand FMCG industry, Nicola is passionate about working with Manufacturers and Retailers to help them identify and deliver on their consumers' needs.

Over the last 10 years, Nicola has worked at Nielsen in Shopper Panel Insight roles, Retail Marketing, Retailer Shopper Loyalty and continues to work closely with fresh food retailers and suppliers in NZ.

For the past two years Nicola has been the Client Business Partner with the Fonterra Global team based in NZ. She has been a central liaison between Nielsen & Fonterra and supported global team projects through Nielsen data utilisation and research.

## Increased focus on health and wellness

In recent years, consumers have increased their focus on health and wellness - especially when it comes to what they eat and drink. Understanding what is fuelling this consumer movement towards a healthier lifestyle is imperative when reviewing the direction of existing brands and formulating plans for new product development and innovation initiatives.

Research from Nielsen's Global Ingredient and Out-Of-Home Dining Trends Report reveals that four macro-environmental trends are contributing to consumers being more mindful about their health: the ageing global population, rising chronic-disease rates, a rise in self-care, treatment and prevention, and increasingly educated and connected consumers.

### Global Greying

The world population is both ageing and living longer. The U.S. Census Bureau forecasts that by 2051, the growth rate of the world's older population will overtake the younger population.

### Chronically Ailing

According to the World Health Organisation, chronic diseases (including cardiovascular diseases, respiratory diseases, cancer and type 2 diabetes) are set to account for over 7-in-10 deaths globally by 2020. Medical experts agree that these illnesses are largely preventable, and as rates continue to climb, the need for the behavioural modification to prevent and manage them is widely recognised.

### Food as medicine

Consumers are taking a more active role in their health care, which includes following nutrition guidelines to prevent or manage many health issues.

### Educated and connected consumers

Technology gives consumers access to a wealth of health information and products they can use to exercise



greater control over their health. And consumers are demanding greater transparency from food manufacturers and retailers.

Around the world, consumers want to eat more healthily, but they can't do it alone. They need help from food manufacturers to offer products that are formulated with good-for-you ingredients. They need help from retailers to stock shelves with well priced healthy products. And they need help from the medical community to provide proper guidance on what and how much to eat, in order to maintain a healthy lifestyle.

## The four expressions of health

Seeking a healthy lifestyle can mean different things to different consumers. There are generally four trains of thought when it comes to health; 'back-to-basics', 'more of the good', 'less of the bad' and 'sustainable products'.

### Back-to-basics

Returning to simple, homemade meals using fresh ingredients, having better portion control, and eating meals on a regular basis.

### More of the good

Eating more foods with health benefits e.g. products with high/added calcium, vitamins and minerals.

### Less of the bad

Cutting back on certain ingredients e.g. saturated fats, sugars, salt and gluten. Research from Nielsen's Global Health and Ingredients survey revealed that in Asia Pacific, 70% of people believe that the absence of undesirable ingredients is more important than the inclusion of beneficial ingredients, and this is often driven by food allergies or intolerances. Over one-third of survey respondents (36%) said someone in their household suffers from a food allergy or intolerance.

### Sustainable products

This includes consuming fair trade, local or organic products as well as products that have been sourced in a socially/environmentally responsible way.

Whether it is an intolerance to specific ingredients, a proactive avoidance of specific ingredients or the desire for products with healthier and more sustainably sourced ingredients, it's important to ensure that consumers' needs are being met by food manufacturers. Less than half of global respondents (45%) with food sensitivities/limitations say their needs





are being fully met by the product offerings currently available to them today. In Latin America, only 37% say their product needs are currently being met.

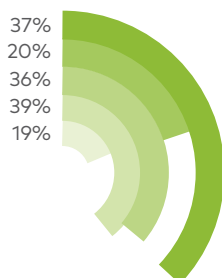
For those who are proactively seeking to avoid specific ingredients, it's important to know what their key triggers are. Latin Americans are more likely to pursue a low fat, sugar conscious or low sodium diet. Consumers from Asia Pacific lean toward lower carbohydrate and vegetarian diets; while Europeans are least likely to adhere to gluten free and vegetarian diets.

## Simplify core products

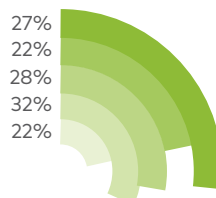
For everyday goods, consumers want products they can trust. More than two-in-three consumers (68%) across the globe said that they are willing to pay a premium price for food and drink that don't contain undesirable ingredients. Across North America, people are more likely to agree that the shorter the ingredient list, the better. Having a short list of recognisable ingredients and avoiding undesirable ingredients (such as artificial preservatives, flavours and colours) are some of the key things that consumers are looking for in core consumer products.

This research highlights the importance of understanding what influences consumers' purchases and how this should be integrated into a manufacturer's product portfolio plan:

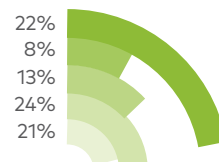
### LOW FAT



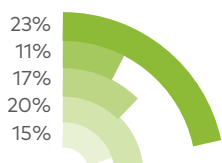
### SUGAR CONSCIOUS



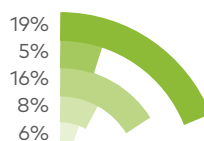
### LOW SODIUM



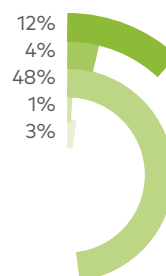
### LOW CARBOHYDRATE



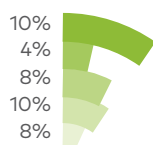
### VEGETARIAN



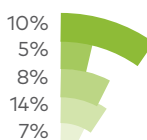
### HALAL



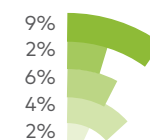
### WHEAT FREE OR GLUTEN FREE



### LACTOSE/DAIRY FREE



### VEGAN



■ ASIA PACIFIC ■ EUROPE ■ AFRICA/MIDDLE EAST ■ LATIN AMERICA ■ NORTH AMERICA



## Innovate to serve changing needs

Reformulate products where necessary to ensure that consumers with food sensitivities/limitations have the right products for them. Low carbohydrate, low/no sugar, low sodium, gluten free and lactose free products all have a place in specific categories.

## Keep the option to indulge

Finally, manufacturers should keep in mind that while consumers want to be the best version of themselves, they still want the option to indulge in 'sometimes' food that is not necessarily healthy, but still made with wholesome ingredients e.g. premium ice cream.



Source: Nielsen NZ, 2017.

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.



# MILK PRODUCTION IN NEW ZEALAND IMPROVED IN OCTOBER. EUROPEAN MILK PRODUCTION INCREASED FOR THE FOURTH CONSECUTIVE MONTH

To view a summary of year-on-year changes in production [click here](#)

### New Zealand

0%

Production change  
for the 12 months to  
October 2017

For the 12 months to October, milk production is flat compared to the same period the previous year.

New Zealand supply typically peaks in mid-October, however wet weather across the country for most of spring meant the peak was later and impacted volumes in both the North and South Islands.

Total New Zealand milk production in October is up +3% compared to the same month last year, as weather conditions improved towards the latter part of the month.

### Australia

-4%

Production change  
for the 12 months to  
September 2017

Production for the 12 months to September was down -4% compared to the same period the previous year.

The decline in production is largely due to poor spring weather conditions and reduced herd size compared to 2017.

Australia production in September decreased -1% compared to the same month last year.

### European Union

0%

Production change  
for the 12 months to  
September 2017

Production for the 12 months to September was flat. Across this period, Germany and France were down -2% and -3% respectively, offset by growth out of Italy, Ireland and Poland, up +4%, +6% and +4% respectively.

EU production in September increased +5% compared to the same month last year with Germany and France, the two largest EU producers, up a combined +4%.<sup>1</sup>

September showed the largest growth since early 2016 as production ramps up on the back of increased demand.

<sup>1</sup> European production data for September has been estimated based on IFCN data.

### United States

+2%

Production change  
for the 12 months to  
September 2017

Milk production for the 12 months to September increased +2% compared to the same period the previous year.

US production in September increased +1% compared to the same month last year. This is largely due to increased herd numbers and improved production per cow.<sup>1</sup>

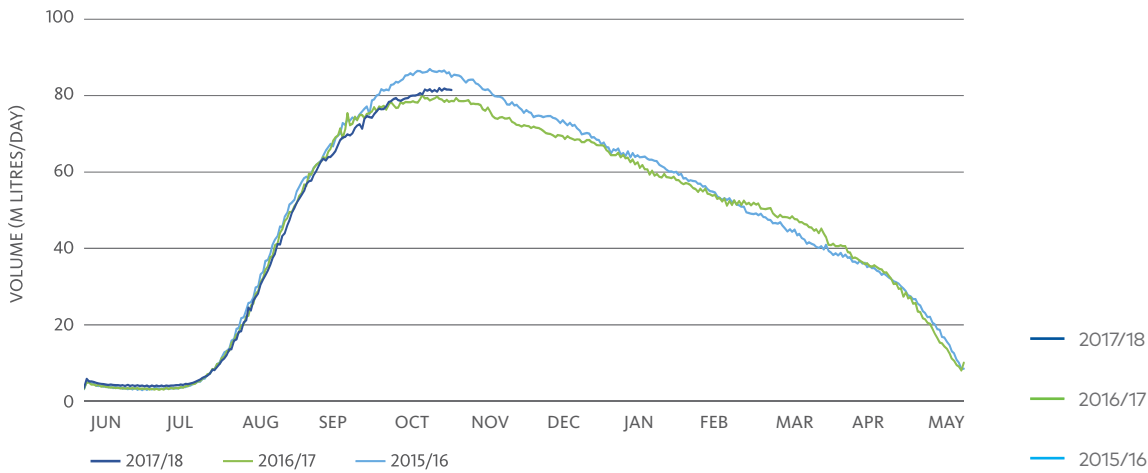
<sup>1</sup> USDA October 2017.

Sources: 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 NEW ZEALAND MILK COLLECTION 2017/2018 SEASON



### New Zealand Collection

**0%**

Flat for the season from  
1 June to 31 October

Fonterra's milk collection across New Zealand for the five months to 31 October reached 502 million kgMS, in line with the same period last season.

Collections in October reached 209 million kgMS, up +2% on the same month last season, as weather conditions began to improve towards the end of the month after a wet spring.

Daily collections peaked on 26 October at 82 million litres, up +1% on last season's peak of 80 million litres.

### Australian Collection

**+26%**

Increase for the season  
from 1 July to 31 October

Fonterra's milk collection across Australia for the four months to 31 October reached 53 million kgMS, +11 million kgMS higher than last season.

Collections in October were up +31% on the same month last year. In addition to new farmer suppliers, growth has been supported by strong seasonal conditions across all regions.

A high-quality silage and fodder harvest, good rainfall and soil moisture profiles, combined with reasonable feed, fertiliser and water pricing continues to underpin sustained growth this season.





# FURTHER DECLINE IN DAIRY EXPORTS FROM NEW ZEALAND AND AUSTRALIA. EU SHOWING STRONG EXPORT GROWTH

To view a summary of year-on-year changes in exports [click here](#)

## New Zealand

**-2%**

Export change for  
the 12 months to  
September 2017

Exports for the 12 months to September were down -2%, or -57,000 MT, on the previous comparable period. While fluid and fresh dairy volumes were up +64,000 MT, weak volumes of SMP, AMF and butter, down -11%, -14% and -10% respectively led to an overall decline in exports.

Total New Zealand dairy exports in September decreased -7%, or -14,000 MT, compared to the same month last year.

Weak powder numbers led the decline, with WMP and SMP down -11% and -26% respectively. Fluid and fresh dairy growth continued, up +9,000 MT or +39% for September.

## Australia

**-3%**

Export change for  
the 12 months to  
September 2017

Exports for the 12 months to September were down -3%, or -20,000 MT, on the previous comparable period. Growth in fluid and fresh dairy and infant formula, up +12,000 MT and +6,000 MT respectively, was offset by declines in most other export categories, particularly WMP, butter and AMF down a combined -24,000 MT.

Australian dairy exports in September decreased -3%, compared to the same month last year.

SMP and infant formula were up a combined +25% in September, however most other export categories, particularly WMP, showed a decline.

## European Union

**+5%**

Export change for  
the 12 months to  
July 2017

Exports for the 12 months to July were up +5%, or +227,000 MT, on the previous comparable period. SMP, infant formula, cheese and lactose exports increased significantly, up a combined +265,000 MT, or +13%, offset by declines in fluid and fresh dairy, butter and AMF, down a combined -56,000 MT.

EU dairy exports in July were up +10%, or +40,000 MT, relative to the same month the previous year.

Exports of SMP increased significantly, up +70% or +30,000 MT. Fluid and fresh dairy and infant formula also experienced solid growth, up a combined +9%. This was partially offset by declines in whey powder, down -16% in July.

## United States

**+11%**

Export change for  
the 12 months to  
September 2017

Exports for the 12 months to September were up +11%, or +224,000 MT, on the previous comparable period.

This increase was driven by three of the larger product categories, SMP, whey powder and cheese, up a combined +16%, or +185,000 MT, however most key categories are up for the period to September.

US dairy exports decreased -6% in September, or -11,000 MT, compared to the same month the previous year. This is the second consecutive month of declining exports in the US.



# STRONG GROWTH IN DAIRY IMPORTS CONTINUES IN CHINA AND ASIA. MIDDLE EAST AND AFRICA IMPORTS CONTINUE TO SOFTEN

To view a summary of year-on-year changes in imports [click here](#)

## Latin America

**+10%**

Import change  
for 12 months to  
July 2017

Imports for the 12 months to July remain strong, up +10%, or +181,000 MT, compared to the same period the previous year.

Growth for the 12 months to July was seen in almost all import categories. In particular, cheese and SMP which account for 42% of total imports, were up a combined +15%, or +112,000 MT.

Latin America's dairy import volumes<sup>1</sup> were flat in July compared to the same month the previous year as growth in SMP and whey powder was offset by declines in WMP and AMF.

<sup>1</sup> Excludes Venezuela and Nicaragua

## Asia

**+9%**

Import change  
for 12 months to  
July 2017

Imports for the 12 months to July were up +9%, or +356,000 MT, compared to the same period the previous year.

Increases were seen in all key import categories, in particular SMP, fluid and fresh dairy, cheese and whey powder up a combined +10% or +257,000 MT for the 12 months to July.

Asia (excluding China) dairy import volumes<sup>1</sup> increased +3% in July compared to the same month the previous year.

Imports of SMP were up +33%, or +21,000 MT, partially offset by declines in fluid and fresh dairy, lactose and cheese.

<sup>1</sup> Includes estimate for Indonesia (July) and Macao (October-July)

## Middle East & Africa

**-2%**

Import change  
for 12 months to  
July 2017

Imports for the 12 months to July were down -2%, or -82,000 MT. Fluid and fresh dairy, the region's largest import category, was up +57,000 MT however the majority of key import categories were down, with WMP, butter, infant formula and cheese down a combined -131,000 MT.

Middle East and Africa dairy imports<sup>1</sup> decreased -3%, or -8,000 MT, in July compared to the same month the previous year.

Growth in fluid and fresh dairy and SMP, up +10% collectively, was more than offset by declines in cheese, butter and infant formula.

<sup>1</sup> Includes estimate for Egypt (July)

## China

**+12%**

Import change  
for 12 months to  
September 2017

Imports for the 12 months to September were up +12%, or +263,000 MT, compared to the same period last year.

Imports continue to be very strong in China, with almost all categories showing growth this year. WMP, infant formula and SMP experienced the largest growth, up a combined +22%, or +179,000 MT.

China dairy imports increased +34%, or +53,000 MT, in September compared to the same month last year.

WMP, infant formula and SMP led this increase, up a combined +96%, or +33,000 MT.

## Russia

**-2%**

Import change  
for 12 months to  
August 2017

Imports for the 12 months to August were slightly down -2%, or -20,018 MT compared to the same period the previous year.

The decline was mainly due to the two largest imports, Fluid and Fresh Dairy, and Cheese -7%, and -4% respectively.

Russia import volumes were flat at 99,000 MT for August compared to the same month last year.





# TRACKING THE GLOBAL DAIRY MARKET

## Global Dairy Market

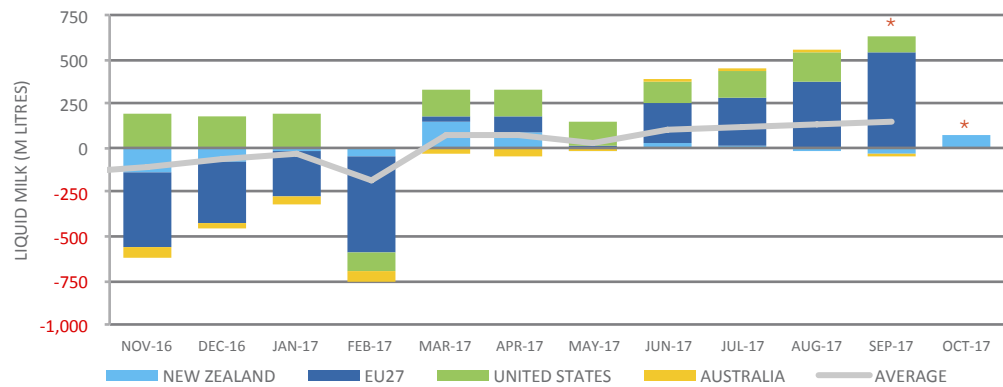
The charts on the right illustrate the year-on-year changes in imports, exports and production for a range of countries that are important players in global dairy trade.

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

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

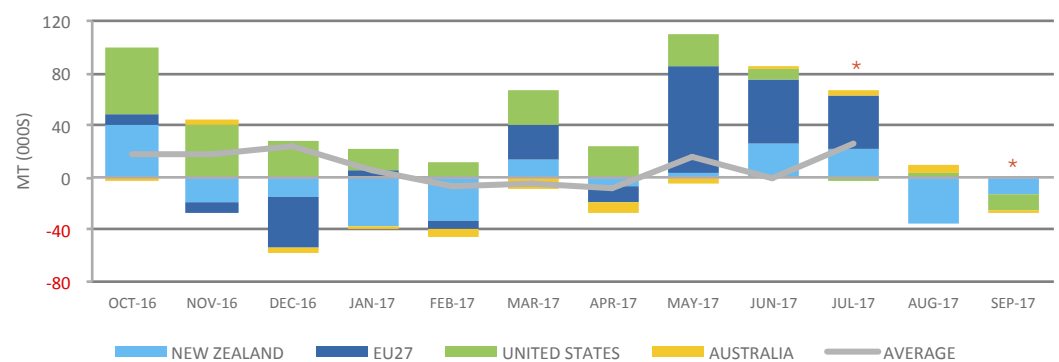
For further information [click here](#)

### PRODUCTION



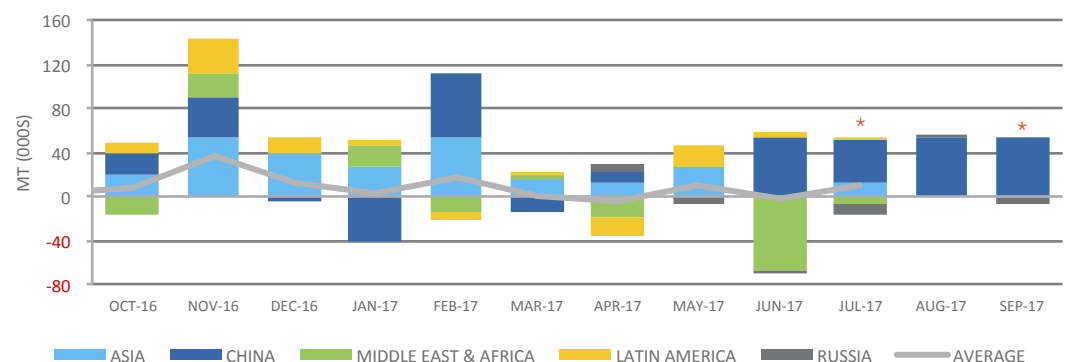
\*NOTE: Data for EU, Australia, and US to September; New Zealand to October

### EXPORTS



\*NOTE: Data for EU to July; New Zealand, US and Australia to September

### IMPORTS



\*NOTE: Data for Asia, Middle East and Africa and Latin America to July; China to September



## Food Price

FAO Food Price Index averaged 176.4 points in October 2017, down by -1.3% in comparison to previous month. The Dairy Price Index averaged 214.8 points in October 2017, down -9.4 points from September, but still -22% below peak reached in February 2014. Butter and WMP prices fell as importers held back on purchases, awaiting arrival of new supplies from Oceania. Low demand and ample intervention stocks in the EU hastened the decline of SMP prices. A balanced cheese market contributed to more stable cheese quotations.

Source: FAO



## Economic

The OECD's composite leading indicators (CLIs) continue to point to a stable growth of expansion. United States, Japan, Canada and the Euro Area as a whole, including France indicate stable growth momentum. The CLI continues to point to growth gaining momentum in Italy, and now in Germany. In the United Kingdom, however the outlook has deteriorated as signals of easing growth have increased. Amongst major emerging economies, the CLIs point to growth in Brazil and to signs of growth gaining momentum in the industrial sector in China. Stable growth momentum is expected in India and Russia.

Source: OECD



## Consumer

The Economist Intelligence Unit (EIU) global growth forecast for 2017 remained unchanged at 2.9%. However, EIU revised up their estimate of global trade growth in 2017, to 4.6%, from 4% previously, on the back of broad-based economic growth in main economies, as EIU no longer expects negotiations on the Regional Comprehensive Economic Partnership (RCEP) to be concluded within the next five-year forecast period. EIU expect England's inflation to remain high, as the Bank of England increased its main policy interest rate for the first time in a decade in November, by 25 basis points to 0.5%. EIU presume the bank to move again to normalise policy in mid-2019.

Source: Economist Intelligent Unit



## Weather

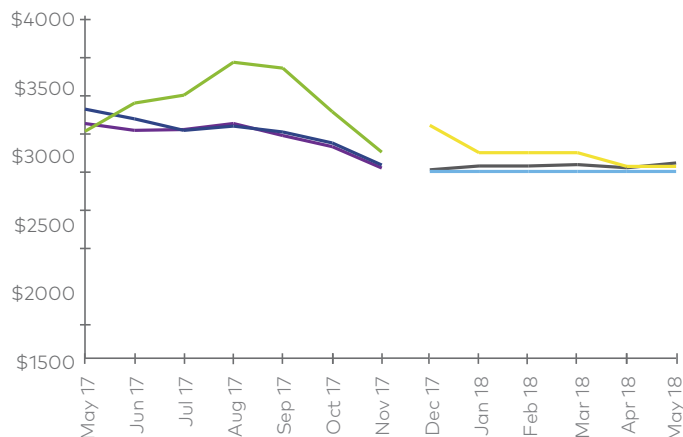
A wetter than average spring is beginning to saturate the soil moisture for some key dairying regions in the south of New Zealand, rainfall is likely to be in the normal range during the following months. In Australia heavy rainfall brought welcome drought relief providing a late season boost in yield prospects. During October in United States, late crop maturation and periods of heavy rain led to significant Midwestern corn harvest delays. Some of the corn was left unharvested at the expense of more fragile soybeans, most of which were harvested by month's end. The tropical Pacific continued in an ENSO neutral state during October 2017.

Sources: Climate Prediction Centre, World Agricultural Weather Highlights USDA oCOE; Dairy Australia Production Inputs Monitor; Otago Daily Times



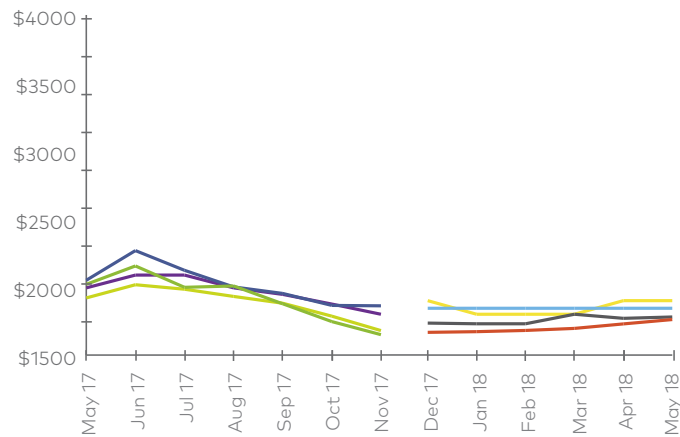
# COMMODITY PRICES

## WMP



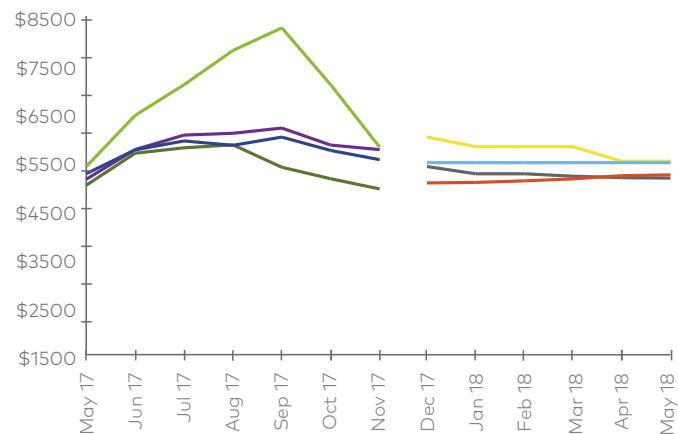
- WMP prices all decreased in October. Dutch Dairy Board (DDB) prices decreased by -8.9% to USD 3004/MT, GDT down by -5.2% to USD 2910/MT, and USDA Oceania down -5.1% to USD 2888/MT.
- Futures and forecasts mostly decreased the average price from December to May 2018. NZX Futures average price declined by -4.8% to USD 2902/MT, Informa Oceania average decreased by -3.7% to USD 2863/MT and average forecasts Rabobank Oceania price also down by -2.2% to USD 3000/MT.

## SMP



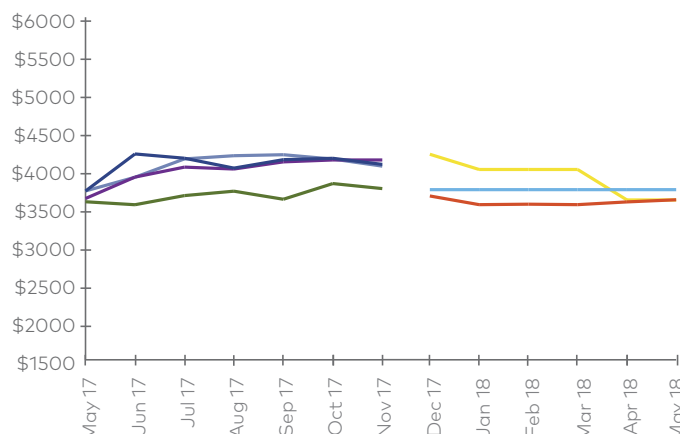
- In October 2017, SMP price fluctuations were mostly negative with the exception of GDT flat at -0.2% to USD 1862/MT. USDA NASS prices down by -5.9% to USD 1680/MT, DDB decreased -5.5% to USD 1650/MT, and USDA Oceania down -4.0% to USD 1800/MT.
- Changes to futures and forecast were also negative across the board for the next six months average pricing. Informa Oceania decreased their forecasts by -5.7% to an average price of USD 1844/MT, NZX Futures down by -4.6% to USD 1758/MT, and CME futures down -4.1% to an average price of USD 1701/MT. Rabobank Oceania forecasts remained flat -0.4%

## Butter



- Butter price variations were mainly negative. Dutch Dairy Board (DDB) pricing decreased by -18.2% to USD 5788/MT. CME Spot down by -4.1% to USD 4925/MT, GDT down by -3.3% to USD 5530/MT and USDA Oceania also slightly down by -1.6% to USD 5738/MT.
- Forecast and futures mostly decreased the average price from December 2017 to May 2018. NZX Futures down by -4.1% to an average price of USD 5228/MT, CME Futures down by -3.1% to USD 5127/MT, and Rabobank Oceania down by -1.4% to USD 5733/MT. Informa Oceania stayed flat at -0.2%.

## Cheese



- Cheddar Cheese prices were slightly down. EU Commission down by -2.2% to USD 4044/MT, GDT down by -1.9% to USD 4067/MT, and CME Spot price declined by -1.7% to USD 3749/MT. USDA Oceania remained flat.
- Futures and forecasts stayed relatively flat for the average prices for the next six months. Informa Oceania and Rabobank stayed at +0.9% and +0.3% respectively. CME Futures down by -2.1% to an average price of USD 3575/MT.

### Actuals

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

### Forecasts

- NZX Futures
- CME Futures
- Rabobank Oceania
- Informa Oceania





## TRADING EVENT 200

**-3.4%** ↓

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

USD **2,970**

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

**35** 000' MT

Fonterra product quantity sold on GDT

### WMP

**-2.7%**

\$2,778

### SMP

**-6.5%**

\$1,701

### AMF

**0.0%**

\$6,887

### Butter

**-5.9%**

\$5,144

### Cheddar

**-4.2%**

\$3,831

### Rennet Casein

**-12.6%**

\$4,644

### BMP

Not offered at this event

### LACTOSE

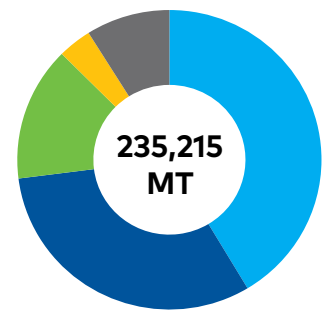
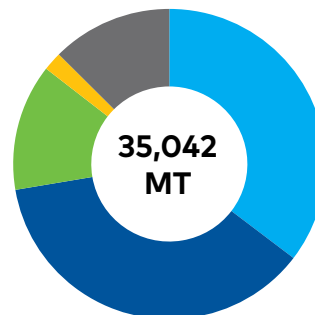
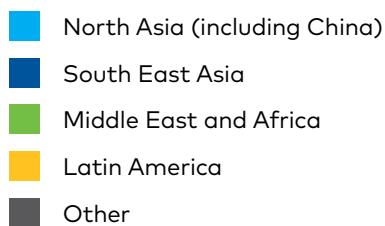
Not offered at this event

## GDT SALES BY DESTINATION

### TRADING EVENT 200

#### LATEST AUCTION

#### FINANCIAL YEAR TO DATE



## GDT PRICE INDEX

Dairy commodity prices and New Zealand dollar trend:

The New Zealand dollar declined during October due to the strengthening of the US dollar and uncertainty around the change in the New Zealand Government. This reflected concerns around possible changes to the Reserve Bank of New Zealand Act.



Data reflective as retrieved on 21 November 2017



# USDA, DAIRY OUTLOOK

Published 16 November 2017

### Recent developments

USDA reported September 2017 milk production of 17.2 billion pounds, +1.1% above September 2016. Milk cows numbered 9.40 million head, -4,000 head less than previous month. Daily milk per cow averaged 60.9 pounds, only +0.2 pounds higher than September 2016.

Wholesale prices reported from September 30 to November 4 in USDA National Dairy Products Sales Report were mixed for most dairy products, with the biggest increase in cheddar cheese. The biggest decrease was in the price for butter, down -51 cents per pound.

US exports on a milk-fat basis were 697 million pounds, an increase of +66 million pounds more compared to September 2016. US exports on a skim-solids basis were 3.1 billion pounds, -327 million less than September 2016.

From August to September, exports of NDM/SMP, cheese, and butter fell by -19.4 million, -7.7 million, and -2.3 million pounds, respectively.

Imports for September were down. On a milk-fat basis were 437 million pounds, -70 million less than August and -95 million less than September 2016. On a skim-solids basis, September imports were 382 million pounds, -84 million less than August and -106 million less than September 2016. Month-to-month changes in imports included a decrease of -3.7 million pounds for milk protein concentrate (MPC) and an increase of +1.4 million pounds for whole milk powder.

Ending stocks remained high for September 2017, NDM stocks were +48.6% above previous year to 321.1 million pounds, while dry whey products were 106.4 million pounds. Butter stocks were -4.5% below than the previous year.

### Dairy forecasts for 2017

USDA milk production forecast for the US for 2017 is 215.8 billion pounds, -0.4 billion pounds less than last month's forecast. Milk cow forecast for 2017 has been lowered to 9.405 million head, and milk per cow has been also lowered to 5,685 pounds per head.

On a milk-fat basis, USDA has slightly decreased import forecast to 1.6 billion pounds. Exports on a milk-fat basis has been lowered to 2.3 million pounds, due to weaker expected exports of butter and cheese.

On a skim-solids basis, import forecast for the

fourth quarter of 2017 has been lowered to 1.5 billion pounds, mainly due to lower expected imports of MPC, NDM/SMP and whey products. Export forecast has been lowered to 12.6 billion pounds. Domestic use forecast on skim-solids basis has been lowered to 0.2 billion pounds.

Most dairy product price forecasts for 2017 have been lowered, expect for cheddar cheese. Butter, NDM, and dry whey prices have been lowered based on the downward movements in U.S. and the international prices and high global stock levels.

### Dairy forecasts for 2018

USDA milk production forecast for US for 2018 has been lowered to 219.7 billion pounds. Milk cow numbers have been slightly lowered to 9.440 million head, and milk per cow has also been lowered to 23,280 pounds.

On a milk-fat basis, USDA has raised import forecast for 2018 to 6.1 billion pounds. 2018 export forecast on a milk-fat basis has been lowered to 9.4 billion pounds, due to lower expected exports of butterfat products. Forecast for domestic use on a milk-fat basis for 2018 remained unchanged at 216.7 billion

pounds. Ending stock on a milk-fat basis has been raised to +0.3 billion pounds at 12.4 billion pounds for 2018.

On a skim-solids basis, USDA import forecast has been lowered to 6.1 billion pounds for 2018, as MPC imports are expected to be lower. Skim-solid basis export forecast has also been lowered to 41.7 billion pounds. Domestic use forecast for 2018 on a skim-solids basis has been increased to 185.1 billion pounds. USDA forecast ending stocks for 2018 on a skim-solids basis increased to 10.7 billion pounds.



# BLIMLING, FORECAST UPDATE

Published 1 November 2017

Blimling's November Forecast Update focuses on the draw down of inventories and whether there is enough supply to meet the year-end cheese and butter demand. Over the past five years, butter stocks fell 120 million pounds between August 1 and December 31. This year, the butter inventory draw down is running below average. Blimling predicts that at the current average pace the year could end with 190 million pounds in storage. However, increased exports, reduced cream availability, and strong domestic demand could lead the market end 2017 with 145 million pounds in storage, the smallest ending stocks since 2014.

Cheese stocks dropped at a greater than average pace through August and September to 1.306 billion pounds of cheese. A normal draw would potentially leave 1.280 billion in storage by December 31, the highest year-end stock position on record.

In the cheese market, prices are forecast to fall under pressure as the holidays approach. Heavy stock levels, strong global milk production and sustained soft demand expansion could leave the market oversupplied into 2018.

The butter market appears well-supplied heading into the holidays. Ample sell-side volume may keep prices under pressure, however sustained buyer interest could keep prices supported into 2018.

Global oversupply of NDM/SMP will continue to weigh down prices, due to heavy stocks and strong milk supply.

Dry whey prices are forecast to stay under pressure due to heavy global inventories, continued supply growth, and weak demand.

# INFORMA ECONOMICS, GLOBAL DAIRY REPORT

Published 17 November 2017

Informa reports most dairy product prices have fallen more than expected over the last month. This has been driven by the rebounding milk production in the EU and Oceania, combined with pushback by end users which have pressured butter and dairy powder prices over the past month.

Chinese demand for dairy products has been strong in the face of rising prices, and it is looking more likely that the high demand earlier in the year was not just a function of stocking up but rather just solid demand and consumption. However, demand from this category has been weaker than forecast during this year.

As milk production is expected to grow across all major exporters and, with stocks building, the question remains where the increased production will go. Informa notes, that even with Chinese demand increasing considerably in 2018, stocks likely will increase significantly if demand from the smaller importers does not commence to pick up. Consequently, this will pressure margins and begin to affect production, especially in the EU. The cheese market has been the exception, but more milk should be directed toward cheese production, which would be expected to pressure cheese prices.





## GLOSSARY

**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.