



PERSPECTIVE

March 2019



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!

March 2019

I have always believed in the natural goodness of dairy and its ability to enable consumers on their digestive-wellbeing journey. Probiotics are reporting an ever-increasing range of benefits, from treating bloating and boosting immunity to supporting the gut-brain axis. Hydrolysates enable better digestive comfort in infants who struggle to process larger milk proteins. Speaking of digestive comfort, with around 65% of the population experiencing a reduced ability to digest lactose¹, the opportunity to supply low/ reduced lactose dairy options is enormous. With the trend of 'digestive health' continuing to evolve into 'holistic wellbeing through the gut', the role dairy has in this space just continues to grow!

This month our feature writer is Julian Mellentin, the founder of New Nutrition Business. Julian discusses the key drivers of the digestive wellness trend and dives into some of the opportunities for digestive wellness through dairy.

Four key movements for the month:

1. Production – The long, dry New Zealand summer continues, however production to January continues to be above last year. EU growth is easing and production continues to drop in Australia. There is continued stable growth in the US.
2. Exports – We see continued growth in exports from the US, Australia and New Zealand. European exports hold steady.
3. Imports – The import growth remains for Latin America, China and wider Asia. Middle East and African imports continue to decline on last month.
4. Prices – GDT auction event 230 saw continued price increases across the board, with the exception of Lactose, resulting in the GDT price index up +0.9% to USD \$3,271/MT. The largest increase coming from Cheddar (+2.9%), Rennet Casein (+2.7%) and SMP (+2.8%) which continues the rapid growth kicked off in December 2018.

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,

Alex Turnbull
Director, NZMP Marketing

1. <https://ghr.nlm.nih.gov/condition/lactose-intolerance#statistics>

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Opportunities Flourish in Digestive Wellness



Julian Mellentin

Founder, New Nutrition Business

Julian Mellentin is the founder of New Nutrition Business (www.new-nutrition.com), a company dedicated to provide strategic and marketing insights to the global health and nutrition business since 1995.

Julian Mellentin is one of the few world experts in the business of food, nutrition and health. A brand marketer in his past life, Julian is co-author of *The Functional Foods Revolution*, the first-ever book on the business of functional foods (available in Japanese as well as English) and *The Food & Health Marketing Handbook*.

A graduate of Oxford University, he began his career as a marketer at Unilever and has since lived and worked in most countries in Europe, as well as in Hong Kong and New Zealand.

Digestive wellness is one of the biggest drivers of growth in the food and health business, and has been for the past 25 years. There's every sign that it will be even more of a driver in the future, but in ways that demand new strategies and new product development from companies.

Digestive Wellness is producing growth opportunities because of:



1. **Science** - a steady stream of studies are emerging linking the health of the human gut microbiome to wider health issues, such as weight management, cognition and mood. In 2018 over 500 human studies on probiotics were published in scientific journals – making probiotics one of the most-researched ingredients.



2. **Online media attention** – our research has shown that developments in science fuel media attention. Press releases by researchers are seized upon by journalists and bloggers who have online space to fill.



3. **Product development** - people are open to more types of foods and drinks for digestive wellness than ever before.



4. **Consumer need** – around a third of us have a digestive disorder at any one time, according to the World Health Organisation. An example is the problem of bloating. People who are feeling bloated are also often concerned about maintaining a good shape, and preventing a distended stomach is one way to maintain that good figure. Consumer Brands such as Activia discovered this long ago and made targeting bloating one of the key benefits of their yoghurt products.

Digestive Wellness Opportunities with Dairy

Probiotics

Probiotic dairy has been one of the biggest successes of the past 30 years and will continue to be. Japanese company Yakult Honsha, which is the world's biggest consumer probiotic dairy brand – found in South and North America, Europe and Asia – is a prime example with \$5.5 billion in global retail sales. Asian markets account for 70% of Yakult sales volume, and sales grew by 8% in 2017-18.

Even in very competitive markets there are many ways that probiotics can differentiate themselves.

The main strategy is bundling probiotics with another benefit to increase product attraction to consumers whose beliefs about health are more fragmented than in the past.

Examples include:

Probiotic Protein – Greek, quark, skyr, kefir and products with a fitness image can all combine protein with a probiotic benefit.

Permission to Indulge with Probiotics – Collective Dairy, a consumer brand which operates in New Zealand, the UK and Asia, describes itself as 'gourmet live yoghurt' and comes in flavours such as Russian Fudge and Banana Butterscotch.

Provenance & artisanal Probiotics – The very successful Oui by Yoplait yoghurt (which achieved \$100 million in Year 1 sales) is positioned as 'French-style' and is sold in small, single-serve glass jars.

Low-Lactose & Lactose Free Dairy

Lactose-reduced or Lactose-free is another big opportunity in digestive wellness. There is growing demand for low/no-lactose foods, particularly in Asia, the Middle East and West Africa and low-lactose is one of the fastest-growing dairy sectors, with strong demand for milk, yoghurt and ice cream.

In the US, lactose-free milk is growing faster than almond milk (14% a year compared to 12% and sales may catch-up with almond milk within the next two-to-three years.

US dairy companies have changed the rules of the game, marketing lactose-free dairy's taste advantages and versatility (it is more usable in beverages and in cooking than plant milks).



One of the best examples is the Fairlife consumer brand, which has a higher protein content (13g per 240ml compared to 8g for ordinary milk), half the sugars of regular milk (6g compared to 12g) – as well as a digestive wellness benefit from being lactose-free. An entirely new type of milk, Fairlife achieved over \$300 million in sales within four years of launch.

About New Nutrition Business

New Nutrition Business (NNB) is small but has offices in London, Scotland, France, USA and affiliates in Korea and Japan. We work with a wide range of customers, from global players to start-ups, from grower groups to scientific research organisations. NNB is best-known for its annual 10 Key Trends in the Business of Food & Health.

Our consultancy services to our customers include:

- Strategic and market insights into the business of food and health, globally (you can find out about some of these by visiting www.new-nutrition.com).
- Advising start-ups in health and wellness. The company has advised over 180 healthier food start-ups in the last 10 years.
- Helping companies to commercialise nutrition science.



Production in New Zealand to January up on last year. US production remains steady, EU growth is easing and Australia is declining.

NEW ZEALAND

+4%

Production change
for the 12 months
to January 2019

Total New Zealand milk production increased 8% in January compared to the same month last year. Weather and pasture conditions throughout January supported production which returned to a more usual pattern following the previous season that was adversely impacted by poor on-farm conditions. Subsequently the weather risk has increased with an extended period of dryness in the first two weeks of February.

New Zealand milk production for the 12 months to January 2019 was 4% higher than last year. Fonterra collections are reported for January, see page 7 for details.

AUSTRALIAN COLLECTION

-2%

Production change
for the 12 months
to December 2018

Australian milk production decreased 7% in December compared to the same period last year.

Production for the 12 months to December is down 2% on the previous 12 months.

High input costs, increased cow cull rates, and farm exits continue to severely impact milk production. Dairy Australia has forecast a milk production decline of 5% to 7% for the season.

Fonterra collections in Australia are reported for January, see page 7 for details.

EUROPEAN UNION

+1%

Production change
for the 12 months
to December 2018

EU milk production decreased 1% in December compared to the same period last year.

The Netherlands, France and Germany continued to see year-on-year decline in production with The Netherlands experiencing the largest decline. This was offset by continuing strong growth in Ireland, as well as solid growth in Poland and Denmark.

Production for the 12 months to December was up 1% compared to the same period last year.

UNITED STATES

+1%

Production change
for the 12 months
to December 2018

US milk production was up less than 1% in December compared to the same period last year. Cow numbers have continued to decline with the small year-on-year growth driven by increased yield per cow.

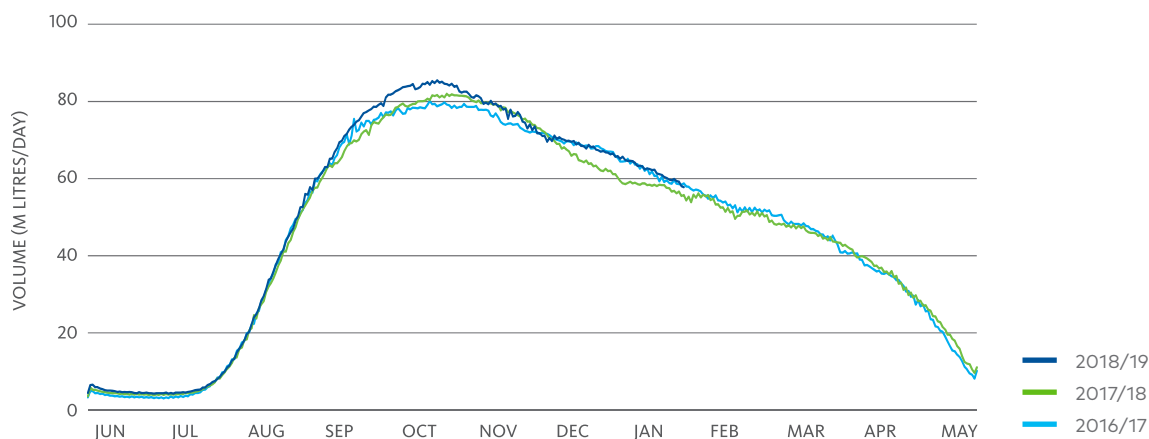
Margins continue to be squeezed and in many cases have been negative for the last quarter of 2018. Growth is likely to remain constrained until some improvement in margin is achieved.

Milk production for the 12 months to December is continuing to hold at 1% compared to the same period last year driven by the relatively stronger monthly production growth at the start of 2018.

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 2018/19 SEASON

NEW ZEALAND
COLLECTION**+5%**Increase for the season
from 1 June to 31 January

Fonterra's milk collection across New Zealand for the eight months to 31 January was 1,083 million kgMS, up 5% on the same period last season.

Despite the hot and dry conditions continuing to impact most regions, production remains ahead of this time last season, which was the lowest in three years due to adverse weather conditions.

Fonterra collections in January were 169 million kgMS, 7% up on January last season.

AUSTRALIAN
COLLECTION**-16%**Decrease for the season
from 1 July to 31 January

Fonterra's milk collection across Australia for the seven months to 31 January reached 83 million kgMS, down 16% on the same period last season.

Fonterra collections in January reached 11 million kgMS, down 23% on January last season. January's average temperature was the highest on record.

Fonterra's share of monthly collections continues to reduce due to high on-farm prices, severe weather, substantial increase in culled cows, farm retirements and intense competition for milk supply.

FORECAST FONTERRA MILK
COLLECTION ACROSS NEW ZEALAND**1,530M** KGMSForecast is 2% higher
than previous season

Fonterra has updated its forecast milk collection to 1,530 million kgMS for the 2018/19 season.

Fonterra's New Zealand milk collections forecast is 2% higher than last season, which was negatively impacted by poor on-farm conditions.

Fonterra has reduced its full season forecast by 1% to reflect the impact of ongoing hot and dry on-farm conditions, and the corresponding downwards pressure on milk flows. On-farm conditions will continue to be an important factor on the milk supply for the remainder of the season.

We will continue to provide updates as the season progresses.



Exports from the US, Australia and New Zealand continue to grow. European exports steady.

NEW ZEALAND

+2%

Export change
for the 12 months to a
December 2018

Total New Zealand dairy exports increased by 10%, or 40,000 MT, in December compared to the same period last year. Exports hit a record level of 449,000 MT, the highest volume recorded. This was primarily driven by WMP, up 26,000 MT. Fluid products, AMF, and infant formula were up a combined 18,000 MT. Butter declined 8,000 MT.

Exports for the 12 months to December were up 2%, or 54,000 MT, on the previous comparable period. This was driven by fluid products, WMP, infant formula, and AMF up a combined 120,000 MT. This was offset by declines in SMP, cheese and cultured products down a combined 67,000 MT.

AUSTRALIA

+5%

Export change
for the 12 months to
December 2018

Australian dairy exports increased 3%, or 2,000 MT, in December compared to the same period last year. Infant formula and whey powder were up a combined 5,000 MT. This was offset by a decline in WMP of 2,000 MT.

Exports for the 12 months to December were up 5%, or 37,000 MT, on the previous comparable period.

Infant formula, fluid milk and whey powder make up most of the growth in Australian exports, up a combined 34,000 MT.

EUROPEAN UNION

+1%

Export change
for the 12 months to
November 2018

EU dairy exports increased by 5%, or 21,000 MT, in November compared to the same period last year. This was primarily driven by lactose, SMP, whey powder, and butter up a combined 27,000 MT.

Exports for the 12 months to November were up 1%, or 49,000 MT, on the previous comparable period with continued growth in a broad range of products, led by infant formula, SMP, and lactose but offset by declines in fluid milk products and WMP.

UNITED STATES

+12%

Export change
for the 12 months to
November 2018

US dairy exports declined by 11%, or 21,000 MT, in November compared to the same period last year. There was a decline in most products including SMP, whey powder, lactose, cheese, and WPC.

Exports for the 12 months to November were up 12%, or 265,000 MT, on the previous comparable period.

The increase was notably in SMP, lactose, WPC and WMP, up a combined 217,000 MT.

Imports into Asia and China continue to grow. Latin America increased but the Middle East and Africa region is declining

LATIN AMERICA

+2%

Import change for the 12 months to November 2018

Latin American dairy import volumes¹ increased 9%, or 14,000 MT, in November compared to the same period last year. The increase was across most product categories, principally SMP, cheese, MPC and WMP.

Imports for the 12 months to November were up 2%, or 39,000 MT, compared to the same period the previous year. SMP, lactose, fluid products and MPC were up a combined 64,000 MT offset by declines in AMF and WMP of 22,000 MT.

ASIA

+5%

Import change for the 12 months to November 2018

Asia (excluding China) dairy import volumes¹ were down marginally at 2,000 MT, in November compared to the same period last year. SMP and fluid products were up but offset by declines in MPC and WMP.

Although down marginally for the month, imports for the 12 months to October were still up 5%, or 223,000 MT, compared to the same period the previous year. This growth was driven by fluid products and WMP of 156,000 MT.

MIDDLE EAST & AFRICA

-5%

Import change for the 12 months to November 2018

Middle East and Africa dairy import volumes¹ decreased 6% or 20,000 MT in November compared to the same period last year. Small growth in infant formula and cultured products was offset by declines in most other product categories, totalling 25,000 MT.

Imports for the 12 months to November were down 5%, or 212,000 MT, compared to the same period the previous year. The reduction was driven by fluid and fresh dairy and cheese, down a combined 229,000 MT. This was offset by a small increase in SMP.

CHINA

+8%

Import change for the 12 months to December 2018

China dairy import volumes increased 17%, or 34,000 MT in December compared to the same period last year. This was driven by increases across a broad range of products, particularly WMP, SMP, and fluid products but offset by small declines in whey powder, butter and infant formula. December WMP exports from New Zealand to China hit a record level of 150,000 MT. Imports for the 12 months to December were up 8%, or 213,000 MT, compared to the same period last year. Strong demand out of China continued across all key categories in particular, WMP and SMP which are up a combined 82,000 MT.

RUSSIA

-9%

Import change for the 12 months to December 2018

Imports for the 12 months to December 2018 were down -9% or -112,000 MT compared to the same period the previous year. This was mainly driven by Fluid and fresh dairy, Whey Powder, SMP, Cultured Products and WMP being down a combined -236,000 MT. Offset by Cheese being up 135,000 MT.

Russia import volumes were down -19% or -18,000 MT for December 2018 compared to the same month the previous year. This was primarily led by Fluid and Fresh Dairy, Whey Powder, Cultured Products, SMP and Lactose down a combined -22,000 MT. Offset by Butter and WMP up a combined 5,000 MT.

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

2. China has suspended trade data, citing system technical issues. Based on exports to China, we estimate June volumes grew.



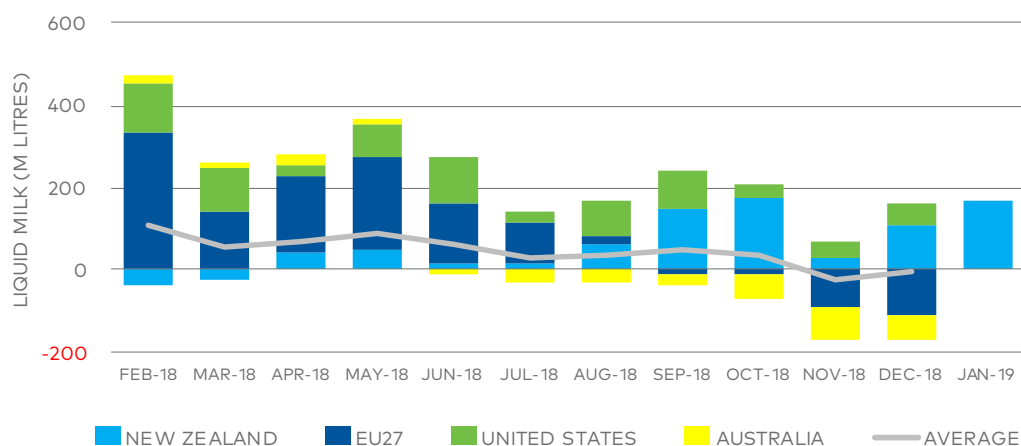
Global Dairy Market

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.

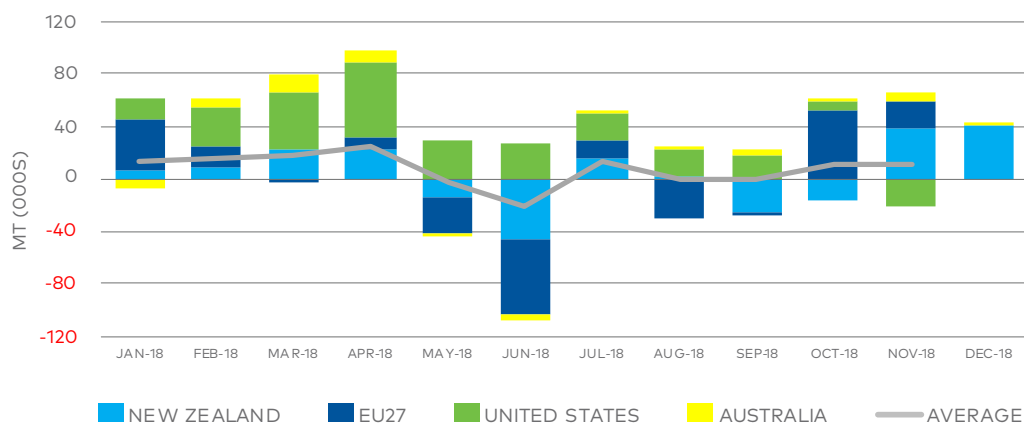
The absolute size of the bars represents the change in imports, exports or production, relative to the same period the previous year.

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

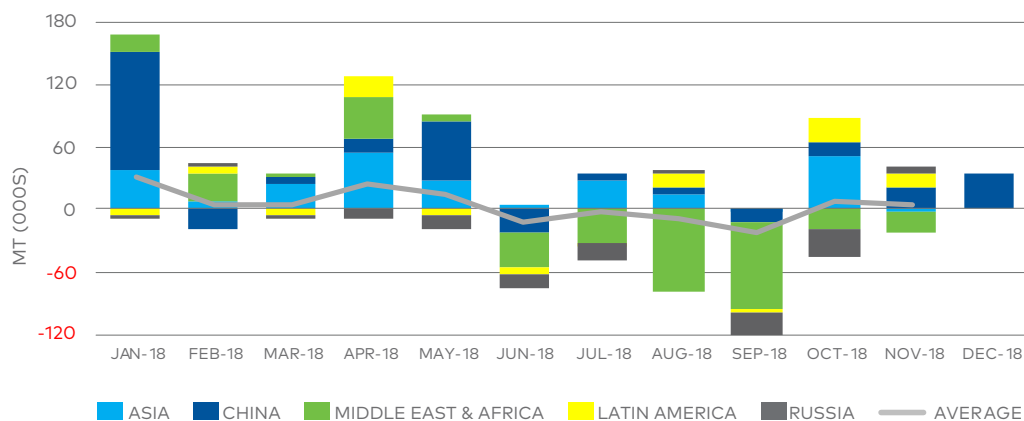
PRODUCTION



EXPORTS



IMPORTS





Food Price

The January 2019 FAO Food Price Index (FFPI) averaged 164.8 points, almost 3 points up from December 2018, though still 3.7 points below the same time last year. This increase follows a period of stability in the FFPI, and is attributed to solid vegetable oil and sugar prices and a rebound in dairy price quotations.

The Dairy Price Index in January averaged 182.1 points, up 12.2 points from December and slightly above this time last year, this is a strong uplift following seven consecutive months of decline. This sharp rebound in price is attributed to the predicted seasonal tightening of exports available from Oceania and the restricted exports from Europe as a result of their strong domestic demand.

Source: FAO



Economic

Composite leading indicators (CLIs) continue to point towards easing growth momentum in the most major economies.

The early signs of easing growth momentum in the USA and Germany displayed in December 2018 have been confirmed in January 2019. Easing growth momentum also remains the assessment for the United Kingdom, Canada, Brazil, Russia and the wider euro area (including Italy and France).

Japan and the industrial sectors of China and India all present a stable growth momentum.

Source: OECD



Consumer

Following an abrupt late-January change in direction from the Federal Reserve (Fed, the central bank), The Economist Intelligence Unit (EIU) has revised its outlook for US monetary policy.

Jerome Powell, The Fed chairman, reflected on the world's weaker economic environment, touching on the slowing China demand, and how this will impact the US. With these rising concerns, EIU anticipates the Federal Reserve will keep its policy rate on-hold for 2019 – to avert a faster drop in consumer spending growth. EIU has also raised their US GDP Growth forecast in 2020 to approx. 1.5%, and maintains the 2019 outlook at 2.3%.

Source: Economist Intelligence Unit



Weather

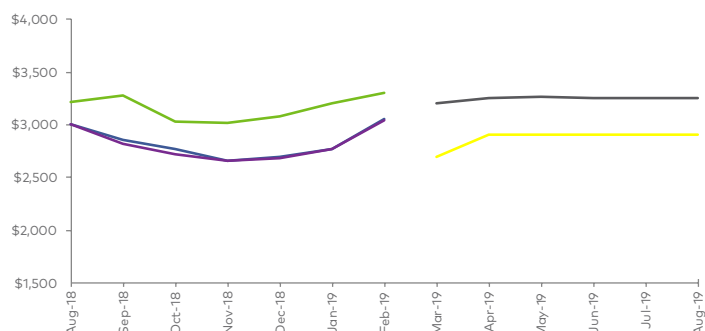
The month of February was hot and dry for New Zealand and Australia as the high temperatures continue into March. Over half of the Australian territory has reported record high temperatures this summer, with upper layer soil moisture levels reaching the lowest ever-recorded through parts of Victoria, NSW, Queensland and Tasmania. Queensland Australia was also devastated by a flood in Early Feb, which has resulted in the estimated loss of thousands of cattle, which will impact domestic milk supply and beef prices.

In the US, the cold conditions in the mid-west are stressing livestock with temperatures reaching 0°F or below in places. Search and recovery efforts continue in the south following a destructive tornado outbreak on the 3rd of March – impacting Alabama, Georgia, South Carolina and Northern Florida.

World Agricultural Weather Highlights USDA oCOE, Fonterra Ingredients Australia



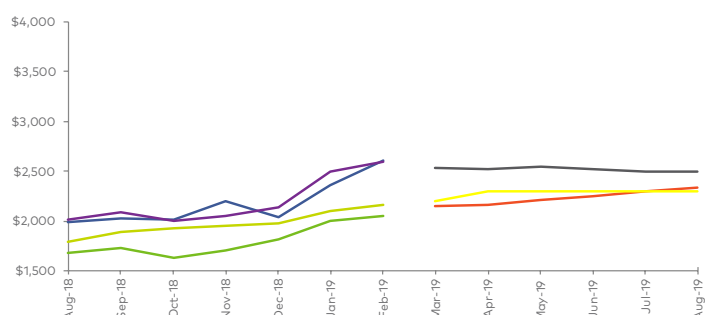
WMP



WMP had a notable lift in prices in February. The largest increase coming from GDT, recording USD 3,054/MT up 10% from the previous month. USDA Oceania recorded a 9.5% increase to USD 3,038/MT. Dutch Dairy Board increased 3% to USD 3,303/MT.

Futures and forecasts for March to August 2019 are mixed. Rabobank Oceania's average price for the next 6 months has held relatively steady at USD 2,867/MT. Whereas NZX Futures are reporting an average price of USD 3,245/MT, this is a 14.6% increase from last months forecast.

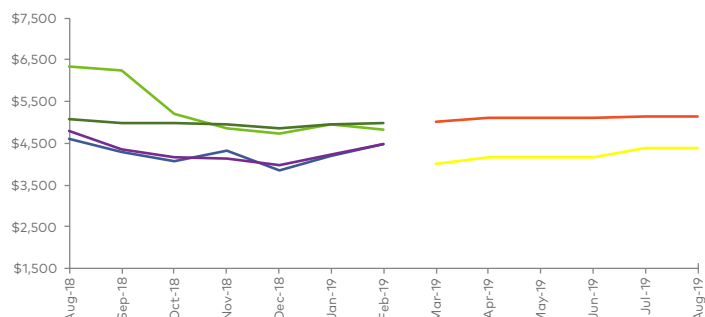
SMP



February SMP prices have increased across the board. USDA Oceania saw a 4.3% uplift to USD 2,600/MT. Dutch Dairy Board saw a 2.5% increase to USD 2,056/MT and USDA NASS reported a 3.2% growth to 2,162/MT. GDT recorded the largest uplift with a 10% jump to USD 2,602/MT.

Average futures and forecasts for March to August 2019 are pricing similar to current market with prices between USD 2,234/MT and USD 2,519/MT. This is a jump compared to previous forecasts, likely due to the notable increase in SMP since December 2018.

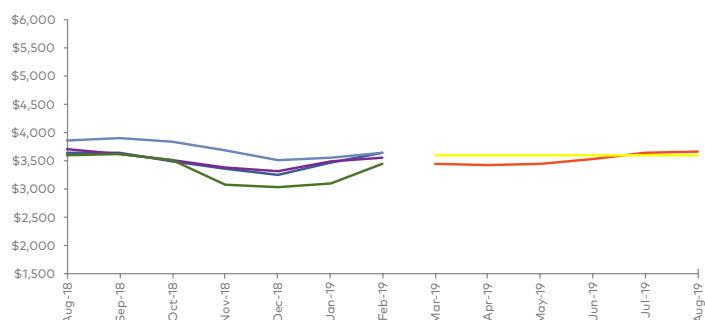
BUTTER



February prices for butter remain mixed. We see CME Spot remain flat with USD 4,996/MT, whilst Dutch Dairy Board drops -2.3% reporting USD 4,830/MT. GDT reports a 6.8% increase to USD 4,467/MT, as well as USDA Oceania jumping 5.8% to USD 4,475/MT.

Futures and forecasts over the next 6 months report average prices ranging from USD 4,208/MT to USD 5,099/MT. NZX Futures was not available at time of publication.

CHEESE



It appears the tables have turned for cheese prices as we now see a second month of growth across the board in February. With GDT reporting a 4.9% growth to USD 3,641/MT and CME Spot saw a 10.7% increase to USD 3,437/MT. EU Commission reported a 2.5% uplift to USD 3,630/MT and USDA Oceania saw a slight 1.7% increase to USD 3,550/MT.

Futures and forecasts for March to August 2019 are pricing similar to the current market. With average prices ranging from USD 3,520/MT to USD 3,600/MT.

Actuals

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

Forecasts

■ NZX Futures
 ■ CME Futures
 ■ Rabobank Oceania

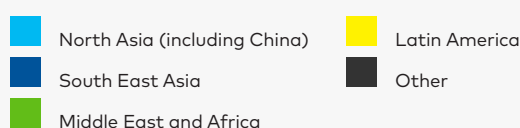
Fonterra GDT Results

TRADING EVENT 230

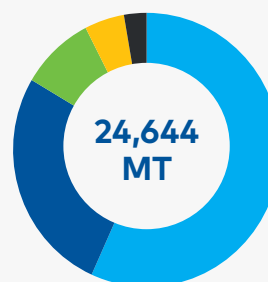
+0.9% Change in GDT Price Index from previous event		USD 3,271 Average price (USD/MT, FAS)	
WMP +0.3% \$3,022	AMF +0.7% \$5,620	SMP +2.8% \$2,580	BUTTER +1.2% \$4,495
RENNET CASEIN +2.7% \$5,740	CHEDDAR +2.9% \$3,667	LACTOSE -2.9% \$998	

GDT SALES BY DESTINATION

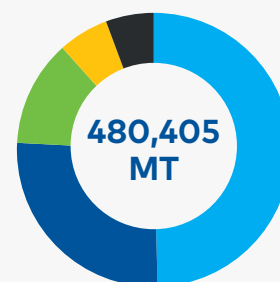
TRADING EVENT 230



Latest Auction



Financial Year to Date



The next trading event will be held on 5 March 2019.
Visit www.globaldairytrade.info for more information.

Dairy commodity prices and New Zealand dollar trend

The New Zealand dollar stabilised in the new year following moves by the US Federal Reserve to moderate their rhetoric around further removal of monetary stimuli.





USDA, Dairy Outlook

Published February 2019

Recent developments

The combined November milk production for the top four global dairy exporters (New Zealand, the EU, the United States and Australia) was 216 million pounds below November 2017. Though the US and New Zealand recorded modest gains of 110 million & 66 million pounds respectively, this was offset by the notable declines in the EU and Australia (a combined 392 million pound drop in production).

For the US, November Milk production estimations total 17.370 billion pounds, which is 0.6% above November 2017. Milk production per cow in November 2018 was 1,856 pounds, which is 19 pounds higher than November 2017. NASS estimates cow numbers in November average 9.360 million head, which is 8,000 head less than October as cow slaughter numbers continue to remain above this time last year.

From December 2018 to January 2019, there was an increase across all the major US domestic wholesale dairy prices, with the exception of a minor 0.8-cent per pound drop in the US butter price. The supply of global milk is tightening which is likely contributing to the increase in prices inside the US and internationally.

The domestic wholesale prices (per-pound) for the week ending February 2nd are as follows; butter (\$2.232pp), cheddar cheese 40-pound blocks (\$1.431pp), cheddar cheese 500-pound barrels (\$1.250pp), dry whey (\$0.469pp) and nonfat dry milk (\$0.976pp). The all-milk price forecast has increased to \$16.90-\$17.60 per cwt.

November exports were 823 million pounds (on a milk fat equivalent basis), down 96 million pounds from October and 32 million pounds below November 2017 levels. On a Skim-solids milk-equivalent basis, exports decreased 404 million pounds from October to 3.110 billion pounds in November (down 500 million pounds on the same time last year). Most notably, exports of lactose and NDM fell from October to November by 7.5 million & 27.9 million pounds respectively.

November imports on a milk-fat basis were 535 million pounds, up 56 million pounds on November 2017, and 85 million below October 2018. Imports on a skim-solid basis were 501 million pounds, up 11 million pounds on November 2017, and up 74 million on October 2018. Butter and cheese imports fell from October by 1.5 million and 2.9 million pounds respectively.

Dairy forecasts for 2019

The high slaughter rates in December combined with further decline in the number of milk cows in November has altered the dairy forecast for 2019. Milk production in 2019 is now projected at 220.1 billion pounds, a decline of 0.5 billion since last forecast. This reflects the smaller milking herds forecast in 2019, which holds at to 9.365 million head (rounded estimate). Milk per cow forecast has also dropped 50 pounds to 23,505 pounds.

On a milk-fat basis, forecast for 2019 imports is 6.6 billion pounds, a drop of 0.1 billion on previous forecast. Export forecast has risen 0.3 billion pounds to 10.3 billion following the anticipated growth in cheese and butter exports. Forecasts of domestic use has been lowered 0.8 billion pounds to 215.5 billion pounds on a milk-fat basis, with ending stocks lowered to 13.3 billion pounds.

On a skim-solids basis, import forecast in 2019 remains at 5.2 billion pounds. Exports have been raised 0.5 billion pounds to 44.6 billion. Domestic use figures have dropped 1.3 billion pounds from last month's outlook, it is now

forecast to 179.6 billion pounds. Ending stocks have been raised 0.7 billion pounds to 11.1 billion.

The recent weak cheddar cheese price has resulted in the 2019 price forecast to drop to \$1.480-\$1.550 per pound. For the remaining major products, the price forecasts have been raised for 2019. Dry whey price outlook is slightly raised to \$0.435-\$0.465 per pound for the year. Butter price is forecast at \$2.230-\$2.330 per pound in anticipation of the expected strength in butter and butterfat product exports. The continued support of NDM export growth results in a 12-cent rise (at the mid-point range) in price forecast for 2019 to \$0.955-\$1.015 per pound.

The Class III price forecast for 2019 remains unchanged at \$14.70-\$15.40 per cwt. With the rise in butter prices and NDM expected in 2019, the Class IV price forecast for the year is now estimated at \$15.55-\$16.35 per cwt. The all-milk price forecast for 2019 is up 45-cents from the last forecast (at the midpoint range) to \$16.90-\$17.60 per cwt.

Blimling, Forecast Update

Published January 31, 2019

Blimling comments on the significant impact the over-supply of cheese is having on the market. Warehouses are already restricted as the stock-building season begins, expanding the issue. Cheese production is also not looking to slow down despite easing milk production growth in the US, as fluid milk sales are dropping (down 2% in November, or 921 million pounds of milk). Blimling notes that with this over-supply, US sellers need to push the export of cheese. However, the US market is struggling to compete in the global market due to futures holding CME spot prices above EU and NZ prices – which is impacting long term contracts. Blimling forecasts further weakness in cheese prices in the first half of 2019 due to this excess supply.

Blimling believes that if butter inventories continue to build at the normal pace for the first half of 2019, butter prices will remain range-bound due to the solid demand for deferred coverage. The NDM/SMP market rose 10% in the first fortnight of 2019, but has since eased off, Blimling estimates prices will remain around the dollar mark. The declining export demand for whey has resulted in some pressure on the whey price. Blimling believes the uncertain sales to China, due to the tariff restrictions are impacting Whey price, as well as the concerns around African Swine Fever.



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 – 11)

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.