nzmp™

PERSPECTIVE

November 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 Fonterra
Dairy for life

Welcome back to Perspective!

November 2019

Two massive challenges when it comes to feeding a rapidly growing world are; producing food that is environmentally sustainable, and making sure that food contains quality, affordable nutrition. Albert Einstein has been quoted as saying "We cannot solve our problems with the same thinking we used when we created them." - and whether he actually said it or not, the sentiment rings true.

Dairy's health credentials are well known, with developments and innovations making dairy more accessible and affordable. I am proud to see recent carbon footprint research confirming New Zealand's pasture-based milk at less than one-third the footprint of the global dairy industry average. However, there are real opportunities to share these learnings, to engage with the industry, and to continue to innovate to create more efficient, sustainable supply chains.

This month in our feature article Jeremy Hill, Fonterra's Chief Science & Technology Officer, focuses on dairy's role in sustainable diets. Jeremy believes that countries like New Zealand, who have low carbon footprints in milk production, can lead the way in international collaboration for agriculture to produce sustainable nutrition for generations.

Four key movements for the month:

Production – Early season production in New Zealand is in line with last season. US and EU production is flat.

Exports – New Zealand and EU export growth is strong, whilst US and Australian exports continue to decline.

Imports – Middle East & Africa imports are declining. Latin America, Asia and China, imports increase.

Prices – GDT Event 247 had mostly increased movement, resulting in the GDT price index up +3.7% to USD $3,446/MT. The largest increases came from SMP and BMP, both up +6.7% and +5.4% respectively.

If you have suggestions for topics you would like to read about in Perspective, or any other general feedback, we would love to hear from you. You can contact us at **nzmpbrand@fonterra.com** or through your account manager.

Kind Regards,

Alex Turnbull
Director, NZMP Marketing

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Dairy's role in sustainable diets

Jeremy Hill
Chief Science & Technology Officer, Fonterra

Among many things, Jeremy Hill is Fonterra's Chief Science & Technology Officer, a role he has held since 2007. He is also the Professor of Sustainable Nutrition at Massey University, where he established the Sustainable Nutrition InitiativeTM to explore the role of food production in sustainable nutrition. A PhD in biochemistry, Jeremy has published over 100 papers and authored four families of patents on various aspects of dairy science and technology.

Between 2012-2016 he served as President and Chairman of the Board of the International Dairy Federation (IDF), the peak body for the global dairy sector. In October 2016 on behalf of the IDF he co-signed the Dairy Declaration of Rotterdam with the Food and Agricultural Organisation of the United Nations recognising the critical role of dairy in sustainable development.

He currently sits of the Board of the Pastoral Greenhouse Gas Research Consortium and the Industry Advisory Panel to the High Value Nutrition National Science Challenge.

The world needs affordable, sustainably produced nutrition to meet the demands of an expanding global population and to combat rising rates of malnutrition.

Climate change and increasing resource constraints make this challenge even greater.

Consumers and food producers are increasingly concerned about this. They want to know what they can do to help and whether the food they buy, and manufacture is environmentally and nutritionally sustainable.

Fighting 'Hidden Hunger' with Dairy Nutrition

Micronutrient deficiency is the 'hidden hunger' that affects an estimated two billion people globally. This is a result of people eating a diet lacking in key micronutrients that is adequate to sustain life, but can often have serious implications for an individual's health and children's development.

Dairy can help alleviate micronutrient deficiencies as it provides a high-quality nutrition source that is available worldwide.

Dairy products are nutrient dense and provide an important source of Vitamin A, Vitamin B2, and B12, as well as phosphorus, potassium, protein and calcium. These can help reduce the burden of disease, including type 2 diabetes, hypertension, cardiovascular disease, osteoporosis, rickets and stunting.

Dairy can also be the lowest cost source of dietary calcium, riboflavin and vitamin B12, which is important in making nutrition affordable and accessible. This is why most national dietary guidelines recommend 1–3 servings of dairy a day, or approximately half-a-litre of milk.

By increasing dairy consumption to match dietary guidelines this could save billions of dollars in national health budgets and help combat micronutrient deficiency worldwide. So if dairy is a good source of quality nutrition, how can we address the environmental impact of producing this?

Milk's Carbon Footprint

Dairy has a role to play in meeting the worlds global nutritional challenges. To do this we need to ensure dairy is sustainably produced, and that this global industry continues to improve.

Dairy is responsible for 2-3% of global greenhouse gas emissions, we know it has an important role to play in the solution of not just climate change but in global nutrition.

The global average carbon footprint of milk is 2.5kg/litre[4] - however this varies significantly between different production systems and supply chains, with some countries' footprints being even higher.

Fonterra recently completed in-depth analysis and found that:

The carbon footprint of New Zealand's milk supply[5] is less than one-third of the global average

and is significantly lower than developed dairy chains.

In order to reduce this global average, the industry must ask, what is it about New Zealand that results in a lower footprint?

New Zealand's Commitment to Low Carbon Dairying

A combination of factors in New Zealand contribute to this low carbon footprint. One of the most prominent being the advantages of a pasture-based farming system, as well as New Zealand's farming expertise, climate, soils and cow herds.

New Zealand's Prime Minister, Jacinda Ardern, addressed the UN recently, stating that New Zealand will be a leader in international collaboration for agriculture. Expressing that the NZ government is

"determined to show that we can be the most sustainable food producers in the world."

While New Zealand is starting from a low base, we need to continue to reduce the carbon footprint. Fonterra is investing considerable resources to find solutions that will do just that and support New Zealand commitments under the Paris Agreement and share those solutions to reduce the footprints of milk produced elsewhere in the world.

This encompasses in-house and collaborative efforts with world-leading companies including DSM, world-leading universities including MIT, and consortia such as the Pastoral Greenhouse Gas Research Consortium. I look to the future with optimism that dairy will provide sustainable, quality nutrition for future generations.

The global challenges of micronutrient deficiency and climate change are significant. We all need to do more to help reduce emissions and find solutions to the challenges in food production. We all want to be a part of the solution and through working together, I believe we can achieve it.

References

1. *Hill, J.P. (2017). Assessing the overall impact of the dairy sector. In Achieving Sustainable Production of Milk, Volume 2: Safety, quality and sustainability, Chapter 15 pp 291-314. Burleigh Dodds Science Publishing Limited, Oxford, UK.*

2. *Willet et al. (2019). Food in the Anthropocene: the EAT-Lancet Commission on health diets from sustainable food systems. The Lancet doi.org/10.1016/S0140-6736(18)31788-4.*

3. *GBD 2017 Diet Collaborators (2019). Health effects and dietary risks in 195 countries, 1990-2017: a systematic analysis for the Global Burden of Disease Study 2017. The Lancet doi.org/10.1016/S0140-6736(19)30041-8.*

4. *FAO (2018). Climate Change and the Global Dairy Cattle Sector. Report by FAO and GDP, 2018. http://www.fao.org/3/CA2929EN/ca2929en.pdf*

5. *Ledgard S.F., S.J. Falcone, R. Abercrombie, G. Philip, and J.P. Hill. (2019). Temporal, spatial and management variability in the carbon footprint of New Zealand milk. In-press Journal of Dairy Science.*

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.

Early season production in New Zealand in line with last season. US and EU production flat 12 months.

NEW ZEALAND

+1.2%

Production change for the 12 months to September 2019

New Zealand milk production for the 12 months to September was 1.2% higher than last year.

New Zealand milk production[1] was down 0.7% on a litre basis but was up 0.7% on a milk solids basis in September compared to the same period last year. The variance between milk solids and liquid milk indicates improved pasture quality from last September.

Despite several cold snaps in parts of the South Island, average temperatures were recorded across much of the country and on-farm pasture conditions remain good.

AUSTRALIAN COLLECTION

-6.2%

Production change for the 12 months to August 2019

Production for the 12 months to August was down 6.2% on the previous 12 months.

Australia milk production decreased 5.9% in August compared to the same period last year.

The Bureau of Meteorology spring/summer forecasts are for well-below-average rainfall and well-above-average temperatures across the majority of Australia which will continue to pressure on milk production if the seasonal forecast materialises.

EUROPEAN UNION

+0%

Production change for the 12 months to August 2019

EU milk production for the 12 months to August was flat compared to the same period last year. Significant increases in Ireland, United Kingdom and Poland's yearly production were offset by large declines in production in the Netherlands, France and in Italy.

EU milk production increased by 1.0% in August compared to the same period last year.

Production growth was seen from key exporting countries such as Poland (2.2%), Spain (3.5%), Ireland (2.2%), Germany (0.6%), and France (0.8%).

UNITED STATES

+0.3%

Production change for the 12 months to September 2019

Milk production for the 12 months to September was 0.3% higher compared to the same period last year.

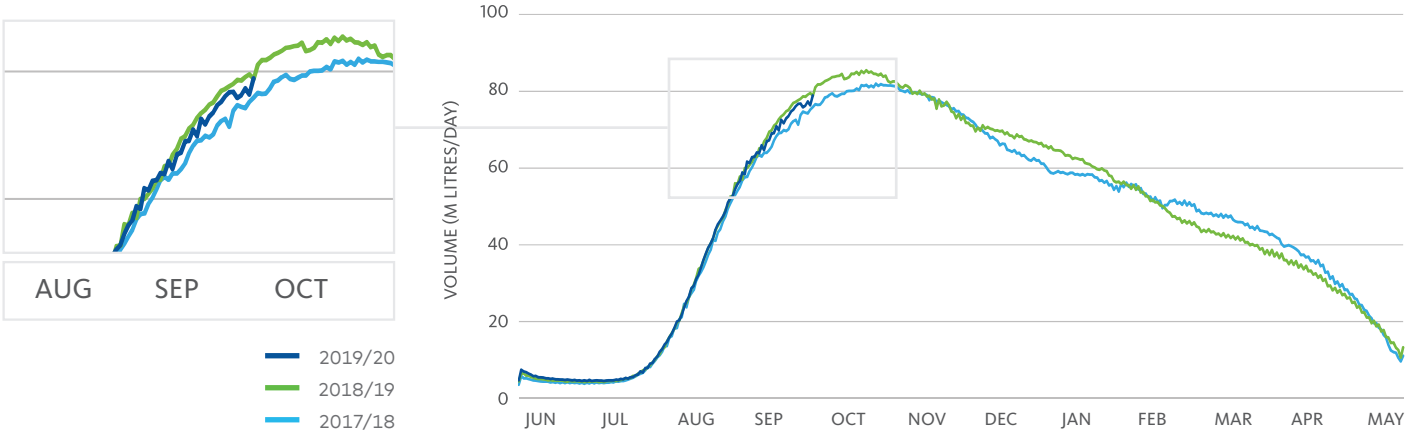
US milk production increased by 1.3% in September compared to the same period last year.

Despite a continued decline in cow numbers, an increase in milk per cow in September drove production higher and may indicate a return to production growth in the coming months.

1. New Zealand production is measured in litres.

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 MILK COLLECTION 2019/20 SEASON



NEW ZEALAND COLLECTION

-0.1%

Decrease for September 2019 compared to September 2018

+0.8%

Season to date 1 June to 30 September

Fonterra's New Zealand collection for September, was 179.1 million kgMS, down 0.1% on the same month last season.

Season to date collection was 309.4 million kgMS, up 0.8% on last season.

Calving is finishing up in most regions with cow conditions remaining positive leading into mating.

Pasture conditions have been reported to be generally good with minimal impact from recent cold weather.

AUSTRALIAN COLLECTION

-15.2%

Decrease for September 2019 compared to September 2018

-22.1%

Season to date 1 July to 30 September

Fonterra's Australia collections in September were 10.7 million kgMS, down 15.2% in September last season.

Fonterra collections across Australia for the three months to 30 September reached 23.2 million kgMS, down 22.1% on the same period last season.

The combination of high on-farm input costs, poor seasonal conditions across Australia, reduced herd numbers and intense competition for milk is impacting Fonterra's milk supply.

Dairy Australia is forecasting 2019/20 production to decline by 3% to 5% in the prior season.

Sources: Fonterra Global Dairy Update, November 2018

Exports from New Zealand and the EU show strong growth. US and Australia monthly exports continue to decline.

NEW ZEALAND

+7.0%

Export change for the 12 months to August 2019

Exports for the 12 months to August were up 7.0%, or 228,808 MT, on the previous comparable period. This was primarily driven by WMP and fluid milk products, up a combined 206,348 MT.

Total New Zealand dairy exports increased by 11.9%, or 14,088 MT, in August compared to the same period last year. This was primarily driven by fluid milk products, SMP and infant formula, up a combined 18,500 MT. This was partially offset by a decrease in butter and AMF exports, down a combined 4,515 MT.

AUSTRALIA

+3.5%

Export change for the 12 months to August 2019

Exports for the 12 months to August were up 3.5%, or 26,613 MT, on the previous comparable period.

Fluid milk products, infant formula and butter were the main drivers of this 12-month growth, up a combined 63,131 MT while WMP, cheese and SMP declined by 33,349 MT.

Australia dairy exports decreased by 6.0%, or 3,449 MT, in August compared to the same period last year. This was primarily driven by SMP, cheese, infant formula and whey, down a combined 8,591 MT but largely offset by an increase in fluid milk products of 6,896 MT.

EUROPEAN UNION

+5.9%

Export change for the 12 months to July 2019

Exports for the 12 months to July were up, 5.9%, or 314,183 MT, on the previous comparable period. SMP fluid milk products, lactose and cheese were the main drivers of this growth, up a combined 345,172 MT. This was partially offset by a decline in WMP, down 62,720 MT.

EU dairy exports increased by 9.3%, or 44,264 MT, in July compared to the same period last year. This was driven by increases across all products but primarily by SMP, butter, cheese and casein, up 30,990 MT.

UNITED STATES

-9.2%

Export change for the 12 months to August 2019

Exports for the 12 months to August 2019 were down 9.2%, or 223,761 MT on the previous comparable period.

The decrease was driven by whey, SMP, WPC and lactose, down a combined 241,593 MT.

US dairy exports decreased 11.3%, or 23,723 MT, in August compared to the same period last year. SMP, whey, lactose and WPC were the main drivers of this decline, down a combined 24,910 MT. The downturn in whey for feed as a result of African swine fever continues to have a negative impact on whey exports to China.

Sources: Data from Global Trade Information Services, US Dairy Export Council, EU Milk Market Observatory, Dairy Australia, High Ground Dairy and Eucolait.

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

LATIN AMERICA

+3.6%

Import change for the 12 months to July 2019

Imports for the 12 months to July 2019 were up 3.6%, or 67,985 MT, compared to the same period the previous year. Increases were recorded across a broad range of products with SMP, WMP, and fluid milk products up by a combined 76,440 MT.

Latin America dairy import volumes[1] increased 9.8%, or 15,703 MT, in July compared to the same period last year. This was driven by increases in WMP, SMP, fluid milk products and WPC, up a combined 15,878 MT.

Mexico and Peru are the main drivers behind the year-on-year fluctuation.

ASIA

+5.1%

Import change for the 12 months to July 2019

Imports for the 12 months to July were up 5.1%, or 240,404 MT, compared to the same period the previous year. Growth continues across a broad range of products with SMP, fluid milk products, WMP and lactose up a combined 223,312 MT.

Asia (excluding China) dairy import volumes[1] decreased 1.1% or 4,676 MT, in July compared to the same period last year. Decreases were recorded across a broad range of products with SMP, infant formula, ice cream and fluid products down 10,634 MT but partially offset by increases in whey, MPC and cheese, up 6,876 MT.

MIDDLE EAST & AFRICA

-5.7%

Import change for the 12 months to July 2019

Imports for the 12 months to July 2019 were down 5.7% compared to the same period last year, driven largely by cheese and WMP, down a combined 186,525 MT.

Middle East and Africa dairy import volumes[1] decreased 4.5% or 15,725 MT in July 2019 compared to the same period last year.

Decreases were recorded principally in fluid milk products, butter and WMP, down a combined 28,993 MT but partially offset by an increase of 12,067 MT in infant formula. Libya is the main driver of the decline in fluid milk products imports.

CHINA

+9.5%

Import change for the 12 months to August 2019

Imports for the 12 months to August were up 9.5%, or 264,857 MT compared to the same period last year. Strong demand continued across all key categories. Fluid milk products, WMP, SMP and infant formula were up a combined 382,293 MT, partially offset by a continuing decline in whey, down 90,936 MT, due to ongoing African swine fever.

China dairy import volumes increased 4.7%, or 11,912 MT, in August compared to the same period last year. This was driven by increases in fluid milk products, SMP and infant formula, up 25,668 MT, but partially offset by decreases in WMP and butter, down by 13,969 MT.

RUSSIA

-2.1%

Import change for the 12 months to August 2019

Imports for the 12 months to August 2019 were down -2.1% or -22,113 MT compared to the same period the previous year. This was mainly driven by Cultured Products, Fluid and Fresh Dairy, Infant formula, Lactose, MPC, Whey and WPC being down a combined -111,074 MT. Offset by Cheese, AMF, Casein, Dairy Spreads, Ice Cream, SMP, WMP and Butter being up a combined 87,431 MT.

Russia import volumes were down -1.04% or -860 MT for August 2019 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

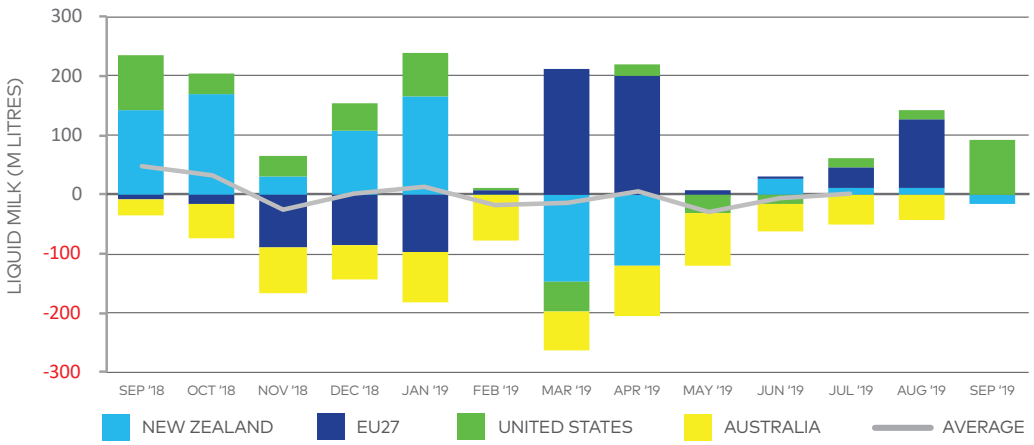
Global Dairy Market

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.

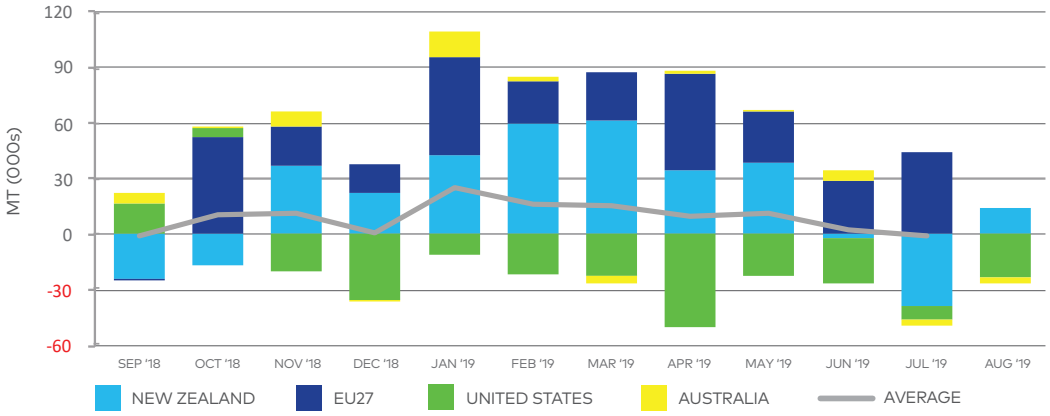
The absolute size of the bars represent the change in imports, exports or production, relative to the same period the previous year.

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

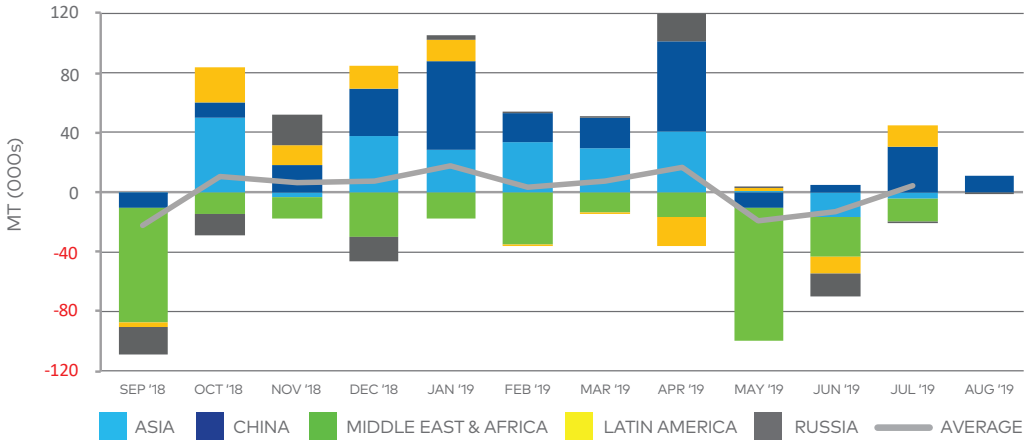
PRODUCTION



EXPORTS



IMPORTS



Sources: Government milk production statistics/GTIS trade data/Fonterra analysis

Food Price

The FAO Food Price Index (FFPI) averaged 172.7 points in October, up 1.7% from September and 6% from the same time last year. This increase marks the first significant month-on-month rise since May, with particular surges in the prices of sugar and cereals.

Meanwhile, the FAO Dairy Price Index averaged 192 points in October, which represents a drop of 0.7% from the previous month, but is still 5.6% higher than October 2018. This second consecutive month of decline was the result of lower quotations for cheese, which more than offset increases for Skim Milk Powder (SMP) and Whole Milk Powder (WMP).

Source: FAO

Economic

Composite leading indicators (CLIs) continue to point towards easing growth momentum in the US and the euro area as a whole.

Meanwhile, CLIs for France and Canada point to stable growth momentum. This is also the case for the UK, but large margins of error still exist due to continued Brexit uncertainty.

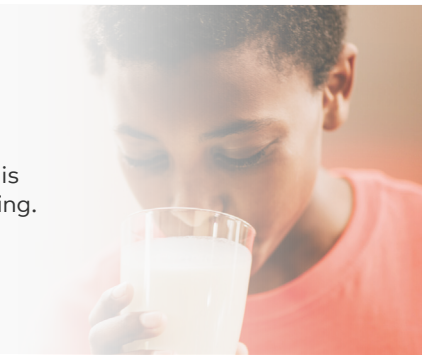
Among the major emerging economies, the CLIs for China's industrial sector and Brazil continue to point to stable growth momentum. India's signs of easing growth momentum have intensified since last month's assessment, with similar indications also beginning to emerge in Russia.

Source: OECD

Consumer

The EIU is predicting global growth of 2.9% for 2019 and 3.2% for 2020. The outlook for the US is dominated by political and economic risks, with their economy showing increasing signs of slowing. In the EU zone, the EIU is expecting a mild technical recession for Germany this year, while the Italian economy is also stalling, with that weakness expected to persist in 2020.

Source: Economist Intelligence Unit



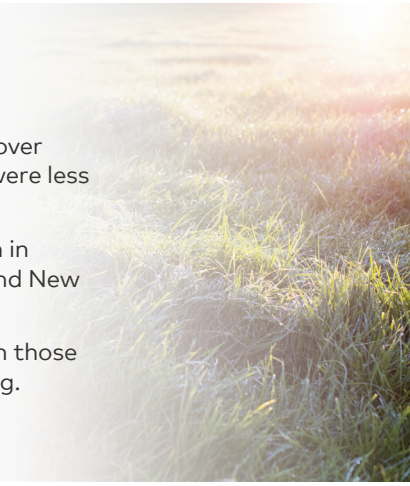
Weather

Temperatures were average for most of New Zealand in September. Rainfall was below normal over much of the southern parts of both islands. Above normal and well above normal rainfall levels were less widely observed, but as of October 1, soil moisture was near normal for most of the country.

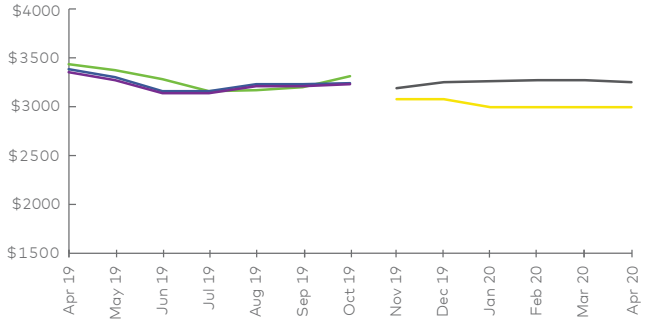
In Australia, dry weather overspread a large part of Western Australia, but there was timely rain in South Australia and southern Victoria. Drought remained entrenched in southern Queensland and New South Wales.

September's drier-than-normal weather in France and the lower Balkans exacerbated drought in those regions, while showers in Spain boosted moisture reserves for their upcoming winter grain sowing.

Source: World Agricultural Weather Highlights USDA oCOE, NIWA



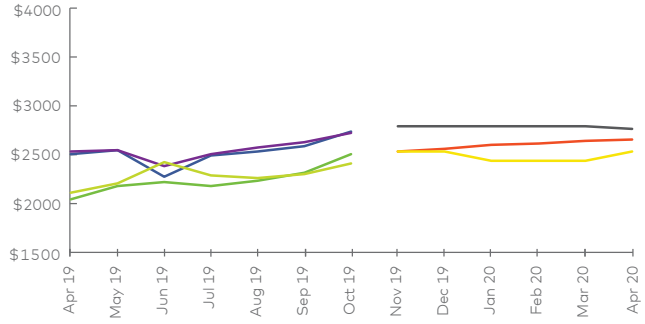
WMP



WMP prices remain tight across the board as GDT and USDA Oceania remain flat. Dutch Dairy Board posted a +4.2% increase to USD $3,277/MT.

Futures and forecasts for the next six-months are mixed and tracking on the lower end of the market. Rabobank Oceania holds its average at USD $2,933/MT. NZX Futures has increased another +3.6% to an average USD $3,200/MT.

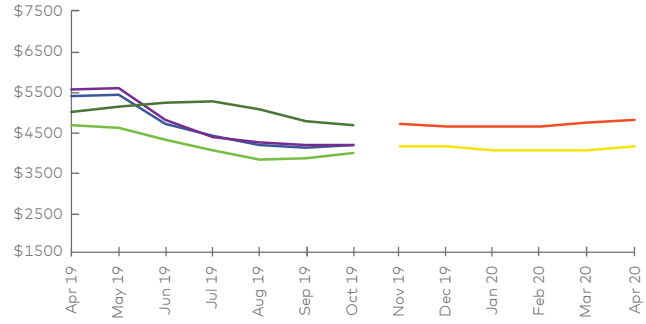
SMP



Prices for October are again up across the board. USDA Oceania increased +3.8% to USD $2,738/MT and Dutch Dairy Board showed a +8.3% uplift to USD $2,520/MT. USDA NASS increased +4.6% to USD $2,420/MT. GDT showed a +6.1% uplift to USD $2,750/MT.

Forecast and futures show moderate average uplift on previous SMP prices predicted, with the average 6-month price now between USD $2,500/MT and USD $2,797/MT.

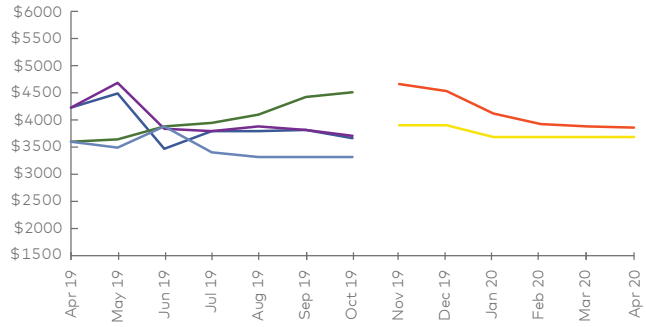
BUTTER



Butter prices in October are mixed. USDA Oceania stayed flat at USD $4,125/MT and Dutch Dairy Board showed a +3.1% uplift to USD $3,908/MT. CME Spot dropped -2.8% to USD $4,645/MT. GDT showed a +1.5% uplift to USD $4,129/MT.

Average futures and forecasts for the next six-month period have been revised down with CME Futures dropping another -3.2% to USD $4,677/MT and Rabobank Oceania average prices remained flat.

CHEESE



Mixed results are reported in October, the EU commission holds flat at USD $3,382/MT. CME spot price is up a further +2% to USD $4,564/MT and USDA Oceania and GDT have both dropped to USD $4,125/MT and $4,129 respectively.

CME Futures 6-month average is up a further +5.7% to USD $4,215/MT and Rabobank Oceania average prices stay flat at USD $3,817/MT.

Actuals

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

Forecasts

- NZX Futures
- CME Futures
- Rabobank Oceania

nzmp™ solutions

Risk and Commercial Solutions

Take control of price and supply.

Source: https://www.globaldairytrade.info/en/product-results/

GDT Results

TRADING EVENT 247

+3.7%
Change in GDT Price Index from previous event

USD 3,446
Average price (USD/MT, FAS)

WMP	AMF	SMP	BUTTER
+3.6%	2.6%	+6.7%	+0.2%
$3,254	$5,191	$2,924	$4,117

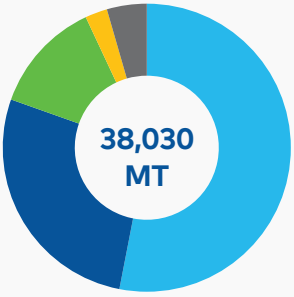
RENNET CASEIN	CHEDDAR	LACTOSE	BUTTER MILK POWDER
+5.1%	-0.6%	-1.9%	+5.4%
$7,274	$3,609	$768	$2,786

GDT SALES BY DESTINATION

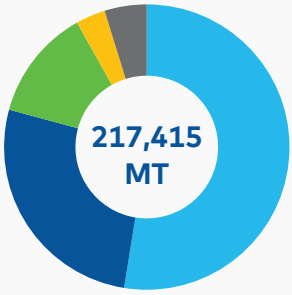
TRADING EVENT 246

- North Asia (including China)
- South East Asia
- Middle East and Africa
- Latin America
- Other

Auction 246



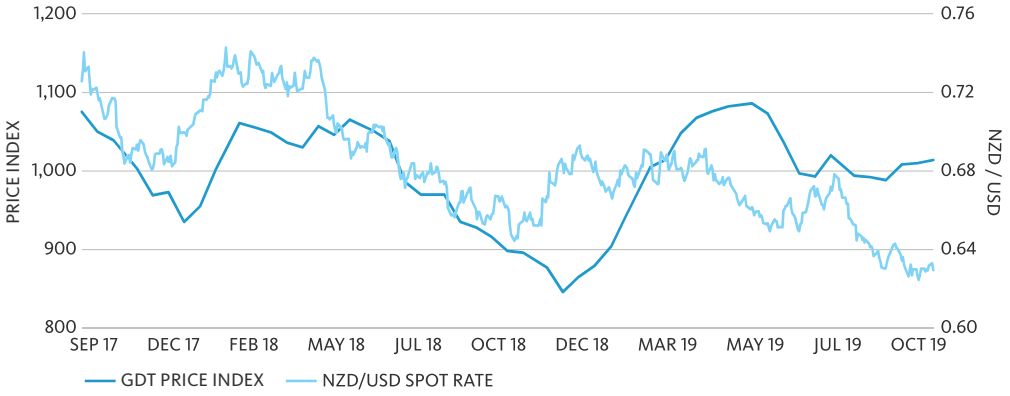
Financial Year to Date



The next trading event will be held on 19 November 2019. Visit **www.globaldairytrade.info** for more information.

Dairy commodity prices and New Zealand dollar trend

A decline in New Zealand's economic outlook helped fuel expectations for additional interest rate cuts by the RBNZ, this, together with rising geopolitical tensions, resulted in the NZD weakening across September.



Source: https://www.globaldairytrade.info/en/product-results/

USDA, Dairy Outlook

Published October 2019

Recent developments

The milk production forecast for 2019 is up on last month's prediction and now sits at 218.2 billion pounds. Meanwhile, the all-milk price forecast for 2019 is $18.40 per cwt, 5 cents higher than last month's estimate. The all-milk price forecast for 2020 remains unchanged at $18.85 per cwt.

Price directions were mixed from the week ending August 31 to the week ending October 5. Cheddar cheese prices saw the biggest increase, with the price for 40-pound blocks up by 19.0 cents to $2.0953 per pound. The nonfat dry milk (NDM) price also increased by 3.2 cents. The price for butter, however, fell substantially – down 14.9 cents to $2.1912 per pound.

USDA, National Agricultural Statistics Service (NASS) estimated August US milk production at 18.280 billion pounds, up 0.2 percent in August 2018. Meanwhile, the July milk production estimate was revised upwards by 40 million pounds to 18.370 billion pounds. August's milk cow numbers were estimated at 9.318 million head, down 2,000 from July. Milk production per cow was 1,962 pounds in August, which is 19 pounds more than the same time last year.

In August, dairy exports on a milk-fat milk-equivalent basis totalled 778 million pounds, up 67 million in July, but down 135 million in August 2018. Exports on a skim-solids milk-equivalent basis were 3.385 billion pounds, 37 million more than July, but 562 million lower than August 2018. Cheese exports were 58.6 million pounds in August, down 2.5 million in July and 3.5 million in August last year. Exports of NDM/SMP were 112.4 million pounds in August, 3.2 million higher than July and 25.0 million more than August 2018.

Imports of most dairy products were down in July's figures. August's dairy imports in a milk-fat basis totalled 635 million pounds, down 21 million in July, but up 51 million on August 2018. Dairy imports on a skim-solids basis were 448 million pounds, 149 million lower than July, but 45 million more than August last year. Notably, imports of milk protein concentrate fell by 11.1 million pounds from July to August.

On a milk-fat basis, August ending stocks were 17.629 billion pounds, up 43 million pounds on August 2018. This contrasts with year-on-year declines on a milk-fat basis for the past six months. On a skim-solids basis, August ending stocks were 10.889 billion pounds, down 83 million in August 2018.

Meanwhile, the US is applying tariffs on certain goods from the EU, following on from a dispute regarding the EU large civil aircraft industry. Tariffs of 25 percent will be applied to many dairy products imported from the EU, including cheese, butter, butterfat products, whey protein concentrate, yoghurt and fermented milk products. However, not all imports of these products will be assessed the additional tariffs.

Source: USDA

Dairy forecasts for 2019

Milk cow numbers for the third quarter are expected to reach 9.320 million head, up 5,000 on last month's forecast. Milk per cow for the third quarter is expected to be 5,805 pounds, an increase of 15 pounds from the previous forecast. Milk production for the third quarter is therefore now expected to be 54.1 billion pounds, up 0.2 billion pounds. The fourth-quarter milk production forecast remains unchanged at 53.8 billion pounds. The annual milk production forecast for 2019 is 218.2 billion pounds.

Annual import forecasts for 2019 on both the milk-fat and skim-solids bases are unchanged from last month. Demands for butter and butterfat products are expected to be relatively strong for the remainder of the year.

Export forecasts for the remainder of 2019 have been revised down due to lower expected exports of cheese and NDM/SMP to Mexico. The export forecast for 2019 on a milk-fat basis is now sitting at 9.0 billion pounds, down 0.3 billion pounds. On a skim-solids basis, the export forecast for the second half of the year has been lowered, resulting in an annual forecast of 40.0 billion pounds.

The forecast for 2019 ending stocks on a milk-fat basis for the year is unchanged at 13.0 billion pounds. Ending stocks on a skim-solids basis for 2019 are now projected at 10.4 billion pounds, up 0.4 billion pounds from last month's forecast.

Changes in product price forecasts for the fourth quarter of 2019 are mixed. The fourth-quarter price for cheddar cheese has been raised 4 cents to $1.875 per pound, however fourth-quarter price forecasts for butter and dry whey have been lowered to $2.145 per pound (-3.0 cents) and $0.365 per pound (-0.5 cents), respectively. Due to recent price movements, the NDM price forecast has been raised by 2 cents to $1.065 per pound.

The Class III price forecast for the fourth quarter of 2019 has been raised to $17.95 per hundredweight (cwt), up 35 cents on the previous forecast. The Class IV forecast for the fourth quarter is also up 5 cents to $16.10 per cwt. The all-milk price for the third quarter is expected to be $19.00 per cwt, unchanged from last month's forecast. For the fourth quarter, the all-milk price forecast has been increased by 20 cents to $19.60 per cwt. For the year, the all-milk forecast is $18.40 per cwt, up 5 cents on last month's forecast.

Source: USDA

Blimling, Forecast Update

Published September 4, 2019

Blimling's latest forecast has highlighted the effects of a lingering dispute between the US and the EU over Airbus and manufacturing subsidies. With the WTO giving the US the green light to retaliate on US$7.5 billion in European goods, a host of dairy products are now subject to 25% retaliatory import tariffs. Blimling notes that such trade barriers will only add uncertainty to an already shaky market.

Meanwhile, cheese prices are expected to remain supported through the holidays, but improved milk supply and seasonally lighter demand will push the market lower into 2020.

Butter prices could also find some lift during the holiday period, but this may be curbed by heavy inventories and ample cream availability.

The NDM/SMP market has been supported by snug global supplies and good demand. Blimling says this rally could extend into the New Year before supply starts to catch up.

Finally, whey prices will likely remain weak well into 2020, dampened by continued losses in export business.

Source: Blimling

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.

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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.