

PERSPECTIVE

JULY 2016

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 we just wanted to remind you of the key changes in our new and improved version of Perspective:

- Interactive buttons: use these to 'click through' to relevant sections to easily navigate content
- Market at a glance: provides you with a one page overview of global changes without needing to dig through the detail
- Monthly commentary: this month we bring you some thoughts on the impacts of 'Brexit' on the dairy industry
- Production/Export/Import graphs: for help on how to interpret these, please refer to the the explanation on page 21

Thanks to those of you that have already provided such positive and insightful feedback on our recent changes.

Remember that we are always open to your comments and suggestions, these can be submitted directly to our NZMP team at nzmpbrand@fonterra.com or via your account manager.

Kind regards,

The Perspective team

In this issue



Market at a glance



Global overview



Global indicators



Guest feature column



Updates from other commentators



Global production



Global exports



Global imports



Commodity prices



Appendix



Glossary





To view more detail –

CLICK ON ONE OF
THE BOXES BELOW

**HEALTHY DEMAND WAS SEEN
FROM CHINA AND LATIN AMERICA,**
WITH PRODUCTION EASING IN
MOST REGIONS, PARTICULARLY
AS EUROPEAN UNION OUTPUT
BEGINS TO SLOW

Middle East & Africa

-4%

March MAT
Global Imports

Russia

-35%

March MAT
Global Imports

China

+23%

May MAT
Global Imports

Asia (excluding China)

+4%

March MAT
Global Imports

Latin America

+11%

March MAT
Global Imports



European Union

+4%

April MAT
Global Production

+11%

March MAT
Global Exports

Australia

-1%

May MAT
Global Production

+6%

April MAT
Global Exports

New Zealand

-2%

May MAT
Global Production

+4%

May MAT
Global Exports

United States

+1%

May MAT
Global Production

-8%

April MAT
Global Exports



Production

Although global milk supply growth is starting to slow, production is still increasing and may continue for some time. In April the EU reported the lowest rate of production increase (+1% YOY) since early 2015. However, recent increases to the SMP intervention ceiling to 350kMT, will continue to protect some farmers from feeling the pressures of low milk prices, and may impact the rate at which production slows. The US continued to show moderate growth (+2% YOY) in May, despite high domestic demand and drought conditions still plaguing the dairying regions of the western side of the country. NZ also had good production (+4% YOY) for May, due to favourable weather conditions. In contrast, Australia is still struggling with dry and variable weather and high costs associated with limited feed supplies and irrigation. Combined with the fall in milk price, this led to a -6% decrease in YOY production.



Exports

EU dairy exports increased +10% in March compared to the same month the previous year, primarily driven by fluid and fresh dairy, and cheese. NZ exports in May increased +9% YOY (+4% MAT), with some gains in the Middle East and Africa, particularly for dairy fats. Similarly, Australia grew April exports by +13% YOY, despite difficulties with production and reasonably solid domestic demand. This was driven by whey powder, fluid and fresh dairy, and WMP. US exports were still lagging in April, as domestic demand (especially for cheese, butter and whey powder) remains strong.



Imports

Global demand has been somewhat inconsistent of late. In May, China dairy imports increased +30%, compared to the same month in May 2015. Some commentators have speculated that this has been due to rises in futures commodity prices. Latin America was the next region to show good growth in imports, with an increase of +13% in March. Russia has surprisingly continued to grow its imports (+9.6% YOY) in March, despite announcing that it will extend its food embargo through to the end of 2017. Asia (excluding China), and the Middle East and Africa exhibited a decline in YOY March imports, -17% and -4% respectively. This is consistent with forecasts of reduced economic growth in emerging economies. The Middle East and Africa continue to be impacted by oil prices, where dependent economies have reduced demand for dairy.



Prices

The GDT Price Index remained unchanged at the conclusion of TE 168 (19 July), following a minor decrease of -0.4 at TE 167 (5 July). TE 168 saw 31,348MT sold to 168 winning bidders. The GDT Price Index remained unchanged at the conclusion of Trading Event 168. Future markets were largely positive with growth predicted for SMP, butter and cheese in the upcoming six month period. WMP prices are also still expected to rise, albeit at a lower level than previously forecasted resulting in a lower price average than reported last month.



Economic

Composite leading indicators (CLIs) cannot account for significant unforeseen or unexpected events, such as the recent UK referendum. While data collected prior to the UK referendum pointed to stable growth momentum in the OECD and growth picking up in emerging economies, the underlying data that captured subsequent and potentially significant changes in expectations will not be available until early September. Therefore, to avoid providing an inaccurate and potentially misleading assessment of the short to medium term outlook, the OECD has suspended their release of CLIs until September 2016.

Source: OECD



Global dairy supply and demand

In the past 12 months, supply growth from the EU and US has continued, whilst Australia and NZ production has contracted. There are signs that EU growth is beginning to ease, although production remains strong relative to consumption – reflected in 1.5 billion litres of SMP entering intervention. Unless EU and US consumption picks up dramatically, production growth is going to continue to pressure the market through 2016. Trade growth has started to pick up in 2016, with YOY of +8.1% in February 2016.

Source: Global Dairy Intelligence Group Supply and Demand model



Weather

Climate models suggest the La Niña weather phenomenon, forecast to develop later this year, will not be as strong as the event in 2010-12, when severe droughts in key growing areas around the globe devastated crops. La Niña (the opposite of El Niño), is caused by the cooling of the tropical Pacific and typically causes dryness in the Midwest of the US, and rainfall for South East Asia and Oceania.

Source: Qualitative assessment



Food commodities

FAO Food Price Index was 163.4 in June, up +4.2% from May, but -1% below June 2015. The Dairy Price Index reached 137.9 in June, -14% below the same month last year. Average monthly prices rose for all the dairy commodities that compose the Index. An uncertain outlook for 2016/17 in Oceania, with a slowdown of monthly milk production growth in the EU during April, caused quotations to strengthen. Despite this, the June increase only represented a recovery from the low prices prevailing in the preceding quarter.

Source: FAO



Dairy prices

The GDT Price Index remained unchanged at the conclusion of Trading Event 168 on 19 July. Future markets were largely positive with growth predicted for SMP, butter and cheese in the upcoming six month period. The forecast for WMP was mixed. Whilst all commentators indicated prices are likely to rise, some now expect this to occur at a slower rate than previously forecasted, bringing the average price forecast down from last month.

Source: GDT



Consumer

In light of the UK's referendum to leave the EU, EIU has adjusted growth to +2.2% in 2016 and +2.4% in 2017, down from +2.3% and +2.6%. "Brexit" will create political and economic uncertainty, and stoke financial market volatility. Consequently, global economic growth is expected to slow leading into 2018-2019, with the UK and Europe particularly affected. This will impact both consumer and business spending. As demand in the OECD will remain tepid, the outlook for emerging markets is poor.

Source: Economist Intelligence Unit





Francis Reid

Trade Strategy & Stakeholder Affairs Manager, Fonterra

Francis Reid is Fonterra's Trade Strategy & Stakeholder Affairs Manager for EU, Russia, and the Middle East and Africa, based in Amsterdam. Francis leads the development of strategies to grow market access and he provides Fonterra business units with expert trade policy advice. He also ensures Fonterra's sustainability objectives are advanced in Europe.

He is the Deputy Chair of the Sustainable Agriculture Initiative's Dairy Working Group and a member of the International Dairy Federation's Standing Committee on Dairy Policies and Economics. He joined Fonterra in 2008 and prior to that was an academic in the UK. He has a PhD in the History and Philosophy of Science from the University of Cambridge.

Brexit – what happens next and implications for dairy

On 23 June 2016 the UK voted in a referendum 52% to 48% in favour of leaving the EU – an outcome commonly referred to as Brexit. The result revealed deep divisions in UK society with older and less educated people far more likely to vote leave. Contrasts between different regions were also highlighted with England and Wales both voting to leave and Northern Ireland, Scotland and London voting overwhelmingly to remain in the EU.

So what happens next, and what might this mean for markets and for dairy? It's clear that many analysts did not anticipate the vote for Brexit – the London stock market fell sharply after the result was announced and the pound declined to multi-year lows. The result initially threw the UK into a period of political turmoil. Some political stability has now returned with a new Prime Minister, Theresa May, in place and a new look Cabinet appointed, including the new posts of Secretary of State for Exiting the EU and Secretary of State for International Trade.

In terms of the UK's relationship with the EU, the next step is for the UK Government to invoke the exit provisions under Article 50 of the Lisbon Treaty – these provide for a two year period of negotiation on the terms of departure. Until the UK formally leaves the EU all the rights and obligations that come with EU membership remain in place including access to the European single market.

The UK is a major net importer of dairy products with a self-sufficiency rate of less than 85%. The UK is the world's third largest cheese importer and sixth largest butter importer and is also a major importer of other dairy products including yoghurt and infant formula. These significant trade flows are serviced almost exclusively from within the EU. In the short term the weaker pound makes UK exports more competitive and imports more expensive.

The UK currently has preferential trade relationships with the EU and with 58 countries with which the EU has free trade agreements. All of these relationships will need to be re-established or re-negotiated. While Brexit provides the UK with an opportunity to establish its own independent voice on trade issues, establishing new trade agreements will not necessarily be easy – as John Kerry, US Secretary of State, stated recently "The UK has to work to define its new trade relationship with the EU... they cannot sign any trade agreement [with the US] until they are no longer a member of the EU".

There are also financial implications for the EU. According to the think-tank Farm Europe the UK contributes around 10.5% of the total EU budget and around 5% of the Common Agricultural Policy budget. Additional funding will need to come from other member states to maintain income and market support for EU agriculture.

Currently only 0.26% of NZ's dairy exports by value go to the UK and 2.8% to the EU as a whole. Fonterra now exports as much from the EU as it exports to the EU. Fonterra will monitor the implications of Brexit for our UK partnerships as the terms of the UK's market access to the EU and third markets becomes clearer.





USDA, Dairy Outlook

Recent developments for June 2016

- Milk production continued to grow in April, reaching 18.0 billion pounds, +1.2 % higher than the same month last year. Milk per cow averaged 1,929 pounds for April, +20 pounds above April 2015. Milk cows were 9.331 million head, +15k more than April 2015 and +4k head more than last month.
- On a milk-fat milk-equivalent basis, dairy imports fell by -215 million pounds from March to April. This follows smaller monthly declines from the peak of 809 million pounds in January. On a skim-solids milk-equivalent basis, the decline in imports was smaller, -71 million pounds. Imports of butter fat products fell considerably from March to April.
- Exports across March and April fell by -94 million pounds on a milk-fat basis, but rose by +291 million pounds on a skim-solids basis. Notably, while exports of whole milk powder and dry whey increased, exports of butterfat products, cheese and lactose decreased.

Dairy forecasts for 2016

- The milk cow forecast has been increased to +9.325 million head, +5k more than forecast last month. Although the milk per cow forecast is unchanged, the increase in national herd is expected to push 2016 production up from 212.4 to 212.6 billion pounds.
- Total import forecast remains at 6.4 billion pounds, however the proportion of butter fat products and cheese imports are expected to be lower. This will impact total milk supply by -0.7 billion pounds on a milk-fat basis.
- Export forecasts have been reduced by -0.2 billion pounds based on lower expected exports of non-fat dry milk, cheese, and lactose. Ending commercial stock forecasts are raised from 14.1 to 14.3 billion pounds due to recent high stock levels and the higher production forecast.

Dairy forecasts for 2017

- With a more gradual decline in cow numbers expected for 2017, the milk production forecast for 2017 is increased from 215.2 billion pounds to 215.3 billion pounds. However, the impact of higher feed prices on producer margins during 2016 is expected to temper any increases.
- On a milk-fat basis, import and export forecasts are both reduced for 2017, by -0.3 billion pounds and -0.4 billion pounds, respectively. The domestic commercial use forecast on a milk-fat basis has been raised by +0.2 billion pounds. The forecast for ending stocks has been raised by +0.2 billion pounds.
- The annual forecast for imports on a skim-solids basis is unchanged at 6.2 billion pounds. The forecast for skim-solids basis exports, however, is reduced by -0.5 billion pounds, to 37.1 billion pounds. Domestic commercial use on a skim-solids basis is forecast at 183.7 billion pounds, +0.5 billion pounds higher. Ending stocks have been raised to 14.0 billion pounds, +0.3 billion pounds higher.



Blimling, Forecast Update

July 2016

- As June began, US dairy producers seemed to be confronting the full force of surplus milk in the domestic and global markets. More than 1.2 billion pounds of cheese crowded warehouses, co-operatives were struggling to find homes for milk, and cheese traded at the lowest price levels in six years. The signal was clear: reduce milk output.
- Off the back of weather forecasts, grain prices rose in mid-June, causing Class III milk prices to rise. Although the margin outlook still looks tough, it is possible that producers may think that the worst is over. This may mitigate the level of milk output contraction by year-end.

FAO, Bi-annual Milk and Milk Products Report

June 2016

- 2016 global milk production is forecasted to grow by +1.6% to reach 816 million tonnes (India +4.8%, US +2.0%, EU +1.3%).
- Outputs are expected to expand in Europe, Asia and the Americas, but stagnate/decline in Africa and Oceania.
- In the first half of 2016, export availability was in excess of demand, resulting in the accumulation of stocks of some products in several exporting countries.
- Low prices are expected to boost worldwide dairy trade by +1.5% over the 2016 calendar year.
- Zero growth is projected for global WMP exports, +2.8% for SMP, +4.5% for butter and +1.6% for cheese.
- The main driver for trade growth is Asia, although only limited recovery is expected for China.
- The EU will lead trade growth with a +4.1% increase in sales, lifting its global trade share to 26.2% on a milk-equivalent basis.





Informa Economics, Global Dairy Report

July 2016

- Milk production is seasonally falling in the northern hemisphere and it is still near the seasonal low-point in the southern hemisphere. There is now clear evidence of milk supplies tightening in the European Union and NZ.
- Cow slaughter in NZ was stronger than expected over April and May, which means farmers will likely be milking 1-2% less cows for a second consecutive season. However, gains in production per cow could potentially off-set this.
- Global demand improved slightly in April, and significantly in May. Informa demand models are suggesting a rise in prices during the latter half of the year. This reflects uncertainty of future supplies given current negative farm gate margins and potential weather problems.
- Whilst the EU intervention programme has taken large amounts of SMP off the market in the short term, the recent rally in prices can still be justified considering EU-28 milk production has gone from +5.8% growth in Q1, to likely at or below year-ago levels in June, and is headed for a 1-2% drop from year ago levels in Q4.
- It is plausible that a rally in prices may be sustained throughout the rest of the year, although the tighter supply of fresh dairy is balanced against plenty of stock for aged SMP, as well as US cheese and butter. It would not take much to push prices back slightly.





MILK PRODUCTION GROWTH IS SLOWING IN EUROPE WITH DECLINES FOR MANY KEY PRODUCERS

To view a chart that illustrates year-on-year changes in production –

CLICK ON ONE OF THE BOXES BELOW

New Zealand

– 2%

Production change
for the 12 months to
May 2016

- Total NZ milk production increased +4% in May compared to the same month last year.
- NZ volumes are reduced at this time of year due to seasonality of supply. However, generally warm autumn temperatures and near normal soil moisture, have supported good late-season milk supply.
- A positive weather outlook is forecasted for NZ's winter, with expected rainfall pointing at near to above normal soil moisture in most parts of the country.
- Despite recent gains in YOY output, production in the 12 months to May, remains down -2%.
- NZ's AgriHQ is forecasting a -3% reduction in milk output for the upcoming 2016-2017 season.

Australia

– 1%

Production change
for the 12 months to
May 2016

- Australia production in May decreased -6% compared to the same month last year.
- Production for the 12 months to May decreased -1% compared to the same period the previous year.
- Production is impacted by a particularly hot and dry season, resulting in rising costs for irrigation and feed - with hay being in limited supply. In this environment, cow culling increased +37% in the last year. Some potential relief for farmers may come as El Niño continues to weaken and fertiliser prices remain low.

European Union

+ 4%

Production change
for the 12 months to
April 2016

- EU production in April increased +1% YOY (bringing MAT growth to +4%). This is the lowest rate of increase that has been reported since early 2015.
- There are signs that milk supply growth is starting to relax as France, UK, Ireland and Spain (half of the top eight producers) decreased their YOY production. Outputs from other suppliers such as Belgium and Denmark are also slowing.
- Reflecting this was an increased rate of cow slaughter by key producers such as the UK, Ireland and Spain.
- With the EU Commission recently announcing their €50 million farmer support package, which will help to incentivise reduced production, milk outputs are expected to continue slowing in the months to come.
- The major contributors to production growth in the past 12 months, has been Ireland (+16%), the Netherlands (+13%), Poland (+5%) and Germany (+4%).

United States

+ 1%

Production change
for the 12 months to
May 2016

- US production in May increased +2% compared to the same month last year, bringing milk production for the 12 months to May, up +1%.
- The US has experienced mixed weather conditions, with some above normal temperatures and high rainfall. States along the south west continue to see dry conditions. California's federal government recently released water management plans which will not involve cutbacks to farm water deliveries. Despite this, there are some concerns about the heat of La Niña possibly worsening dry conditions.
- Cow slaughter increased slightly over May, up +9.8% YOY but down -1% YTD.
- The US Department of Agriculture has revised its forecasted milk production to +1.9% 2016.



To view a chart that illustrates year-on-year changes in exports –

CLICK ON ONE OF
THE BOXES BELOW

DAIRY EXPORTS REMAIN STRONG FOR NEW ZEALAND, AUSTRALIA AND EUROPE, BUT THE UNITED STATES IS DOWN LARGELY DUE TO INCREASED DOMESTIC DEMAND

New Zealand

+4%

Export change for the
12 months to May 2016

- NZ exports in May increased +9% YOY (+4% MAT). The biggest growth in export markets was to Algeria and Indonesia. YOY performance was positive across all major commodities, excluding cheese (-7%).
- May was the fourth consecutive month in which cheese exports fell, with a significant proportion of this due to a -30% YOY drop in orders from Japan.
- Butter exports rose in May, mostly destined for China, Egypt and Morocco. Similarly AMF performed well with extra shipments to China and Mexico.

Australia

+6%

Export change for the
12 months to April 2016

- Australia dairy exports in April increased +13% compared to the same month last year, driven by whey powder (+113%), fluid and fresh dairy (+49%), and WMP (+17%).
- Exports for the 12 months to April increased +6%, driven by cheese +12%, SMP +5% and fluid and fresh dairy +13%.
- In light of falling infant formula exports (-46% YOY, -10% YTD), there has been increased focus on imports to Asia and diversification of product ranges to include organic and lactose free ranges. Bega Cheese, Fonterra Australia and Murray Goulburn all have partnerships with various nutritional companies to develop business in these areas.

European Union

+11%

Export change for the
12 months to March 2016

- EU dairy exports increased +10% in March compared to the same month the previous year, primarily driven by fluid and fresh dairy (+34%) and cheese (+16%). This resulted in growth of +11% over the 12 months to March. The largest movers were fluid and fresh dairy up +27%, whey powder up +12%, and cheese up +7%.
- Meanwhile, milk powder exports continued to struggle this month. This was reflected in 2016-2017 forecasted milk use for SMP being reduced by -7.6%. YOY SMP exports fell -12% in May (some of which was accounted for in intervention volumes), whilst WMP dropped -10%.
- Butter and cheese exports are strengthening in key Middle Eastern markets (Saudi Arabia, Egypt) and the US where, although potentially slowing, domestic demand is still strong.

United States

-8%

Export change for the
12 months to April 2016

- US dairy exports in April dropped -20% compared to the same month last year, with decreases across all major dairy categories despite the weaker US dollar. Exports of cheese, whey powder, SMP and lactose all fell by more than -20%, largely driven by strong domestic demand.
- Exports for the 12 months to April decreased -8% (170kMT). Again, this was led by whey powder and cheese, the latter of which has been a result of lost share in the Japanese market.
- Some respite was seen through increased exports to Canada, who were the US's top butter market in April. This is due to Canada processing capacity issues in ageing plants.
- Other small wins were minor gains in the Caribbean and South/Central America, such as an FTA with Columbia.



CHINA AND LATIN AMERICA CONTINUE TO SEE STRONG GROWTH IN DAIRY IMPORTS, WHILE IN ASIA, THE MIDDLE EAST AND AFRICA IMPORTS HAVE SOFTENED

To view a chart that
illustrates year-on-year
changes in imports –

CLICK ON ONE OF
THE BOXES BELOW

Asia (excluding China)

+4%

Import change
for 12 months to
March 2016

- Asia dairy import volumes decreased -8% in March compared to the same month the previous year. This was driven by a fall in milk powder demand; SMP (-23%) and WMP (-24%). This was partially compensated by increased volumes of fluid and fresh dairy (+16%) and cheese (+9%). Australia and NZ have recently lost some share of cheese to European suppliers: Germany, France, Denmark and the Netherlands.
- Imports for the 12 months to March increased +4%, or 148kMT, compared to the same period the previous year. This was due to a mixture of growth in SMP (+4%), fluid and fresh dairy (+7%) and cheese (+8%).
- YTD has seen growing appetite for WPC in SEA, especially for Malaysia and Vietnam.

China

+23%

Import change
for 12 months to
May 2016

- China dairy imports increased +30%, in May compared to May 2015, with significant gains across the board. Some of this may be in response to the rise in futures commodity prices. Of particular note was the +110% increase in fluid and fresh dairy. Milk powder imports also picked up slightly (+6.5%) with gains to both Australia and NZ suppliers.
- Imports for the 12 months to May have now increased +23%, also led by fluid and fresh dairy (+68%). Good growth was also seen in infant formula (+47%) and whey powder (+18%).
- Most whey powder is sourced from the US and the Netherlands.

Middle East & Africa

-4%

Import change
for 12 months to
March 2016

- Middle East and Africa dairy imports decreased -17% in March compared to the same month the previous year. This result was largely due to powders with WMP down -28% and SMP down -32%. Cheese was also down -13%.
- For the 12 months to March, imports decreased -4%. This was again largely contributed to by milks powders and cheese.
- Consistently lower demand for dairy over the past few months reflect continued suppression of oil prices, which is impacting key economies in the region.
- The key suppliers in the Middle East and Africa continue to be NZ and its European competitors.

Latin America

+11%

Import change
for 12 months to
March 2016

- Latin America imports increased +13% in March compared to the same month in 2015. Increases were seen across major dairy categories, excluding fluid and fresh dairy (-6%).
- Imports for the 12 months to February remained strong, increasing +11%. Particularly strong demand was seen for milk powder imports, with WMP up +31% and SMP up +19%.
- As the leading importer of the region, Mexico still serves a key outlet for US exports. Meanwhile Venezuela's precarious economic situation has impacted demand and ability to import, resulting in lower than expected volumes.

Russia

-35%

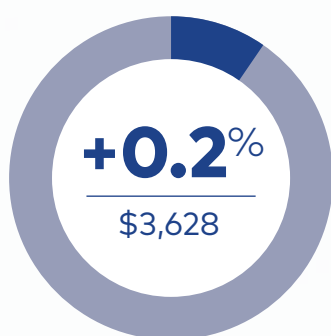
Import change
for 12 months to
March 2016

- Russia dairy import volumes grew +9.6% in March compared to the same month the previous year, contributed to large growth in cheese (+50%, to 18kMT), whey powder (+29%, to 12kMT) and butter (+70%, to 7kMT). It is likely that a significant amount of these imports are being sourced from Belarus, which is in the same customs union as Russia.
- Imports over the 12 months to March continue to be down (-34.6%), however not as drastically as they have been since the embargo was put in place. The major losses in volume here have been imports of fluid and fresh dairy (-39%, to 318kMT), cheese (-42%, to 221kMT) and whey powder (-125kMT). Russia has drafted a decree announcing the extension of food embargos (against the US, EU, Canada, Australia and Norway) to continue at least until the end of 2017.



GDT PRICE INDEX

AMF



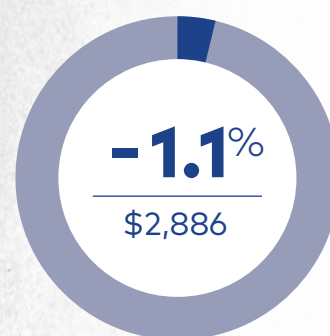
Butter



BMP



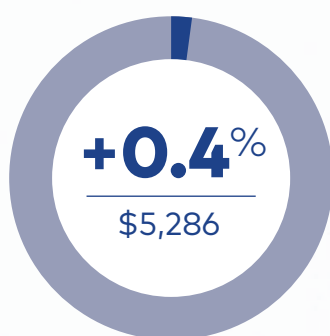
Cheddar



Lactose



Rennet Casein



SMP



WMP



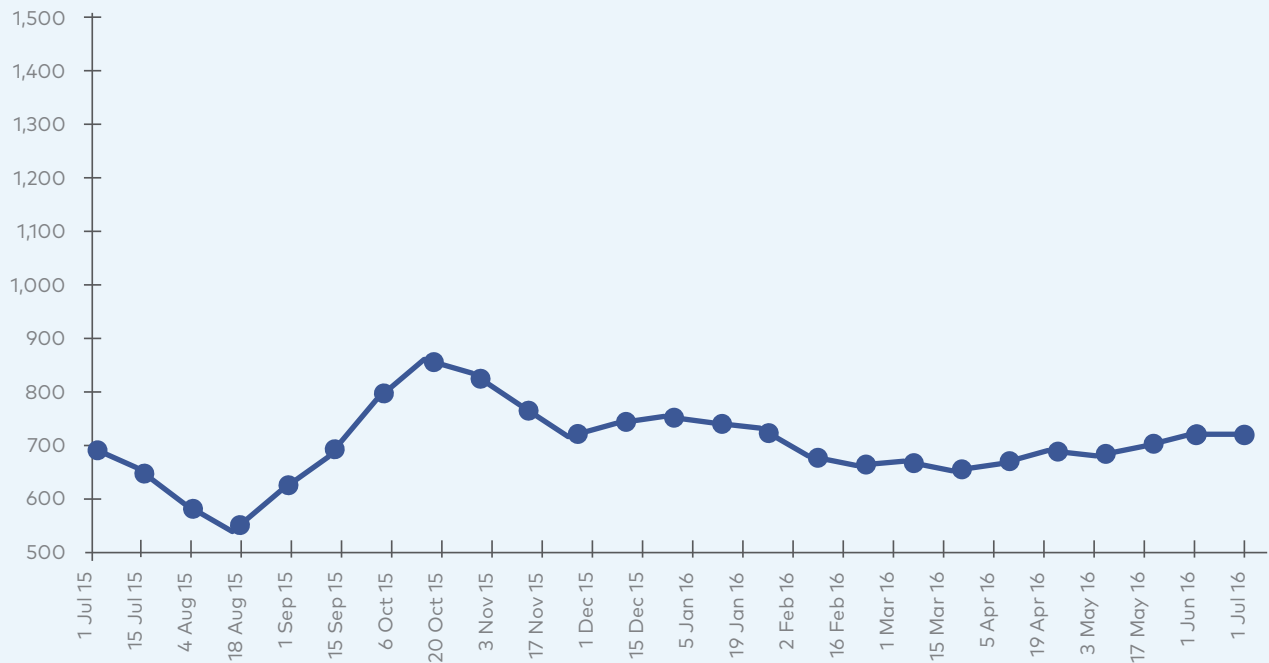
Data reflective as retrieved on 20 July 2016

The shaded dials indicate the proportion of each product group sold versus total quantity sold during the previous 12 months, with a 3 month lag. Figures within the dials represent the percentage change in GDT Price Index and the weighted average price.



THE BIGGEST PRICE CHANGES AFFECTED BUTTER AND LACTOSE, ALL OTHER COMMODITIES HAD MINOR TO MODEST FLUCTUATIONS

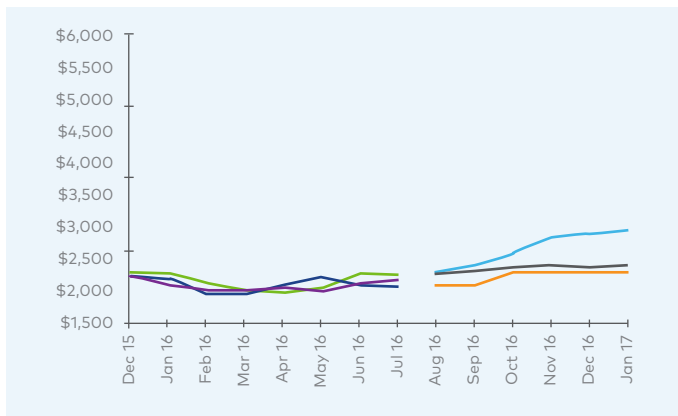
GDT Price Index



The GDT Price Index has been mostly stable over the last month, and remained unchanged at 693 at the conclusion of Trading Event 168 on 19 July. TE 168 saw 31,348 MT sold to 168 winning bidders. Results were mixed with AMF (+0.2%), rennet casein (+0.4% to), and WMP (+1.9%) up slightly; whilst butter (-5.0%), BMP (-0.5%), cheddar (-1.1%), lactose (-4.0%), and SMP (-1.1%) down.

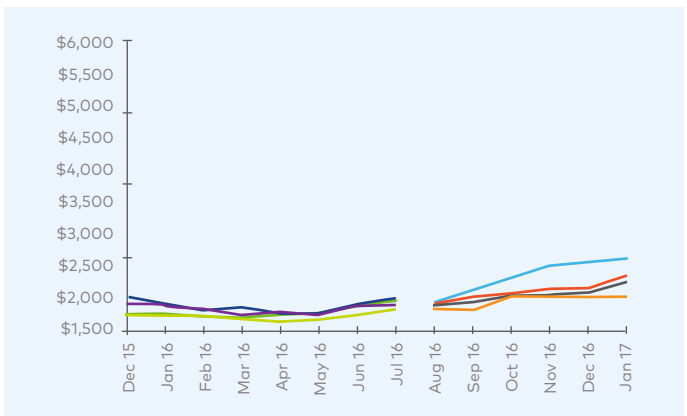


WMP



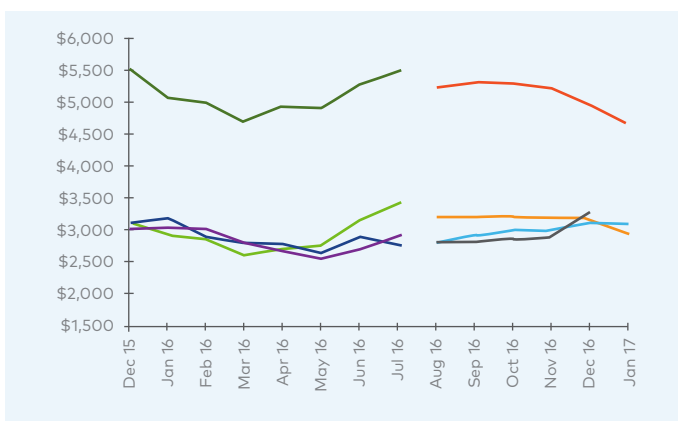
- Since last month, average GDT WMP prices decreased by -2.9% to USD 2,117/MT. Contrasting this result was USDA Oceania, whose price jumped +3.8% to USD 2,200/MT. There was practically no change to the Dutch Dairy Board's June results, which hovered at USD 2,283/MT.
- Predictions from future markets reflect the mixed results from July prices. Informa Oceania is expecting a +4.1% growth, bringing their six month average up to USD 2,775/MT. Rabobank Oceania and NZX Futures are also expecting price rises later this year. However, these increases are now at a lower level than previously predicted, bringing the average prices down to -2.2% to USD 2,183/MT and -5.9% to USD 2,224/MT respectively.

SMP



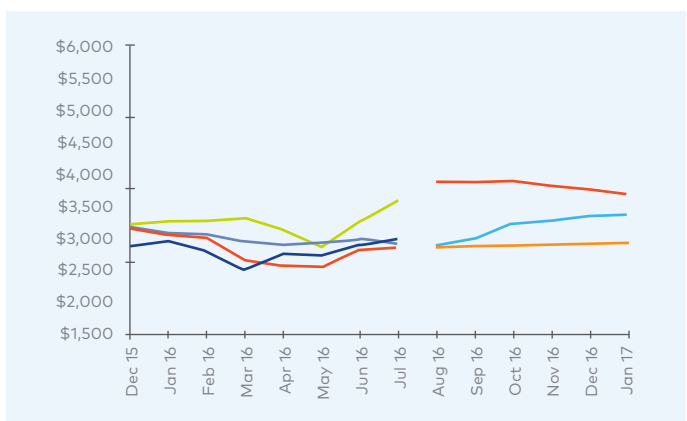
- All markets were looking positive this month. The Dutch Dairy Board and GDT saw minor increases at +0.2% (to USD 1,873/MT) and +1.3% (to USD 1,959/MT) respectively. Larger price jumps were seen in USDA Oceania at +4.1% (to USD 1,925/MT) and USDA NASS +5.1% (to USD 1,832/MT).
- Prices were elevated across the board in the futures market. Informa Oceania and NZX Futures raised average price projections by +4.7% (to USD 2,412/MT), and +5.0% (to USD 2,661/MT) respectively. CME Futures projections went up +6.2% to USD 2,212/MT, whilst Rabobank had the highest increase at +6.9% to USD 2,067/MT.

Butter



- Most markets saw gains in butter, with the exception of GDT whose average price in July was -1.8% below June, bringing results to USD 2,799/MT. CME Spot a small growth of +1.4% to USD 5,061/MT. Larger increases were seen with Dutch dairy board (+5.5% to USD 3,468/MT) and USDA Oceania (+7.7% to USD 2,963/MT).
- Futures markets boasted gains, across the board. CME Futures and Rabobank Oceania were up +8.0% on forecasted prices in the next six months at averages of USD 5,126/MT and USD 3,167/MT respectively. Informa Oceania had a more modest rise of +3.0% to USD 3,009/MT.

Cheese



- This month, cheese prices were a little varied. The EU Commission revealed a -1.3% decline to USD 2,912/MT, and USDA Oceania had a minor gain of +0.9% to USD 2,850/MT. In contrast, GDT and CME Spot had strong growth at +5.5% (to USD 2,970/MT) and +8.4% (to USD 2,912/MT) respectively.
- Future outlook looks largely positive through to January 2017. Informa Oceania are expecting steady increases to bringing the average price up +3.4% to USD 3,210/MT. Whilst Rabobank have not changed their forecast, the rolling average pushes the price up +2.4% to USD 2900/MT. CME Futures is still expecting price decreases over time but at a much slower rate resulting in a +11.1% jump in predicted average price to USD 3,824/MT.

Actuals

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

Forecasts

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

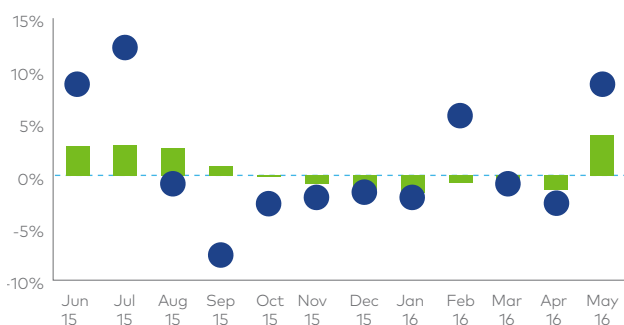


MILK PRODUCTION IN THE MAJOR SUPPLIERS TO WORLD MARKETS

To view a summary
of the year-on-year
changes in production –

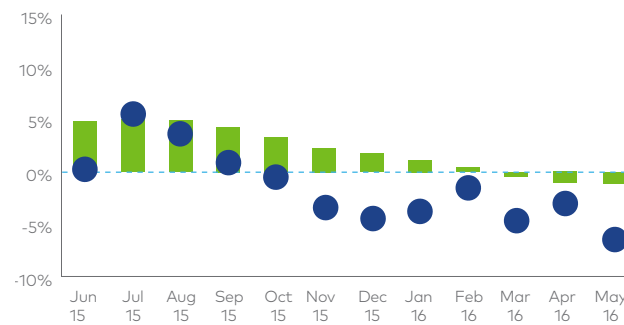
[CLICK HERE ►](#)

New Zealand



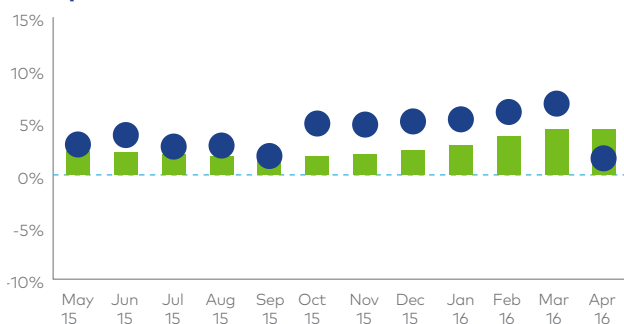
- NZ YOY milk production increased +4% in May.
- Warm autumn temperatures and near normal soil moisture, have supported good late-season milk supply. Favourable conditions are expected to continue through winter.
- Despite recent gains in YOY output, MAT production remains down -2%.

Australia



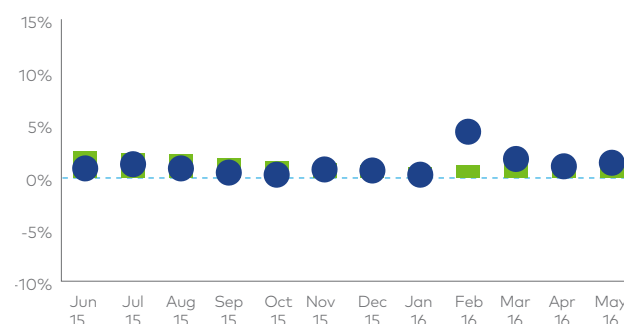
- Australia production in May decreased -6% YOY.
- MAT production for May decreased -1% compared to the same period the previous year.
- Production is impacted by a particularly hot and dry season. In this environment, cow culling increased +37% in the last year. Potential relief for farmers may come as El Niño continues to weaken.

European Union



- EU production in April increased +1% YOY (bringing MAT growth to +4%). This is the lowest rate of increase that has been reported since early 2015.
- There are signs (such as increased cow culling) that milk supply growth is starting to relax, with several top producers seeing their output decrease, or at least slow.
- With the EU Commission recently announcing their €50 million farmer support package, which will help to incentivise reduced production, milk outputs are expected to continue falling in the months to come.

United States



- US production in May increased +2% compared to the same month last year, bringing MAT milk production up +1%.
- The US has experienced mixed weather conditions. Cow slaughter increased slightly over May, up +9.8% YOY but down -1% YTD.
- The US Department of Agriculture has revised its forecasted milk production to +1.9% 2016.

Legend

- Moving Annual Total
- Year on Year

Source: Data from Global Trade Information Services and from government and industry websites, including USDA, Eurostat, Dairy Australia and Dairy Companies Association of New Zealand

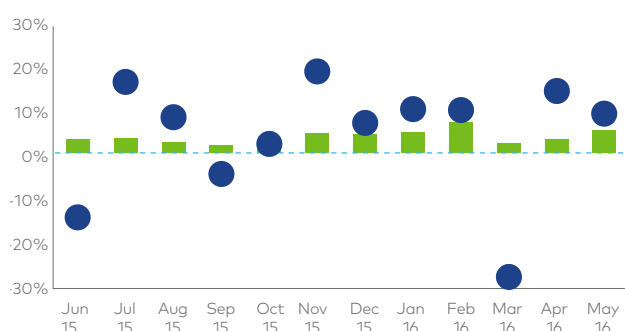


EXPORTS FROM THE MAJOR SUPPLIERS TO THE WORLD MARKETS

To view a summary of the year-on-year changes in exports –

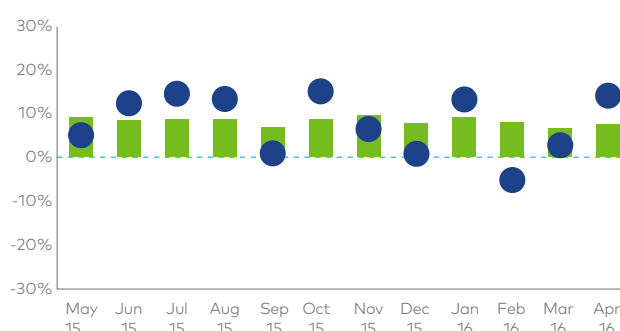
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New Zealand



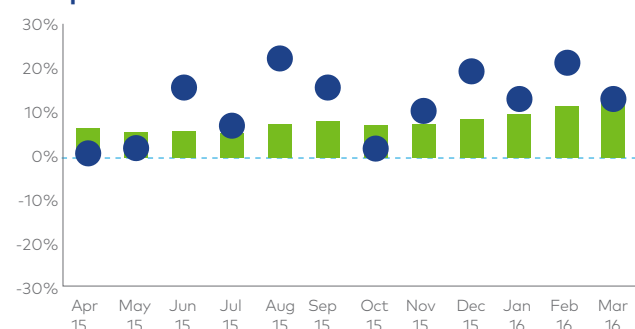
- NZ exports in May increased +9% YOY (+4% MAT). The biggest growth in export markets was to Algeria and Indonesia. YOY performance was positive across all major commodities, excluding cheese (-7%).
- May was the fourth consecutive month in which cheese exports fell, with a significant proportion of this due to a -30% YOY drop in orders from Japan.
- Butter exports rose in May, mostly destined for the MEA region. Similarly, AMF performed well with extra shipments to China and Mexico.

Australia



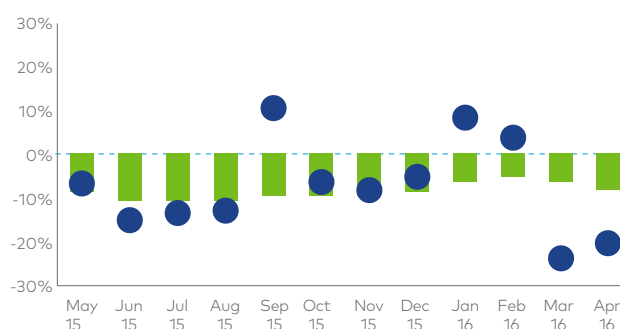
- Australia dairy exports in April increased +13% YOY, driven by whey powder (+113%), fluid and fresh dairy (+49%), and WMP (+17%).
- April MAT exports increased +6%, driven by cheese (+12%), SMP (+5%) and fluid and fresh dairy (+13%).
- In light of falling infant formula exports (-46% YOY, -10% YTD), there has been increased focus on driving imports to Asia and diversification of product ranges to include organic and lactose free ranges.

European Union



- EU dairy exports increased +10% in March YOY, primarily driven by fluid and fresh dairy (+34%) and cheese (+16%). This resulted in growth of +11% MAT. The largest movers were fluid and fresh dairy up +27%, whey powder up +12%, and cheese up +7%.
- Meanwhile, milk powder exports continued to struggle. YOY SMP exports fell -12% (partially accounted for by intervention), whilst WMP dropped -10%.
- Butter and cheese exports are strengthening in key Middle Eastern markets (Saudi Arabia, Egypt) and the US.

United States



- US dairy exports in April dropped -20% YOY, with decreases across major categories. Exports of cheese, whey powder, SMP and lactose fell by more than -20%, driven by strong domestic demand.
- In April MAT decreased -8% (170kMT), led by whey powder and cheese.
- Minor gains were seen in Canada, the Caribbean and South/Central America.

Legend

- Moving Annual Total
- Year on Year

Source: Data from Global Trade Information Services, US Dairy Export Council, EU Milk Market Observatory, Dairy Australia and Eurolait

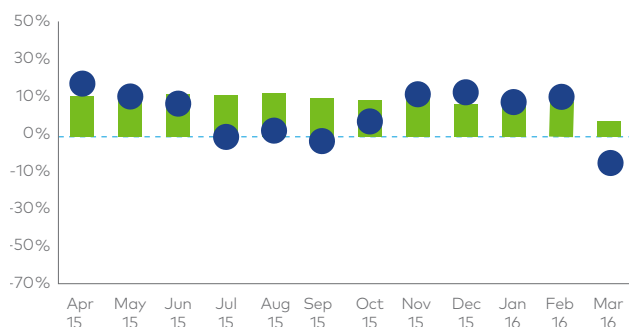


IMPORTS INTO THE MAJOR IMPORTING REGIONS

To view a summary
of the year-on-year
changes in imports –

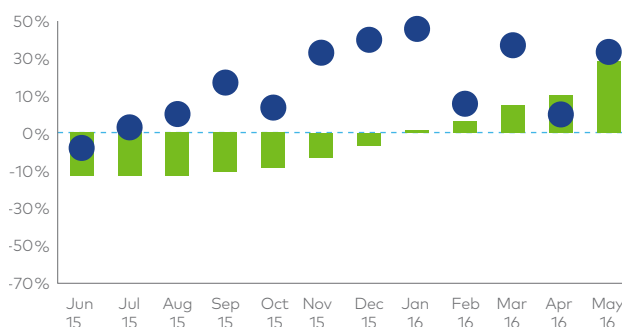
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Asia (excluding China)



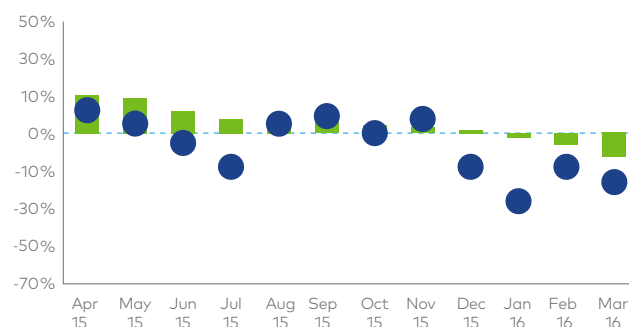
- Asia dairy import volumes decreased -8% in March YOY. This was driven by a fall in milk powder demand; SMP (-23%) and WMP (-24%). Conversely increases were seen in imports of fluid and fresh dairy (+16%) and cheese (+9%). Australia and NZ have recently lost some cheese share to European suppliers.
- March MAT imports increased +4%, or 148kMT. This was due to a mixture of growth in SMP (+4%), fluid and fresh dairy (+7%) and cheese up (+8%).

China



- China dairy imports increased +30%, in May YOY, with significant gains across the board. Of particular note was the +110% increase in fluid and fresh dairy. Milk powder imports also picked up slightly (+6.5%) with gains for both Australia and NZ suppliers.
- May MAT imports increased +23%, also led by fluid and fresh dairy (+68%). Good growth was also seen in infant formula (+47%) and whey powder (+18%), which is primarily sourced from the US and the Netherlands.

Middle East & Africa



- Middle East & Africa imports decreased -17% in March YOY. This result was largely due to powders with WMP down -28% and SMP down -32%. Cheese was also down -13%.
- March MAT imports decreased -4%. This was again largely contributed to by milks powders and cheese.
- Lower demand for dairy reflects the low oil prices, which impacts key economies in the region.
- The key suppliers in the Middle East and Africa continue to be NZ and its European competitors.

Legend

- Moving Annual Total
- Year on Year

Source: Data from Global Trade Information Services and EU Milk Market Observatory

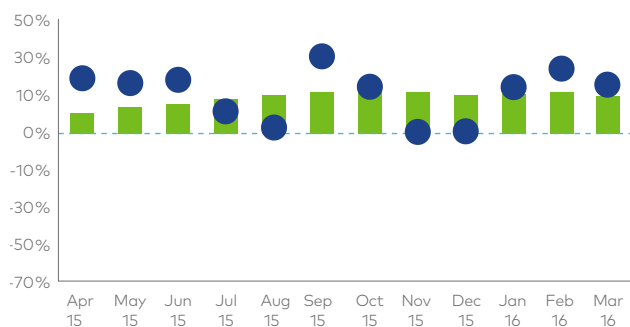


IMPORTS INTO THE MAJOR IMPORTING REGIONS (continued)

To view a summary
of the year-on-year
changes in imports –

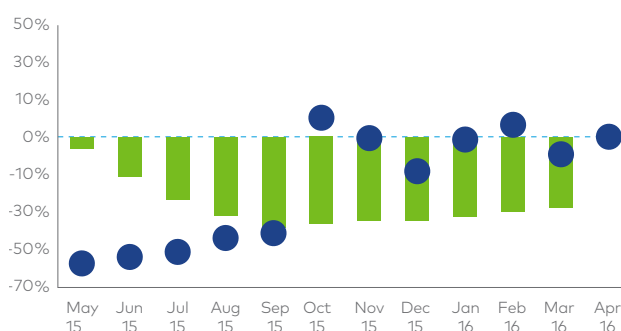
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Latin America



- Latin America imports increased +13% in March YOY. Increases were seen across major dairy categories, excluding fluid and fresh dairy (-6%).
- February MAT imports increased +11%. Particularly strong demand was seen for milk powders, with WMP up +31% and SMP up +19%.

Russia



- Russia YOY dairy import volumes grew +9.6% in March, contributed to by large growth in cheese (+50%, to 18kMT), whey powder (+29%, to 12kMT) and butter (+70%, to 7kMT). It is likely that a significant volume is being sourced from Belarus which is in the same customs union as Russia.
- March MAT imports continue to be down (-34.6%). The major losses in volume here have been imports of fluid and fresh dairy (-39%, to 318kMT), cheese (-42%, to 221kMT) and whey powder (-25%, to 125kMT). Russia has drafted a decree announcing the extension of food embargos to continue until the end of 2017.

Legend

- Moving Annual Total
- Year on Year

Source: Data from Global Trade Information Services and EU Milk Market Observatory



Glossary and references

Fonterra draws the information in this update from a variety of principally external sources listed below. Also included are defined acronyms for better understanding.

- CME – Chicago Mercantile Exchange
- EIU – Economist Intelligence Unit
- FAO – United Nations Food and Agriculture Organisation
- 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 – GlobalDairyTrade 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
- 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
- SEA – South East Asia
- 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
- YOY – Year-on-year
- YTD – Year to date

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 NZ (DCANZ) and others.

Graph explanation

Year-on-year (YOY):

Represented by the blue dots. YOY data shows results from a single month compared to the same month in the previous year. This metric can change significantly between months, particularly if an 'event' such as an extreme weather incident or regulatory change occurs.

Moving annual total (MAT):

Represented by the green bars. MAT data shows results averaged across a 12 month period. These results tend to be a lot smoother, compared to YOY and can give a better longer term perspective.

So what do you need to know?

- Blue dots that are above the bars are showing growth i.e. strong monthly performance will ultimately drive up the average 12 month performance if sustained.
- Blue dots below the bars are showing decline i.e. performance has been worse than the 12 months average.



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 Cooperative 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.