Key developments

- Australian milk production up 3% for H1 2017/18
  - Improved weather in most regions, and
  - Incrementally higher milk prices.
  - Recovery from two difficult seasons

- International market holding for now
  - Slower milk production in NZ
  - Good import demand
  - BUT the fundamentals still point to significant downside risk

- Australian market remains stable
  - Volume growth in most major dairy categories (except butter)
  - Value growth remains robust (except cheese)
Recovery so far, after a big drop

Milk production

Milk production by season (national)

- Forecast +2% to +3% for 2017/18 (~9.2 billion litres)
  - Up 3.1% for season to January

2016/17 by state/region

<table>
<thead>
<tr>
<th>State</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>QLD</td>
<td>+1.0%</td>
</tr>
<tr>
<td>NSW</td>
<td>-4.9%</td>
</tr>
<tr>
<td>VIC</td>
<td>-8.2%</td>
</tr>
<tr>
<td>SA</td>
<td>-8.0%</td>
</tr>
<tr>
<td>WA</td>
<td>-1.9%</td>
</tr>
<tr>
<td>TAS</td>
<td>-5.4%</td>
</tr>
<tr>
<td>Gippsland</td>
<td>-4.0%</td>
</tr>
<tr>
<td>Northern Vic</td>
<td>-16.5%</td>
</tr>
<tr>
<td>Western Vic</td>
<td>-4.2%</td>
</tr>
</tbody>
</table>
North/South divide growing

**Milk production**

<table>
<thead>
<tr>
<th>State</th>
<th>January</th>
<th>17/18 YTD</th>
</tr>
</thead>
<tbody>
<tr>
<td>QLD</td>
<td>-8.3%</td>
<td>-5.0%</td>
</tr>
<tr>
<td>NSW</td>
<td>-6.5%</td>
<td>-1.9%</td>
</tr>
<tr>
<td>VIC</td>
<td>+5.9%</td>
<td>+3.9%</td>
</tr>
<tr>
<td>SA</td>
<td>+10.3%</td>
<td>+7.9%</td>
</tr>
<tr>
<td>WA</td>
<td>+5.4%</td>
<td>0.0%</td>
</tr>
<tr>
<td>TAS</td>
<td>+5.7%</td>
<td>+6.4%</td>
</tr>
</tbody>
</table>

**Estimated volume growth by state:**

<table>
<thead>
<tr>
<th>Region</th>
<th>January</th>
<th>17/18 YTD</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gippsland</td>
<td>+8.3%</td>
<td>+3.9%</td>
</tr>
<tr>
<td>Northern</td>
<td>+11.3%</td>
<td>+8.4%</td>
</tr>
<tr>
<td>Western</td>
<td>-1.7%</td>
<td>+0.3%</td>
</tr>
</tbody>
</table>

By Vic regions: 5.0%
Rainfall patterns are also diverging

**Seasonal conditions**

- Southern regions doing well (except Tassie)
  - Good late spring/early summer rainfall for many
- Difficult conditions further north
- Rainfall outlook relatively neutral
  - An weak La Niña
Grain price volatility increasing with uncertain harvest outlook

Goulburn/Murray Valley
feed wheat prices
Grain price volatility increasing with uncertain harvest outlook

Goulburn/Murray Valley hay price

- Input costs
- Grain price volatility increasing with uncertain harvest outlook
- Committed employees put in more & 87% are less likely to resign

Dairy Australia
Your Levy at Work
Water and fertiliser attractively priced

## Input costs

### Fertiliser

**Urea** (granular Middle East)
- 219 US$/t
  - +1% LY
  - -19% 5Y

**DAP** (US Gulf)
- 385 US$/t
  - +22% LY
  - -7% 5Y

**MOP** (granular Vancouver)
- 214 US$/t
  - +4% LY
  - -22% 5Y

### Water and weather

**Northern Victoria**
- 75 $/ML
  - -56% LY
  - -32% 5Y
  - 2,510,206 ML
    - +74% LY
    - +36% 5Y

**Murray Irrigation System**
- 72 $/ML
  - -54% LY
  - -89% 5Y
  - 251,348 ML
    - +127% LY
    - +37% 5Y

### Cows

**Cull cows**
- 442 c/kg
  - -6% LY
  - +17% 5Y
  - 71,434 head
    - -33% LY
    - -7% 5Y

**Dairy cattle exports**
- 47,377 head
  - -29% LY
  - -35% 5Y
International markets more balanced…mostly…

International market

- China and Japan buying
- Butterfat demand
- NZ weather woes

- EU production growth
- SMP stockpile in EU
- US growth
- Slow sales in MENA
How’s that stockpile going?

International market

European SMP in public storage - since 2000

Source: European Milk Market Observatory
### International market

**Slow growth in supply**

<table>
<thead>
<tr>
<th></th>
<th>EU-28</th>
<th>NZ</th>
<th>US</th>
<th>Australia</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>150 billion litres</td>
<td>21 billion litres</td>
<td>99 billion litres</td>
<td>9 billion litres</td>
</tr>
<tr>
<td>YoY growth</td>
<td>+3.1%</td>
<td>-2.6%</td>
<td>+1.0%</td>
<td>+3.1%</td>
</tr>
<tr>
<td>Trend</td>
<td>Accelerating</td>
<td>Likely to accelerate</td>
<td>Steady</td>
<td>Slow growth</td>
</tr>
<tr>
<td>Forecast</td>
<td>+1.2%</td>
<td>0%</td>
<td>+1.5%</td>
<td>+2-3%</td>
</tr>
</tbody>
</table>
In general: demand is also growing

International market

- Committed employees put in more & 87% are less likely to resign

- Employees believe volunteer programs help to communicate Company's values

Global exports to key markets by volume

- Southern Africa
- Southeast Asia
- MENA
- Greater China
- Japan
- Mexico
- Russian Federation

- 2012/13
- 2013/14
- 2014/15
- 2015/16
- 2016/17
- 2017/18
International market

KEY CONCERNS

- Europe growing and will continue through spring
- Demand remains heavily China-focused
- Stockpile in Europe and uncertainty around disposal
- Divergence along production lines (fat vs protein)

Downside risks focused on Mar-May
### The Australian market

#### Milk (As of 7/1/18)
- Volume (m. litres): 1,418
- Year-on-year growth: +1.8%
- Retail value ($ m): 2,242
  - Year-on-year growth: +2.4%

#### Cheese (As of 1/10/17)
- Volume (kt): 148
- Year-on-year growth: +2.6%
- Retail value ($ m): 2,195
  - Year-on-year growth: +0.5%

#### Dairy spreads (As of 7/1/18)
- Volume (kt): 48
- Year-on-year growth: -1.1%
- Retail value ($ m): 514
  - Year-on-year growth: +14.7%

#### Yoghurts and snacks (As of 1/10/17)
- Volume (kt): 214
- Year-on-year growth: +1.6%
- Retail value ($ m): 1,480
  - Year-on-year growth: +2.4%

**Source:** Aztec-IRi
Butter crisis?

The Australian market

Weekly Supermarket Pat Butter Sales
Butter crisis?

The Australian market

Table spreads market share

<table>
<thead>
<tr>
<th>Year</th>
<th>Butter</th>
<th>Margarine</th>
<th>Health Spreads</th>
</tr>
</thead>
<tbody>
<tr>
<td>2009</td>
<td>43%</td>
<td>37%</td>
<td>20%</td>
</tr>
<tr>
<td>2010</td>
<td>42%</td>
<td>38%</td>
<td>20%</td>
</tr>
<tr>
<td>2011</td>
<td>42%</td>
<td>38%</td>
<td>20%</td>
</tr>
<tr>
<td>2012</td>
<td>44%</td>
<td>36%</td>
<td>20%</td>
</tr>
<tr>
<td>2013</td>
<td>47%</td>
<td>34%</td>
<td>20%</td>
</tr>
<tr>
<td>2014</td>
<td>50%</td>
<td>30%</td>
<td>20%</td>
</tr>
<tr>
<td>2015</td>
<td>52%</td>
<td>28%</td>
<td>20%</td>
</tr>
<tr>
<td>2016</td>
<td>55%</td>
<td>25%</td>
<td>20%</td>
</tr>
</tbody>
</table>
Slow recovery will continue; risks on the horizon

What’s ahead?

• Australian milk production will end the season higher
  • 2-3% growth driven by exporting regions; domestic = contracting
  • Farmgate prices are better – downside risk in 2018/19
  • Costs remain reasonable – though challenges around grain, energy
  • Seasonal conditions varied but generally ok

• The Australian market remains stable
  • Cheese volumes growing, unit value under pressure
  • Butter volumes falling as price impacts bite (some trading to blends)

• The international market is likely to soften
  • Expansion continuing in northern hemisphere
  • Demand is growing, but doubts as to whether it will keep up
  • Currently favourable, but approach with caution!
THANK YOU

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