

Dairy Situation and Outlook



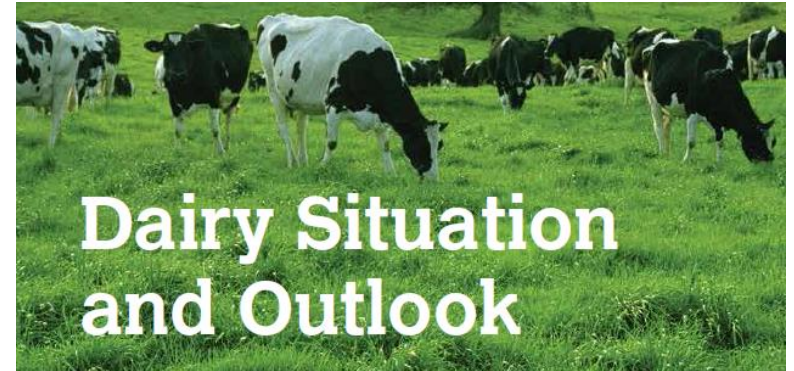
October 2017
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Senior Industry Analyst

The current situation

Three key themes



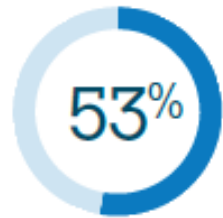
- NDFS: Profitability, confidence, trust
 - Ongoing issues within supply chain
 - Underlying confidence in own business is robust
- Market conditions looking ok
 - Well balanced international market – but plenty of risk!
 - Domestic sales growing, but continued pressure on value
- Relief is in sight
 - Better milk pricing flagged for export regions
 - Input costs contained, but risks emerging
 - Modest growth in milk volumes likely



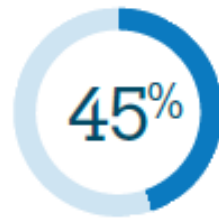
Confidence is down, but farmers more positive about own businesses

National Dairy Farmer Survey (NDFS)

National results at a glance as at February/March 2017



Farmers
positive about
industry future
(2016: 67%)



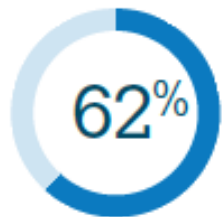
Anticipated
profit in
2016/17
(2015/16: 64%)



Positive about
future of OWN
business



Intended
to invest in
the next
12 months
(2016: 49%)



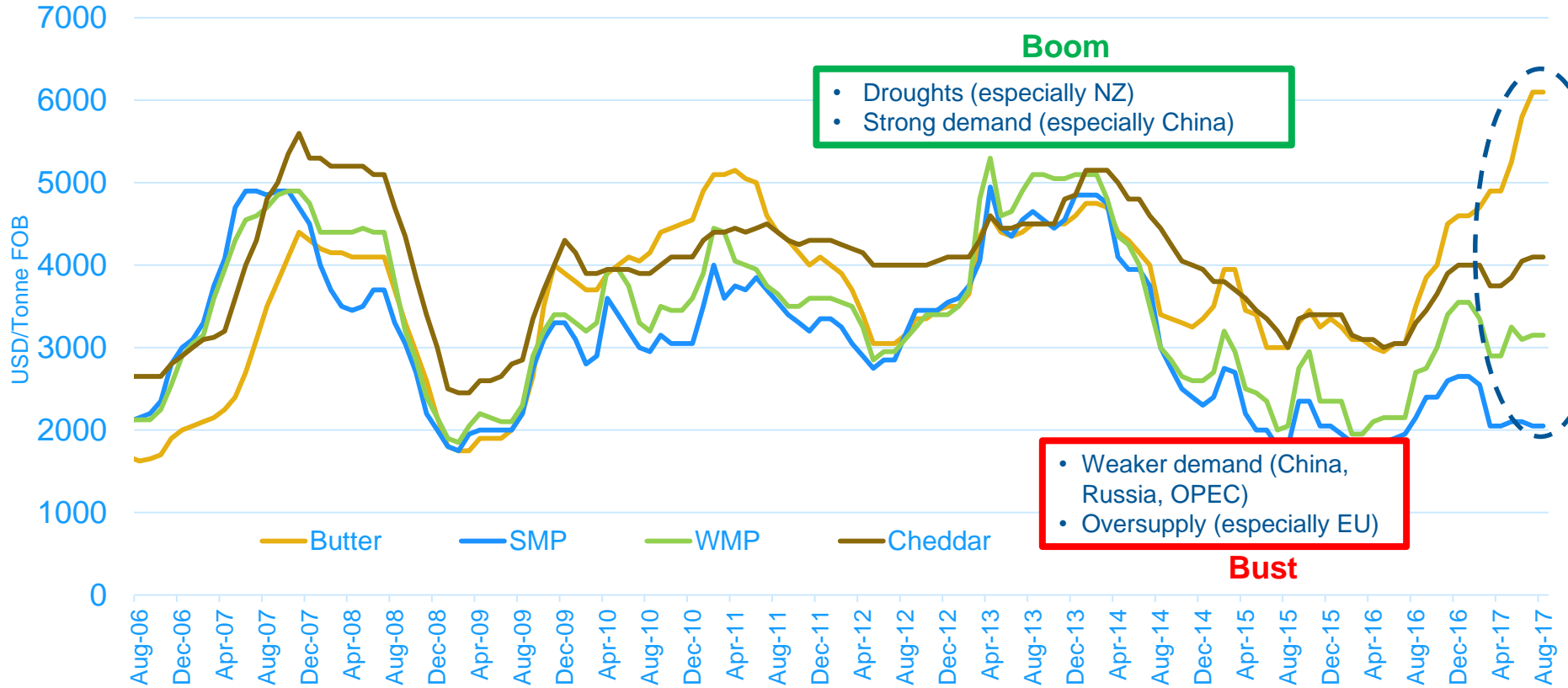
Made operating
profit in 2015/16
(2014/15: 80%)

National Dairy Farmer Survey (NDFS)

- Trust has taken a knock
 - 10% changed processor, 17% would like to
 - Milk price is the key driver, but 21% also cite concerns with processor management, 12% about the clawback, 8% lack trust
- Profitability is under severe pressure
 - 45% expecting a profit in 2016/17 (80% in 13/14 & 14/15; 62% in 15/16)
- Farmers have responded in a variety of ways
 - Adjustment to debt arrangements; change herd size (38% / 26%); change supp feeding (30% / 17%)
- There is a silver lining
 - 1/3 of farmers expecting to grow herd next 12mths
 - 2/3 expecting to grow production next 3 years
 - 72% still see opportunity; milk price correlation

International markets more balanced...mostly...

International market



Slow growth in supply

International market



| | EU-28 | NZ | US | Australia |
|------------|---------------------|-------------------|-------------------|------------------|
| | 150 billion litres | 21 billion litres | 99 billion litres | 9 billion litres |
| YoY growth | +0.1% | +1.6% | +1.5% | +2.2% |
| Trend | <i>Accelerating</i> | ? | <i>Steady</i> | ? |
| Forecast | +0.6% | +3.0% | +1.8% | +2-3% |

A look at the competition

International market



- Europe
 - Short term production constraints
 - Intervention
- United States
 - What milk crisis?
 - Where to from here?
- New Zealand
 - The parable of the production upside

EU milk production expected to rise this year

By Odile Evans on 24 May 2017



U.S. Milk Production Continues to Climb

By Katelyn McCulloch, Economist, American Farm Bureau Federation

May 23, 2017 | 1:20 am EDT

COMMENTS



PRINT

Payout predicted to rise for NZ farmers after another increase in world dairy prices



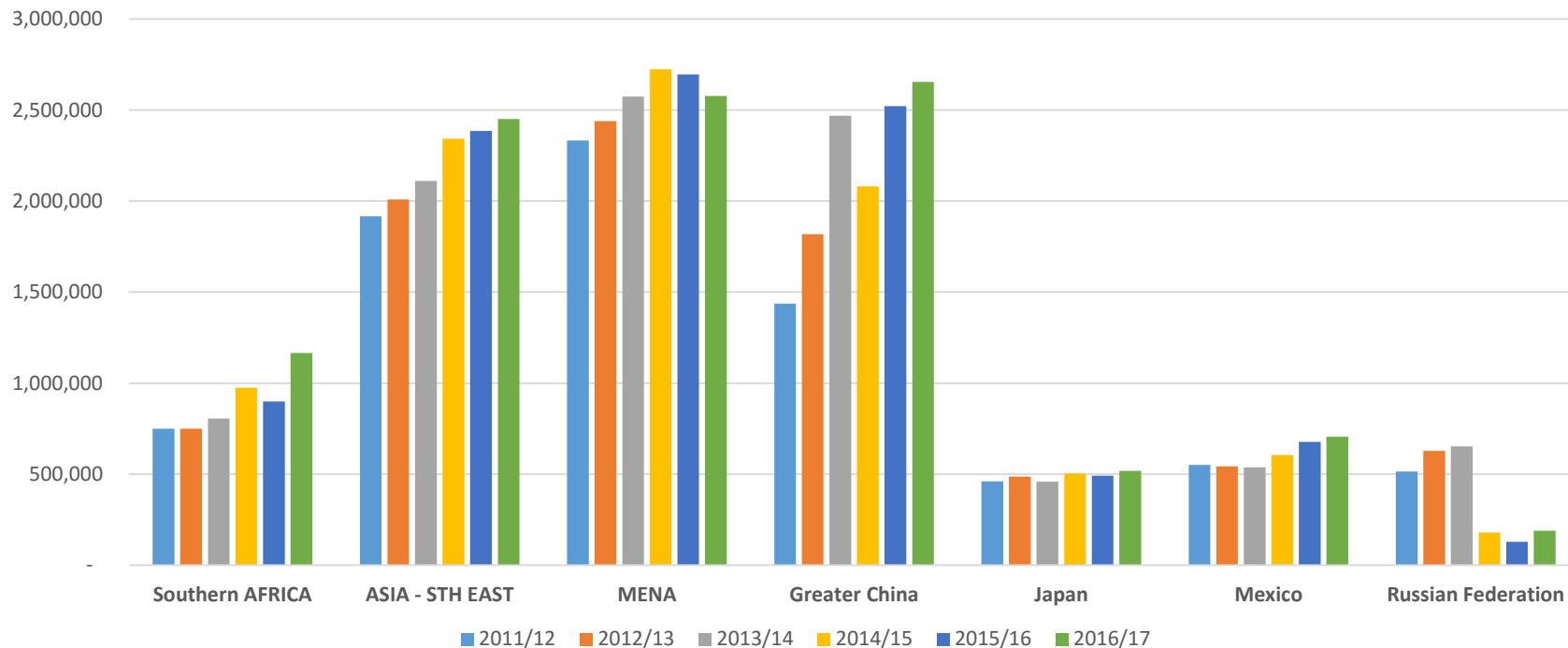
ESTHER TAUNTON
Last updated 13:01, May 17 2017

In general: demand is growing

International market



Exports to Key Markets- (Tonnes)



Are there caveats?

International market



KEY CONCERNS

- US milk production still growing strongly
- Europe slower, but responsive
- NZ will bounce back in spring
- Demand remains heavily China-focused
- Stockpiles in Europe and the US
- Divergence along production lines (fat vs protein)
- The usuals...Brexit/Trump/Greece/Oil...

The Australian market



Milk

(As of 2/4/17)

Volume (m. litres)

1,389

Year-on-year growth

+3.5%

Retail value (\$ m)

2,200

Year-on-year growth

+6.7%



Cheese

(As of 1/1/17)

Volume (kt)

143.9

Year-on-year growth

+2.9%

Retail value (\$ m)

2,166

Year-on-year growth

+1.2%



Dairy spreads

(As of 2/4/17)

Volume (kt)

48.6

Year-on-year growth

+3.4%

Retail value (\$ m)

450

Year-on-year growth

+5.5%



Yoghurts and snacks

(As of 1/1/17)

Volume (kt)

208.6

Year-on-year growth

+1.0%

Retail value (\$ m)

1,427

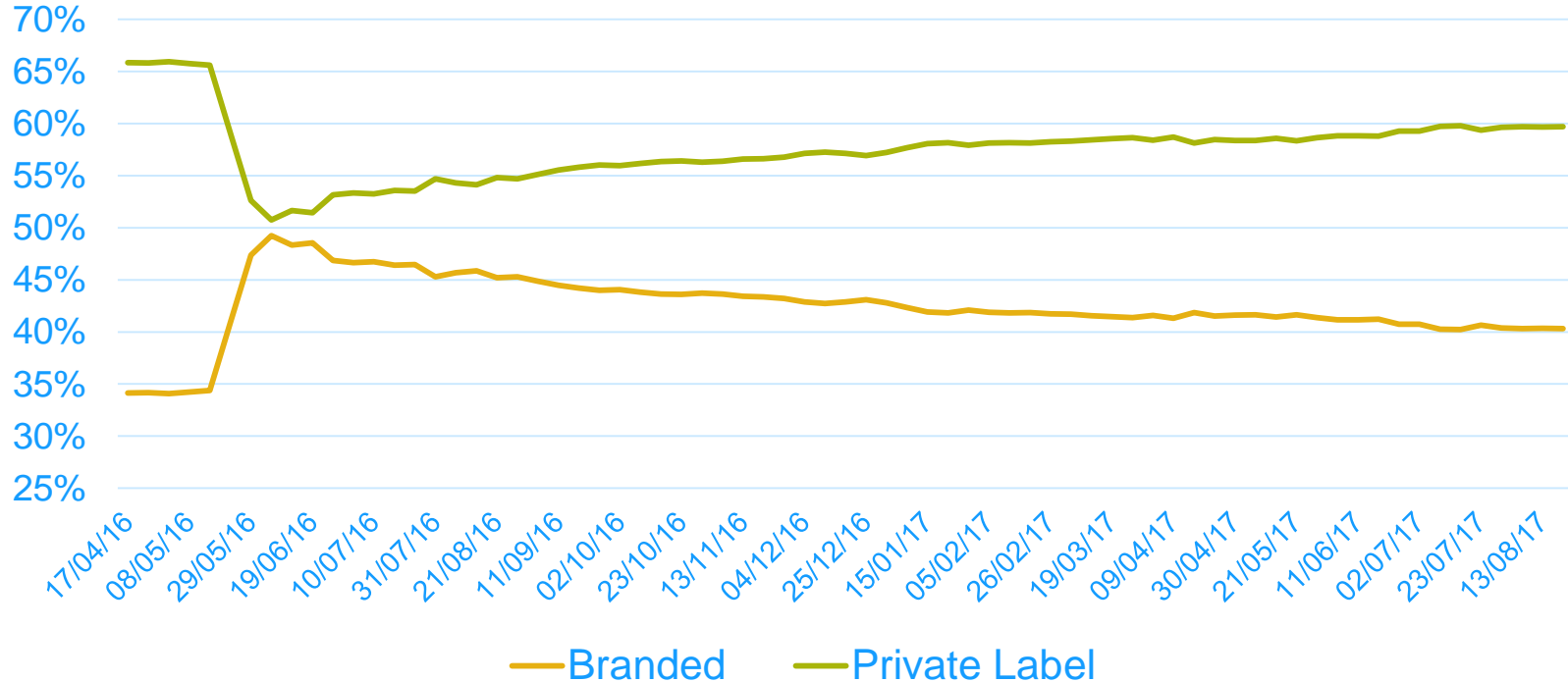
Year-on-year growth

-0.9%

The Australian market

Company branded vs P/L fresh white milk

Share of Supermarket Sales

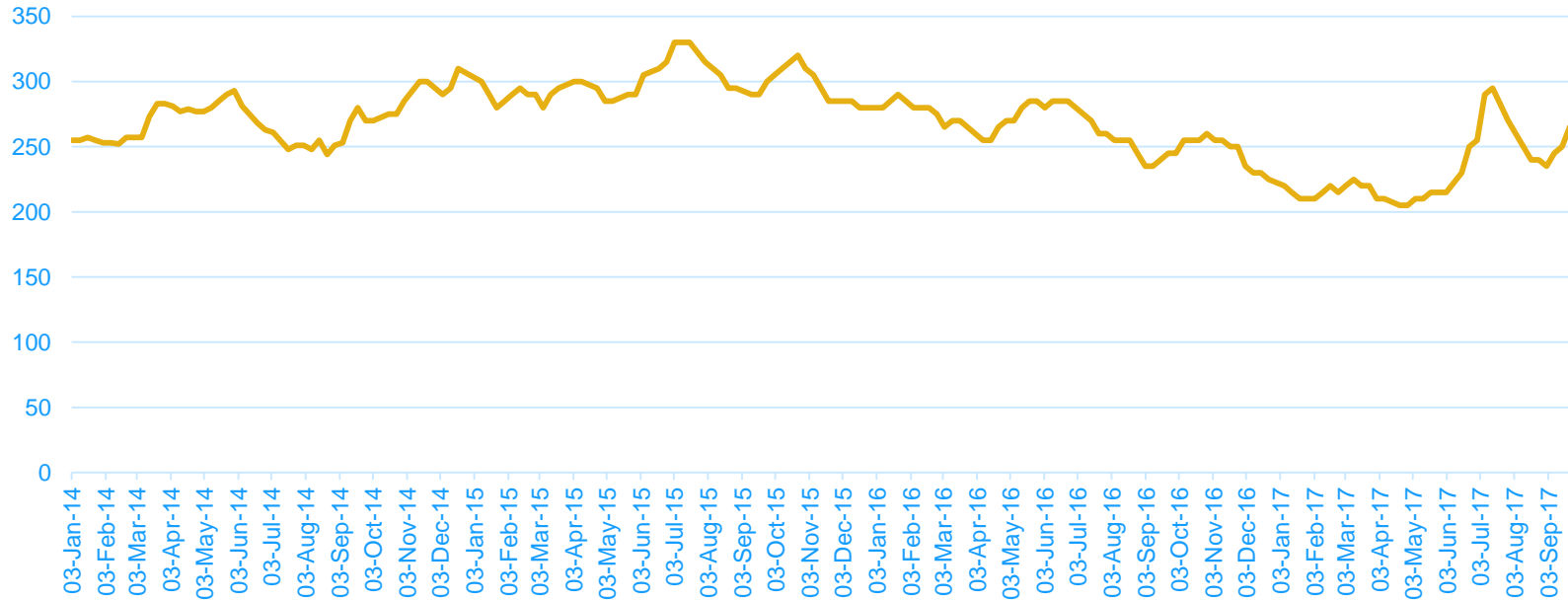


Grain pricing took an upwards detour...

Input costs



Goulburn Valley Wheat

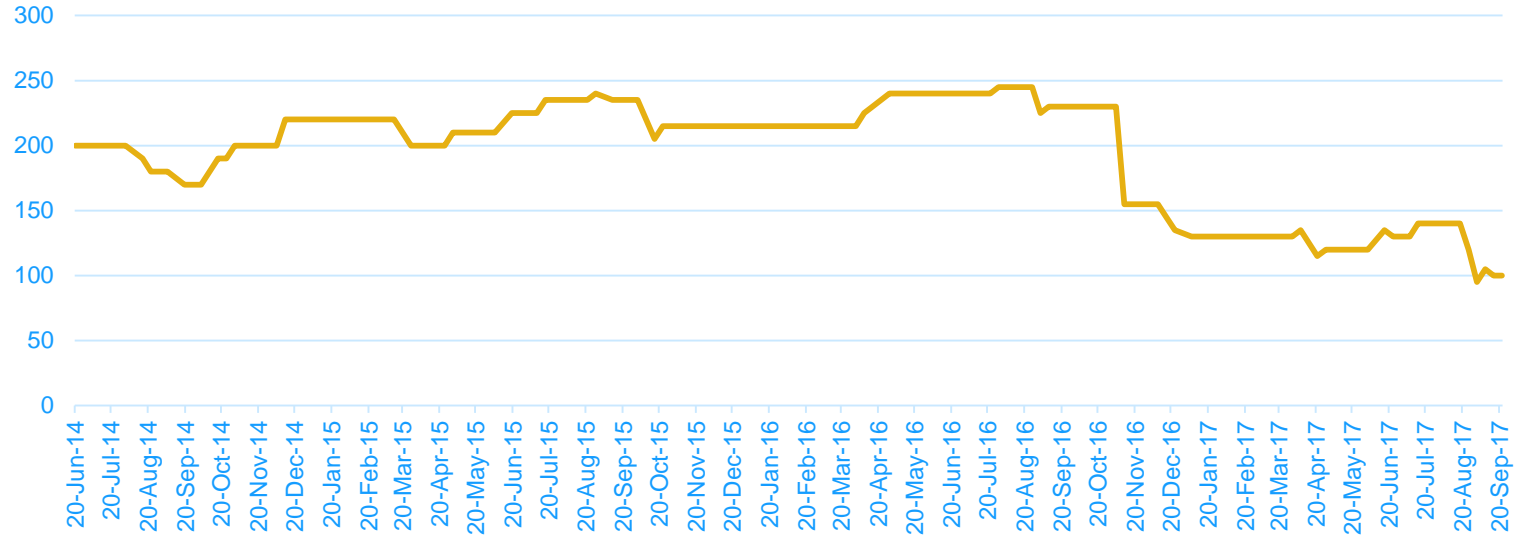


Meanwhile, in hay markets...

Input costs



Goulburn Valley: Cereal Hay



Water and fertiliser attractively priced

Input costs

Fertiliser

Urea (granular Middle East)

179 US\$/t

▼ -23% LY

▼ -44% 5Y

DAP (US Gulf)

360 US\$/t

▼ -45% LY

▼ -60% 5Y

MOP (granular Vancouver)

214 US\$/t

▼ -35% LY

▼ -59% 5Y

Water and weather

Northern Victoria

96 \$/ML

▼ -53% LY

▼ -10% 5Y

1,838,667 ML

▼ -5% LY

▲ +9% 5Y

Murray Irrigation System

62 \$/ML

▼ -72% LY

▼ -30% 5Y

165,336 ML

▲ +42% LY

▼ -8% 5Y

Cows

Cull cows

460 c/kg

▲ +13% LY

▲ +29% 5Y

106,363 head

▲ +1.5% LY

▲ +40% 5Y

Dairy cattle exports

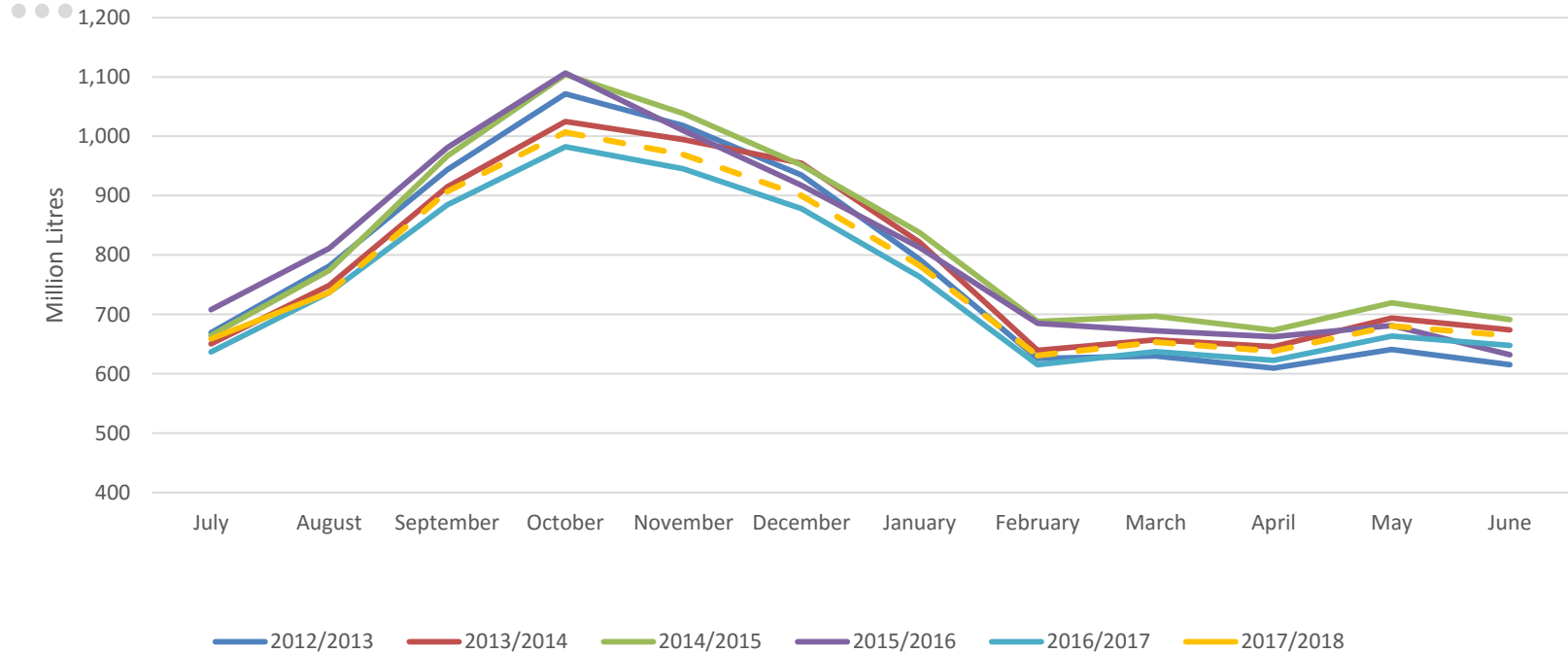
66,345 head

▼ -12% LY

▼ -17% 5Y

Milk production has been hit; slow recovery ahead

Milk production



- Up 1.6% for 2017/18 (August YTD)
- +2% to +3% for 2017/18 (~9.2 billion litres)

Improved as the season progressed, but significant regional differences

Milk production



Estimated volume growth by state:

| | August | 17/18 |
|-----|--------------|--------------|
| QLD | -4.4% | -2.6% |
| NSW | +1.1% | +2.1% |
| VIC | -3.1% | +2.3% |
| SA | +2.0% | +1.1% |
| WA | -2.8% | -2.5% |
| TAS | -1.5% | -0.2% |

By Vic regions:

| | August | 17/18 |
|-----------|--------------|--------------|
| Gippsland | +0.5% | +1.7% |
| Northern | +2.0% | +5.2% |
| Western | -1.1% | +0.9% |



It ain't fixed, but it's not as broke

What's ahead?



- NDFS: Profitability, confidence, trust
 - Some may be rebuilt faster than others
 - Industry level vs individual supply chains
- Market conditions looking ok
 - Upside appears limited
 - There are plenty of risks
 - Domestic trends unlikely to change anytime soon
- Relief is in sight
 - Opening prices being announced
 - Input costs contained, though looking risky
 - Modest growth in milk volumes likely; limited by cows, confidence, cash!

THANK YOU

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Get the *Situation and Outlook Report*

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