



Global Market Update

23rd of May 2018

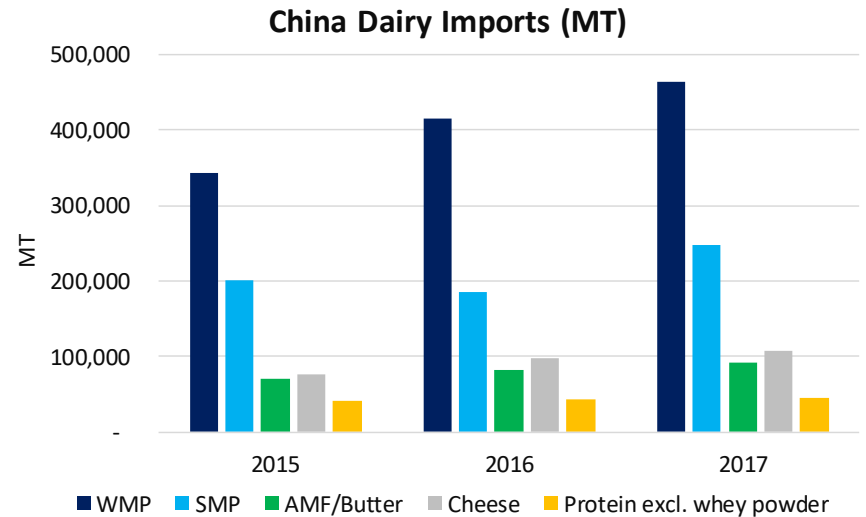
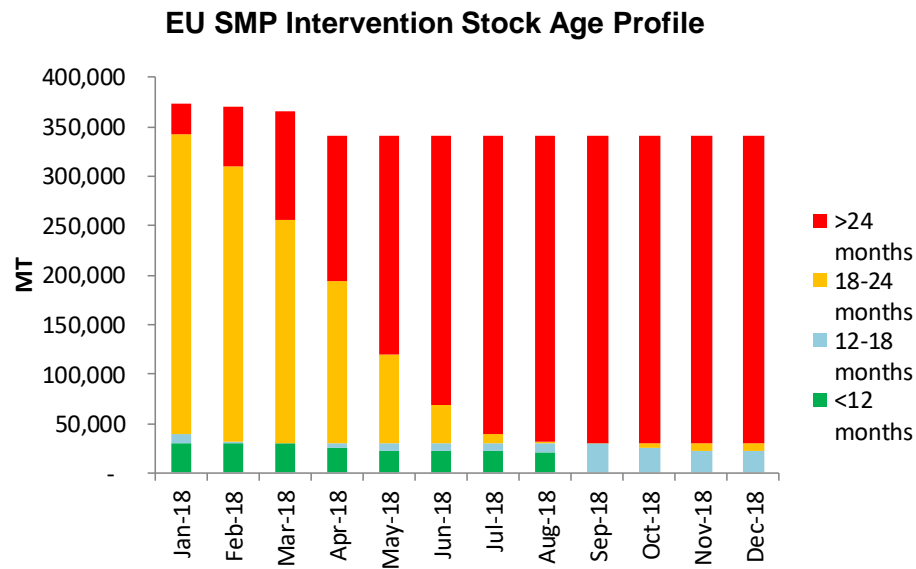
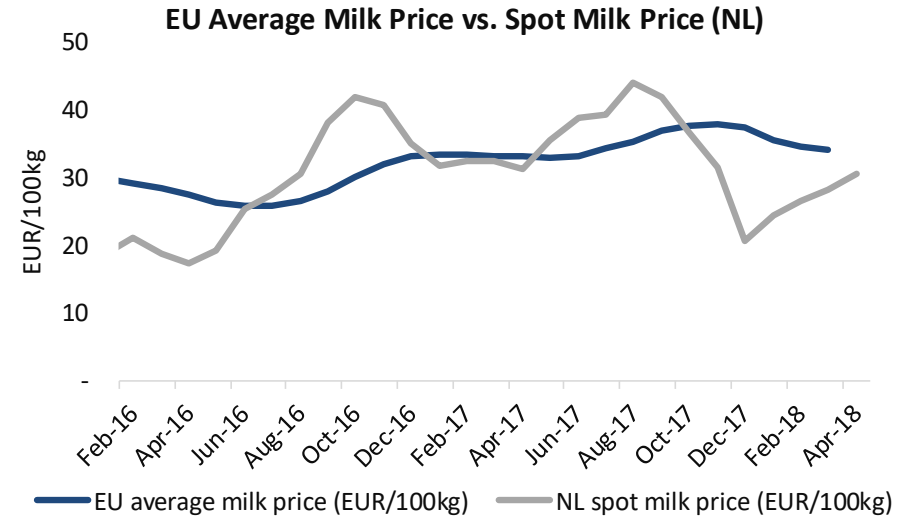
MARTIN BATES

General Manager Fonterra CIS

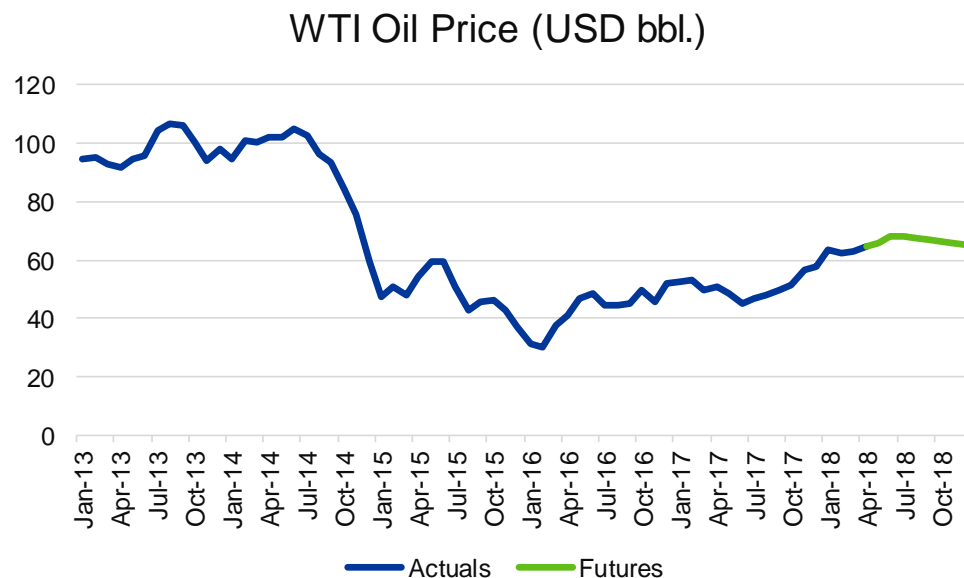
Key market drivers



- EU SMP Stock Age Profile and Stock Release Plan
- EU Milk Production
- USA Milk Production
- USA Inventory
- China Milk Production and Demand
- NZ Milk Production



Geopolitical and macroeconomic developments



Real GDP growth
Annual percent change



Geopolitical factors to watch:

- Iran sanctions
- Korean Peninsula
- Russia

Trade policy developments:

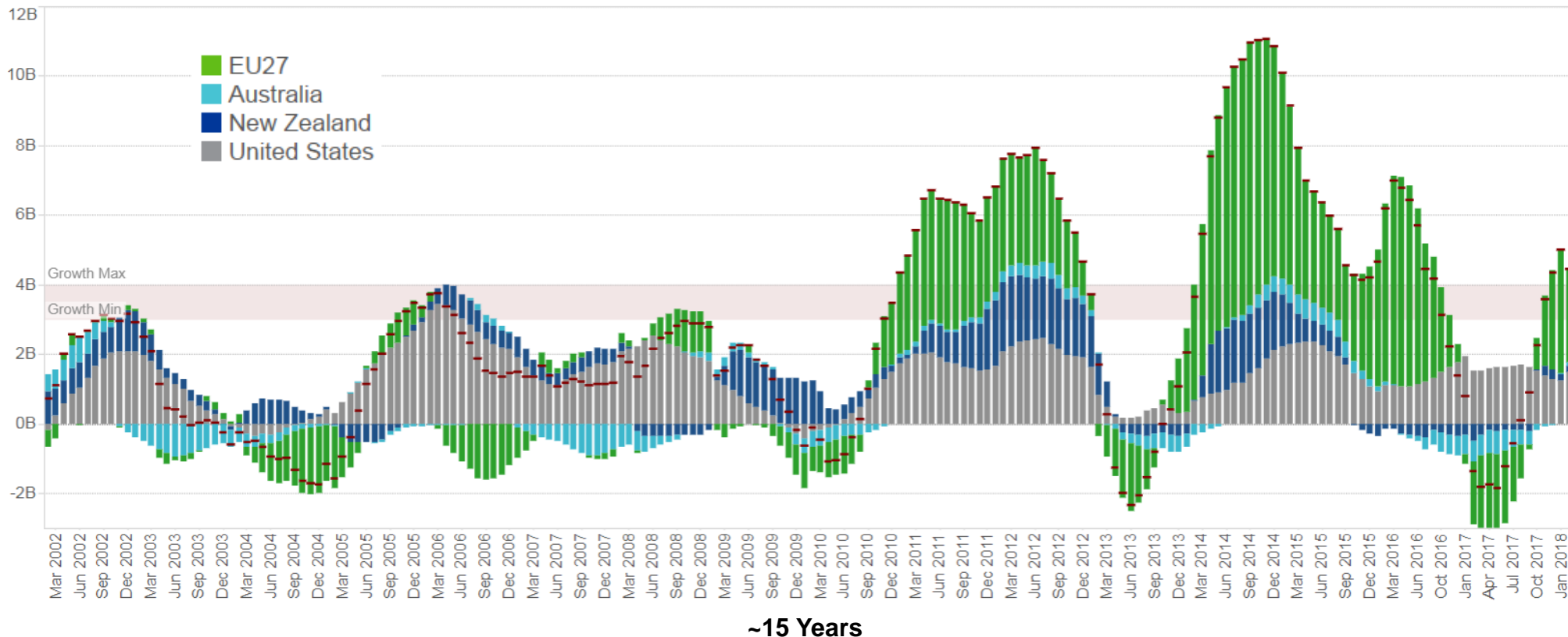
- US trade tensions
- NAFTA renegotiation
- EU-Japan FTA
- EU-Mexico FTA

Milk Production: EU, AU, NZ, USA



EU, AU, NZ and the USA account for ~70% of global dairy exports. Typically the market has absorbed ~3-4b litres growth from these regions annually. Milk growth in recent months has led to global supply and demand coming back into balance

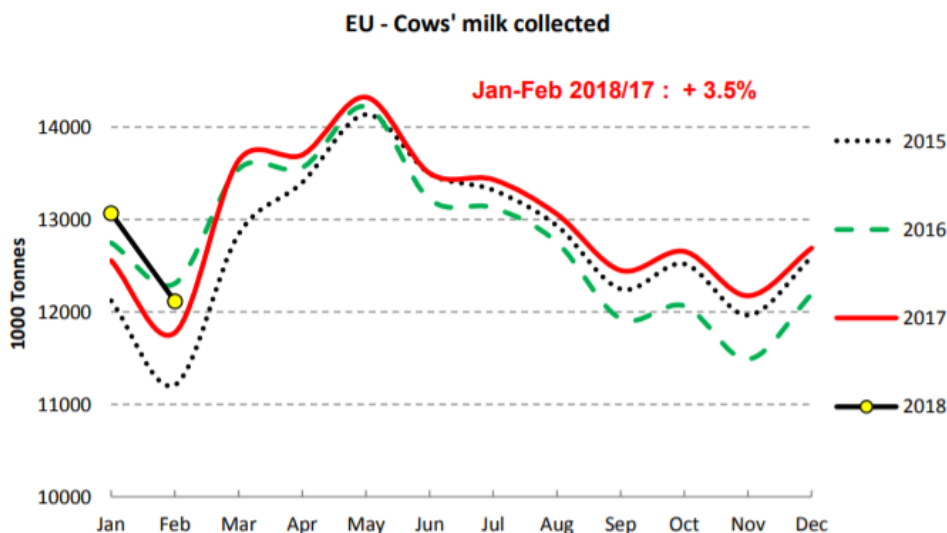
Moving Annual to February 2018 – EU / NZ / AU / USA Milk Production Growth



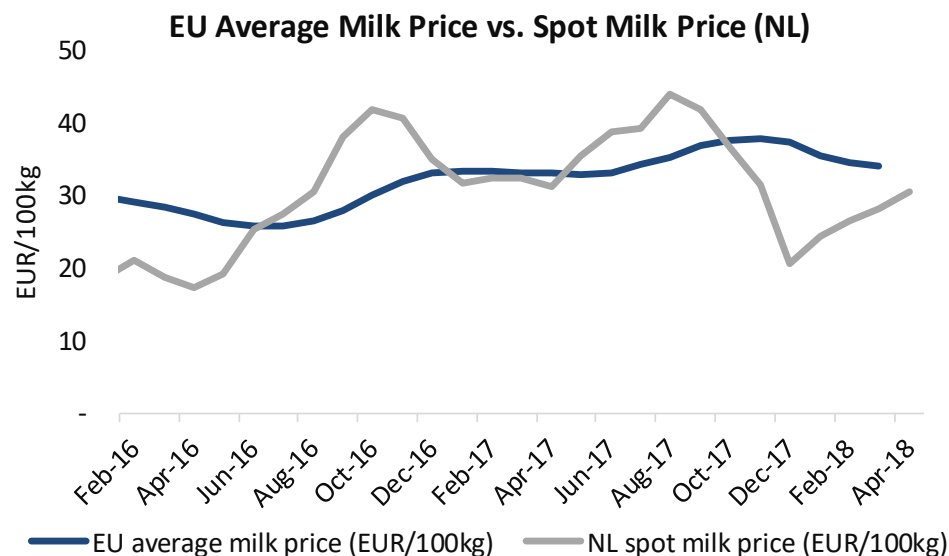
Europe Outlook



EU up +3.5% for 2018 YTD. Current milk price stimulatory and driving expectation of further increases in 2018. Support for EU Milk Price at or near current levels.



- EU milk growth continues (+2.6% in Feb), but a cold spring (March - April) has dampened milk flows in parts of Europe.
- Positive sentiment has provided some support to SMP futures prices, but the fundamental outlook for the global SMP and protein complex remains under pressure.
- Latest IV result 24,066 MT of product was released back to the market, with the minimum accepted pricing being EUR 1,051/MT.
- EU Commission 2018 milk production forecast of +1.4% YoY.



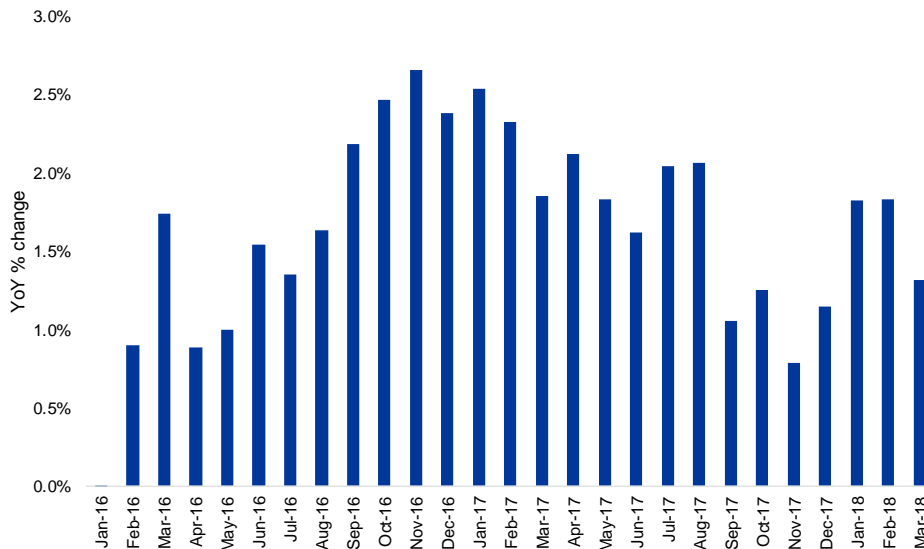
- Average EU raw milk prices remain high. Average EU Milk Price for March 33.9 Euro/100kg, up 2.5% YOY.
- Commodity prices expected to support EU milk prices at or near current levels.

US Outlook

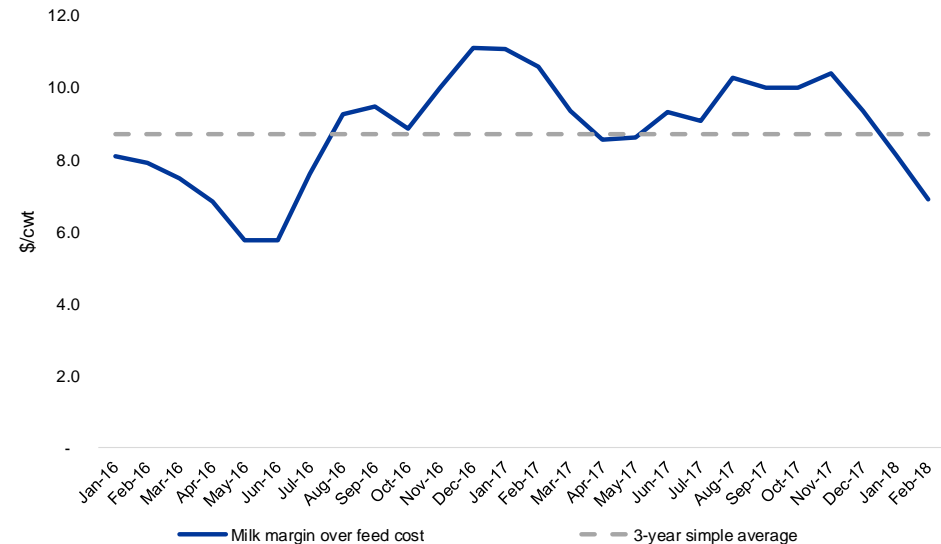


Milk growth in the USA appears to be stable at @ +1.5% but margins are coming under some pressure

US Average Daily Milk Production, YoY % Change



US Margins over Feed Costs, \$/cwt



- Production has been inline with predictions.
- Milk production up +1.5% for Jan-Mar YoY.
- CWT continues to support exports.
- Spot milk available below class.

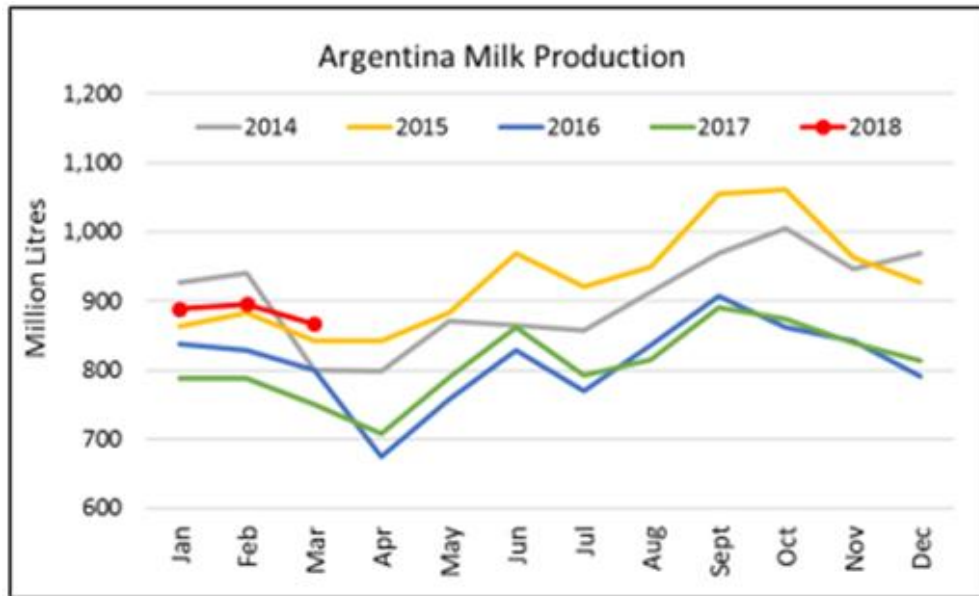
- Margins have been above historical levels until early 2018, which has been supportive to USA milk growth.
- We speculate YOY milk growth is likely to come under some pressure during H2 CY2018.

Argentina & Uruguay Outlook



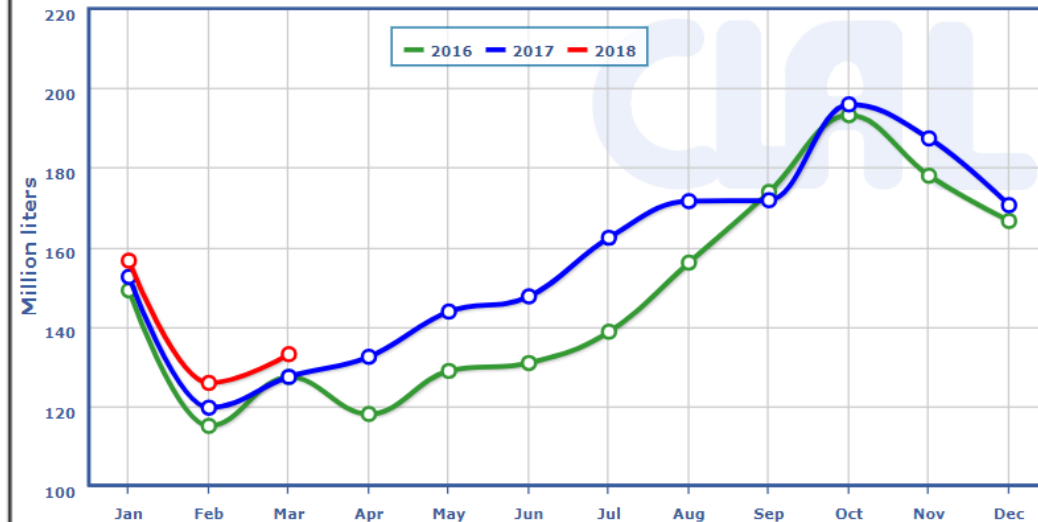
The impact of the floods in 2016 & 2017 across Argentina kept production well below 2015 levels. Growth expected in 2018 off a low base, with recovery evident in January to March. Uruguay milk production growth also up for the YTD.

Argentina Milk Production – 2014 to 2018



- Argentina milk production up 15.4% YoY in March. However this is off a very low base given poor production in 2017 relative to previous years.

Uruguay Milk Collection – 2016, 17 and 18



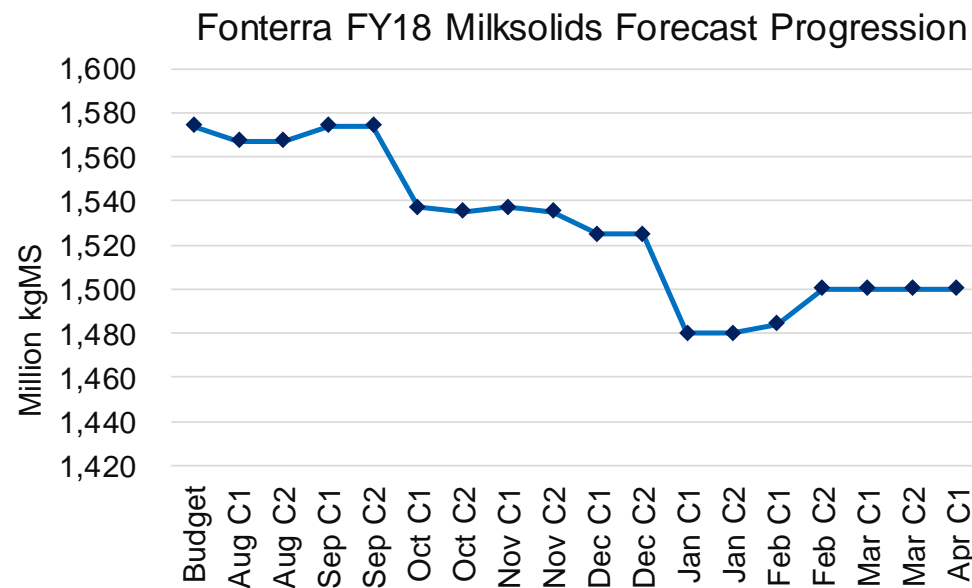
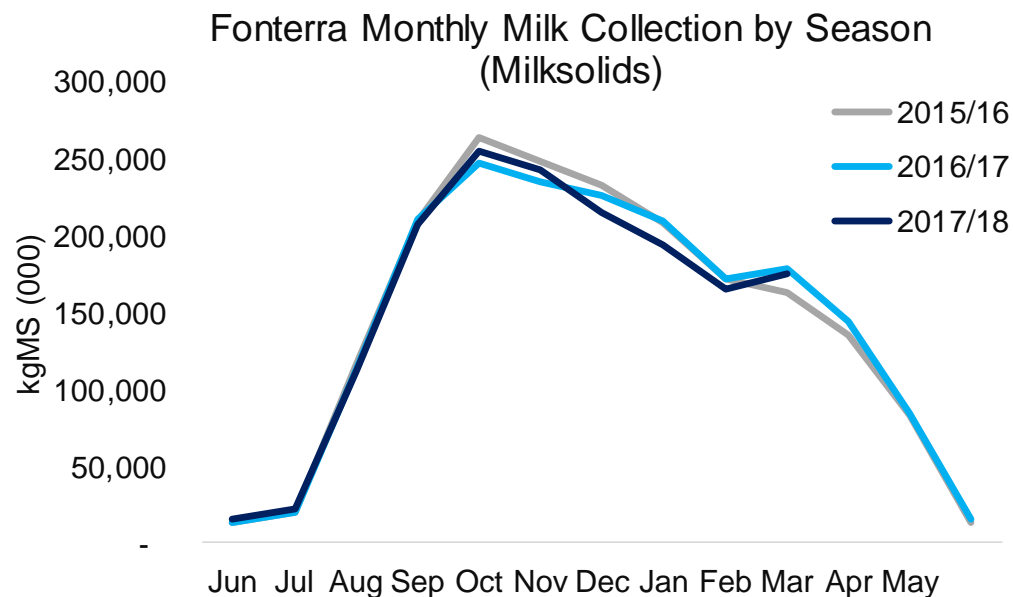
NZ Milk Collection



Variable weather conditions have impacted milk production volumes.

Total NZ production for Mar. down (2.2)% YoY, and down (1.3)% for milk season to date.

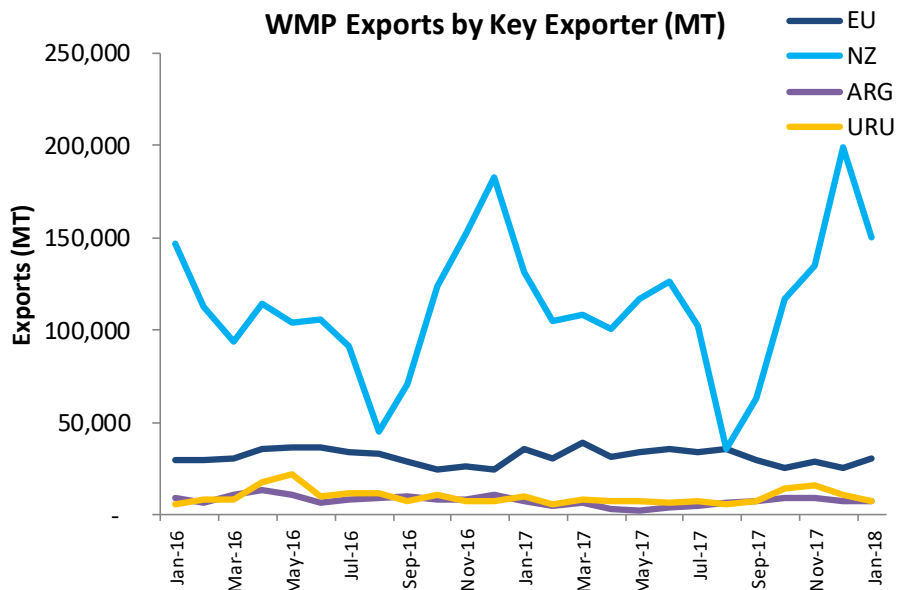
Current Fonterra forecast of 1,500m kgMS, 2% down on last season.



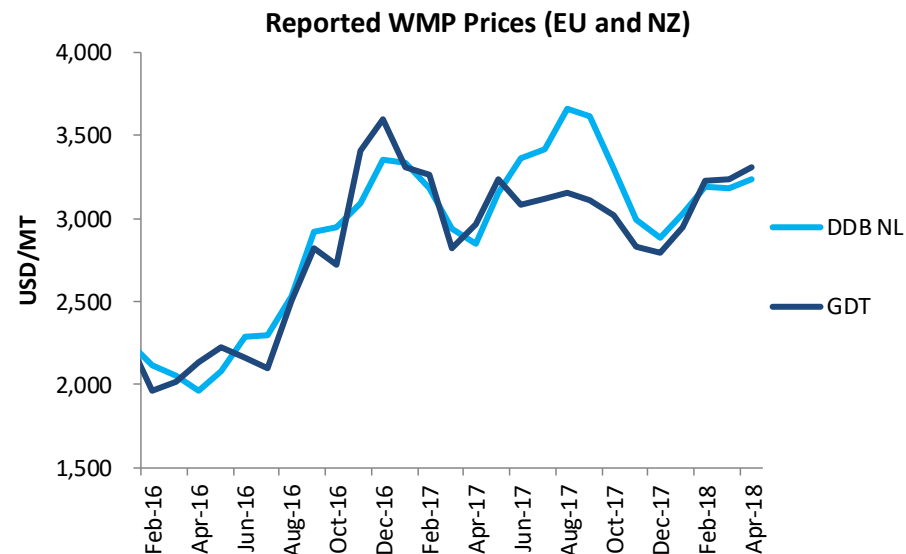
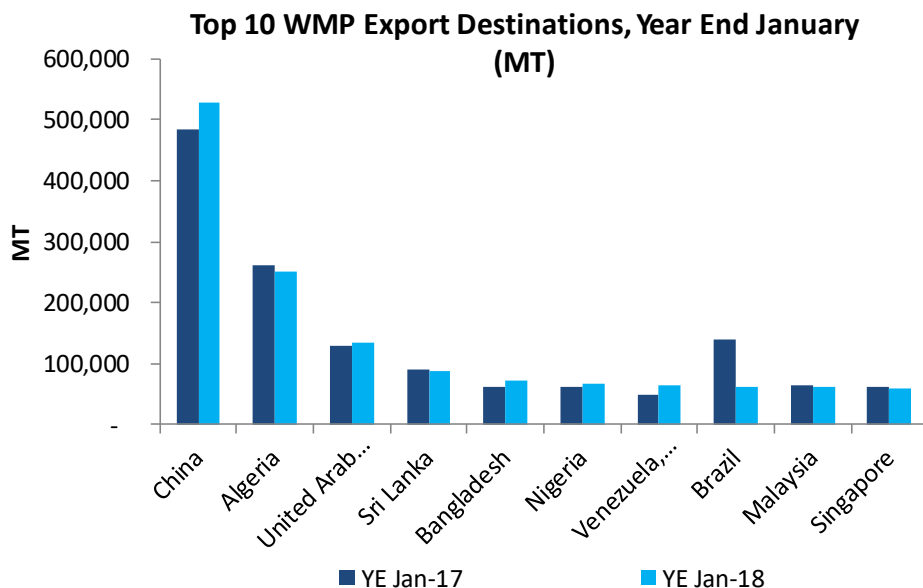
The background of the slide is an abstract composition of several overlapping, flowing shapes in various shades of blue and green. The shapes create a sense of movement and depth, with some areas being more saturated than others. The overall effect is modern and professional.

Product Overview

WMP

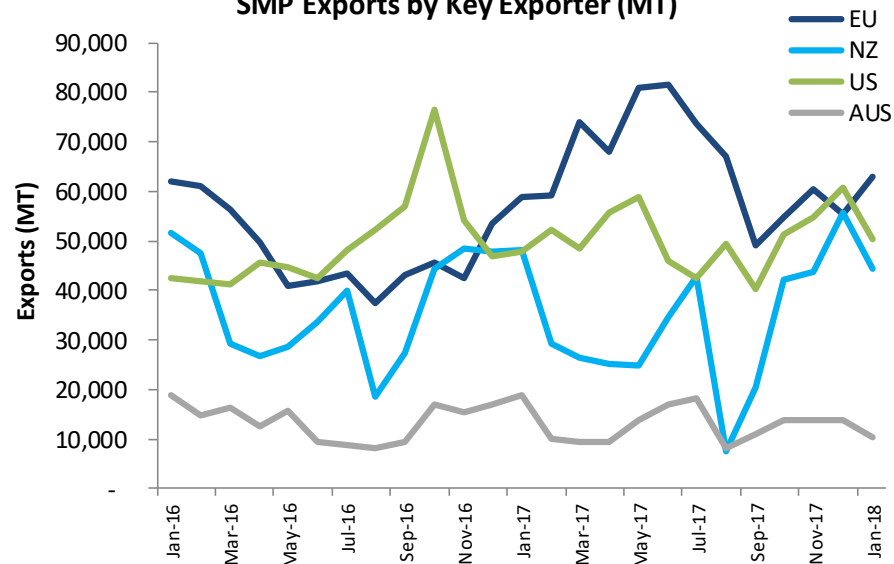


- WMP prices on GDT have continued to firm in the last few months.
 - NZX priced at USD 3,325 to 3,350 for May, Jun & Jul contracts
- Exports have increased marginally out of Europe as producers sell product into global markets, growth in exports to Algeria in particular. Will this increase further with WMP stream return strengthening?
 - SMP/Butter breakeven at USD 3,500/mt ExWhse
- Uruguay and Argentina exports appear to be in line with expectations of a slight increase in exports, with some LATAM export WMP making its way to Middle East and African markets.
- Imports to China and SEA have remained strong YoY.
- Improving oil prices from ~\$60/barrel to >\$70/barrel in recent months may stimulate MEA region purchasing.



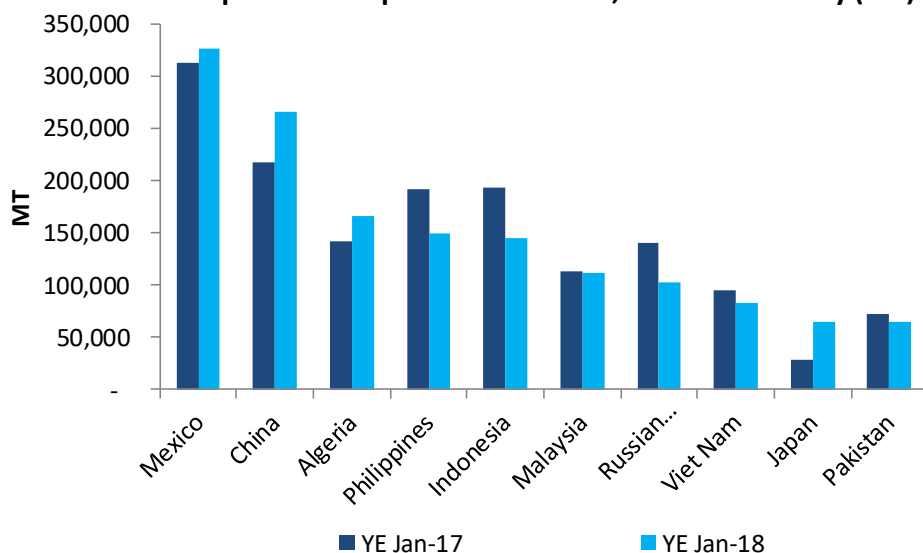
SMP

SMP Exports by Key Exporter (MT)

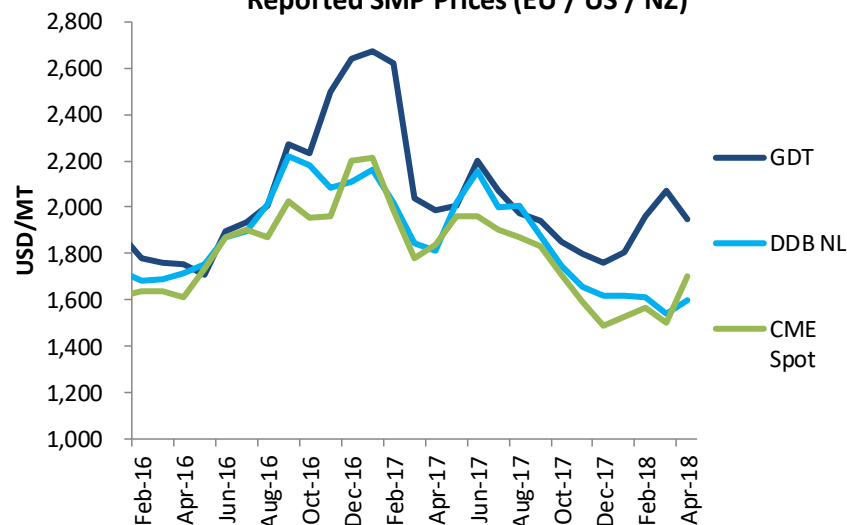


- A premium remains for NZ SMP as volumes available for immediate shipments are limited and demand in Asia remains firm, particularly in China.
- The EU commission has released only small volumes of SMP from intervention until the most recent tender, when 24k MT exited at below market prices (\$1,300 USD), volume available at the next tender has increased by 48,226MT to 115,112MT.
- Price support has been seen at the CME in recent weeks as we see markets pricing premiums for the first time in recent months with the market currently trading at @\$1,810 and Europe priced at @\$1,700/MT.
- A free trade agreement was recently concluded between Europe and Mexico including 30,000MT of SMP, rising to 50,000MT after 5 years with expectations that this displaces US NFDM.
- Milkfat markets remain buoyant globally in turn driving SMP production as we head into the peak Northern Hemisphere production months.

Top 10 SMP Export Destinations, Year End January (MT)

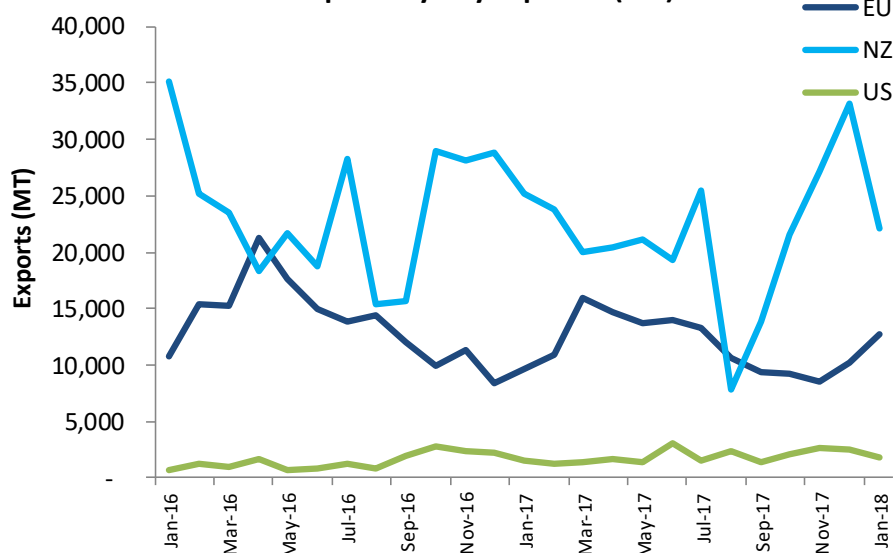


Reported SMP Prices (EU / US / NZ)



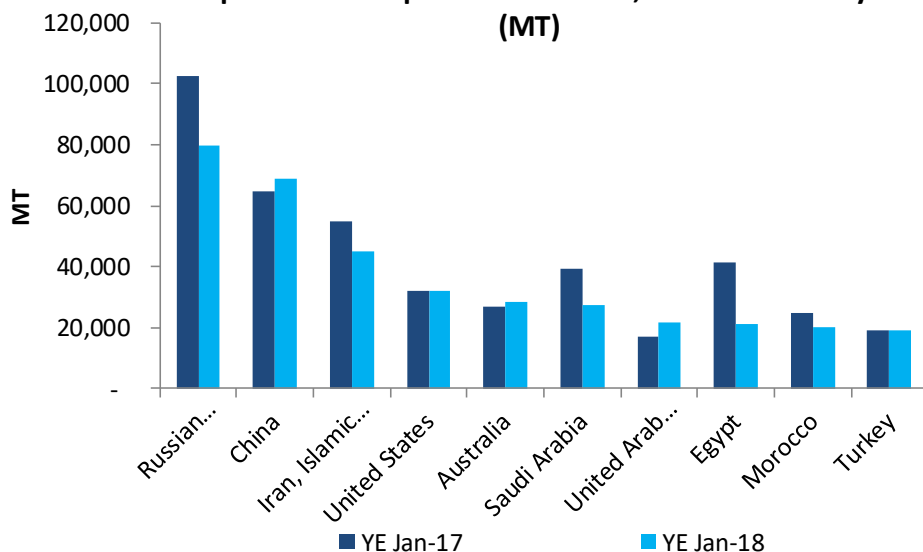
Butter

Butter Exports by Key Exporter (MT)

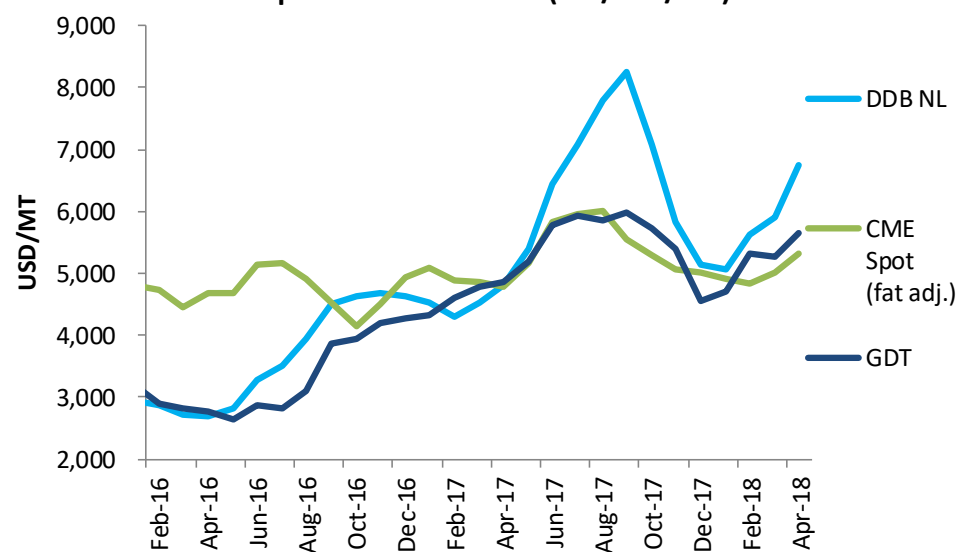


- Demand for Butter globally continues to outstrip supply with pricing across the EU, NZ and US trading in a range of \$5,300 - \$7,000/MT with US pricing at the bottom of the range and EU at the top.
- European Butter prices went as high at \$8,000/MT in November 2017 before falling to a low point of \$4,800 early in 2018 and then recovering
- EU export volumes for 2017 were down 16% on CY2016 exports while US domestic demand reached an all-time high in 2017 peaking at 839k MT
- The pricing cycle we saw through 2017 is repeating in 2018 with the EU Commission forecasting record low Butter inventories in Europe for H2 2018.
- Availability out of New Zealand will also remain under pressure but we continue to make volume for priority customers.

Top 10 Butter Export Destinations, Year End January (MT)

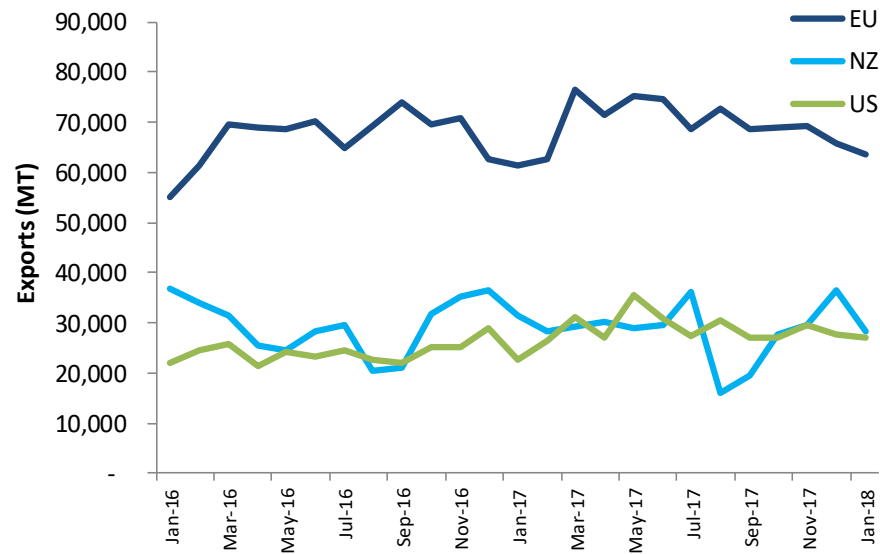


Reported Butter Prices (EU / US / NZ)



Cheese

Cheese Exports by Key Exporter (MT)

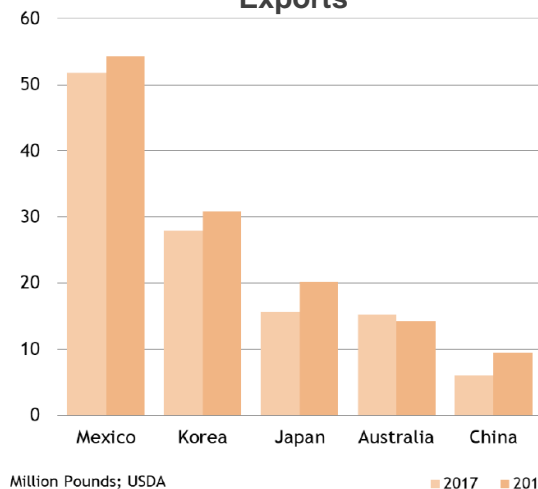


- Cheese production globally has been strong with the EU & US continuing to grow at 2% to 3%. Output in Mar & Apr did slow in the EU however with a cold start to Spring.
- NZ on the other hand has seen better value in WMP so has produced a bit less cheese this season, which is reflected in Jan-Mar '18 exports being down 10%. Despite this, exports to Japan in the same period were up 6%.
- Global consumption has been strong both internally in the EU and US, but also on the global market. No reason to see this slowing with global GDP tracking well.
- As a result we see prices for cheese holding around long run averages, and recently firming.
- In the EU, prices have firmed with Spring milk down, while demand for cheese & SMP/Butter is holding up. A stronger SMP/Butter return reduces milk flows into cheese.
- While in the US although inventories remain high at +5% YoY, fresh cheddar stocks have tightened on the back of 2.7% less cheddar production in Mar while YTD cheddar exports are up 50% (Mar up 83%) & domestic consumption is also up. This has recently pulled the CME cash market up, and futures are now averaging above USD1.70/lb Jul-Dec '18.

Exports by Region

Jan-Feb 2018 compared to 2017	CHEESE	
	Qty in ktons	% 2018 /17
New Zealand	53	↓ -10%
EU-28	129	↑ +3%
United States	55	↑ +12%
Australia	26	↓ -7%
Belarus	15	↑ -1%
Argentina	8	↑ +29%

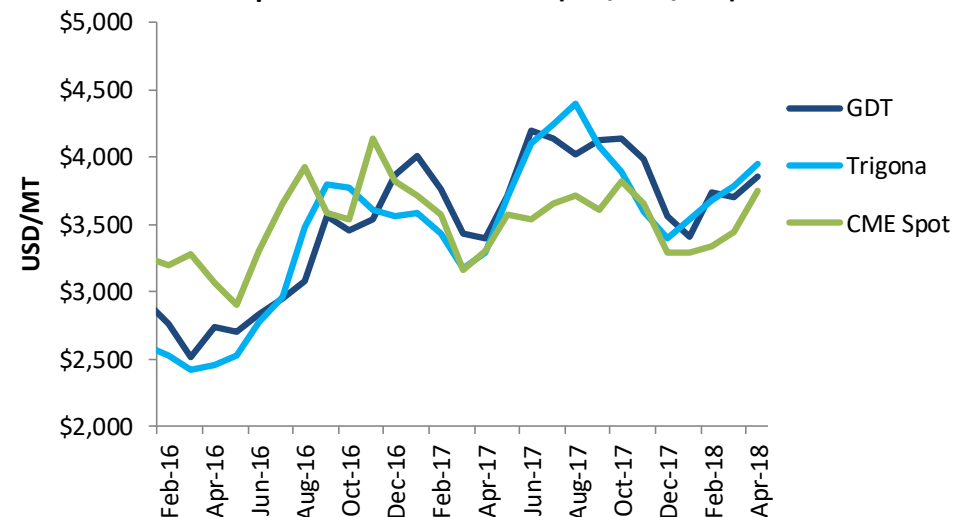
USA only Jan-Mar Exports



Million Pounds; USDA

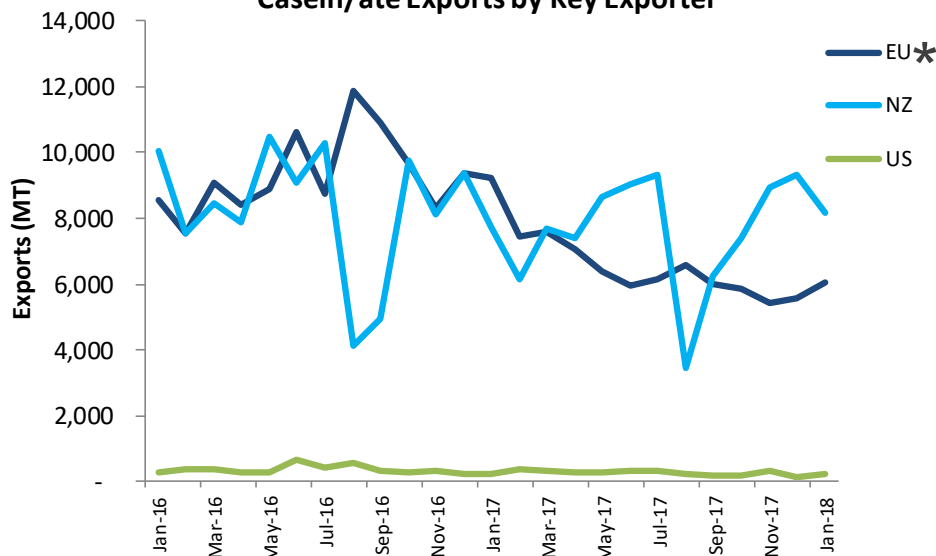
2017 2018

Reported Cheddar Prices (EU / US / NZ)

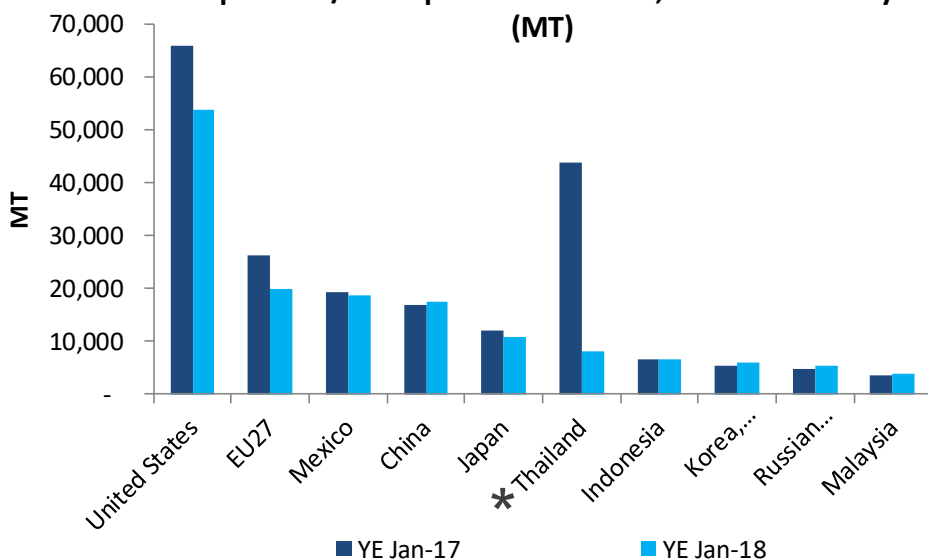


Casein/ate

Casein/ate Exports by Key Exporter



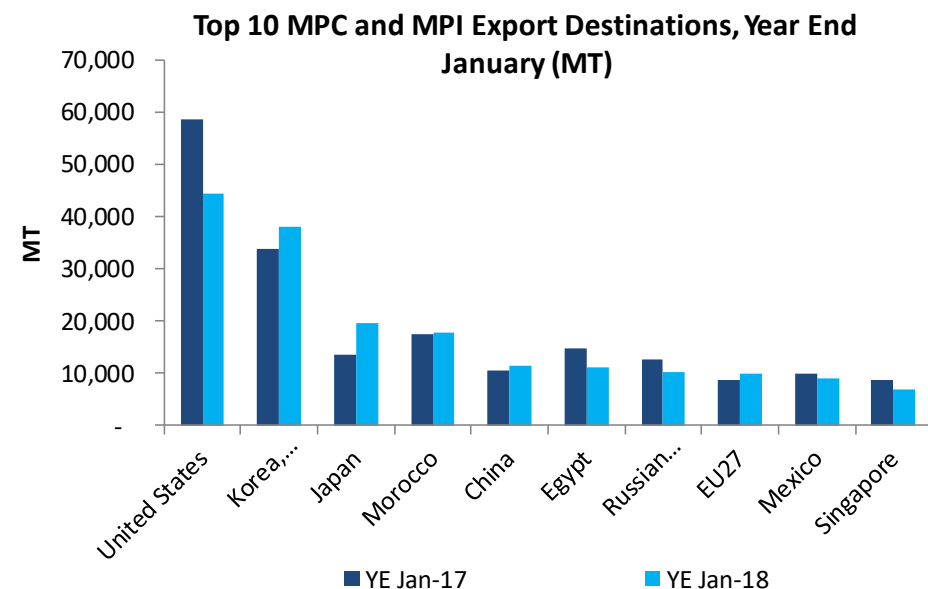
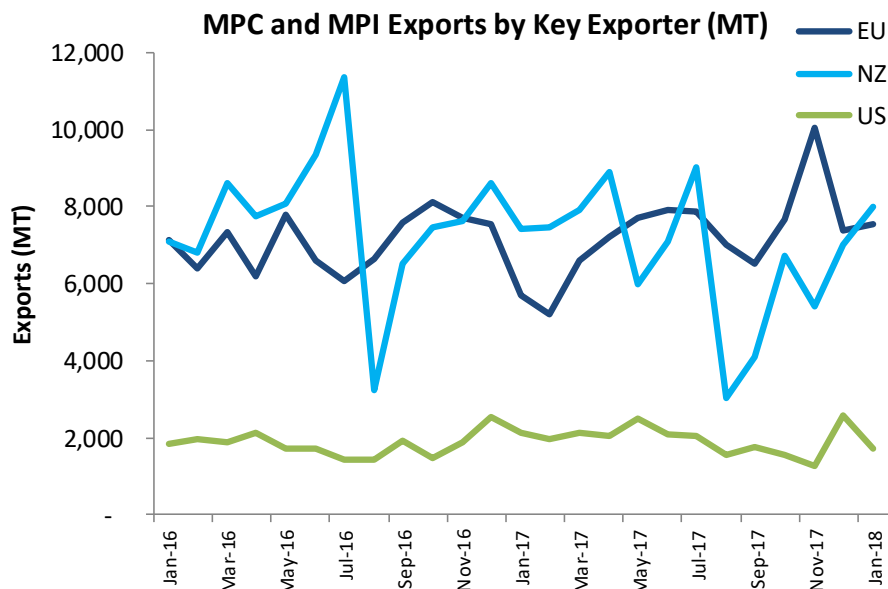
Top Casein/ate Export Destinations, Year End January (MT)



Commentary:

- While NZ casein/ate exports have remained stable overall, EU exports have declined due to a combination of higher production, good internal demand and a strong Euro vs. USD.
- It is also assumed that some buyers have moved to take shorter term positions rather than buying ahead which also impacts the reduction in exports.
- **Note, EU export decline is overstated due to an error in 2017 export data (to Thailand)*
- Reduction in availability for short term supply from both EU and NZ for acid casein and spray dried caseinate has tightened the market and resulted in a subsequent increase in pricing.
- EU weather and delayed peak has reportedly caused some suppliers to become oversold.
- Despite EU milk growth in 2018 YTD the impact on casein/ate availability and pricing overall is expected to be small due to limited flex / plant capacities.
- NZ production outlook for the new season is expected to be stable vs. current season.
- Demand overall is expected to remain stable to firm for casein and caseinates.

MPC/MPI

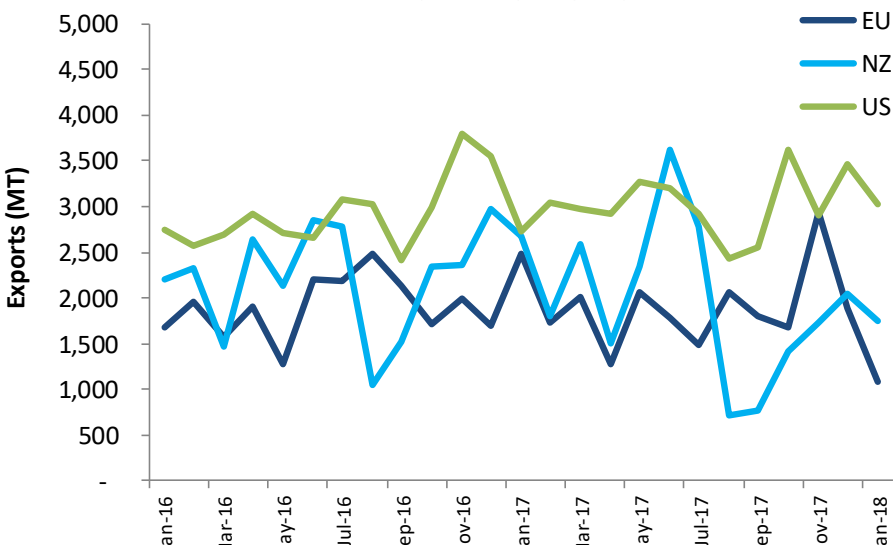


Commentary:

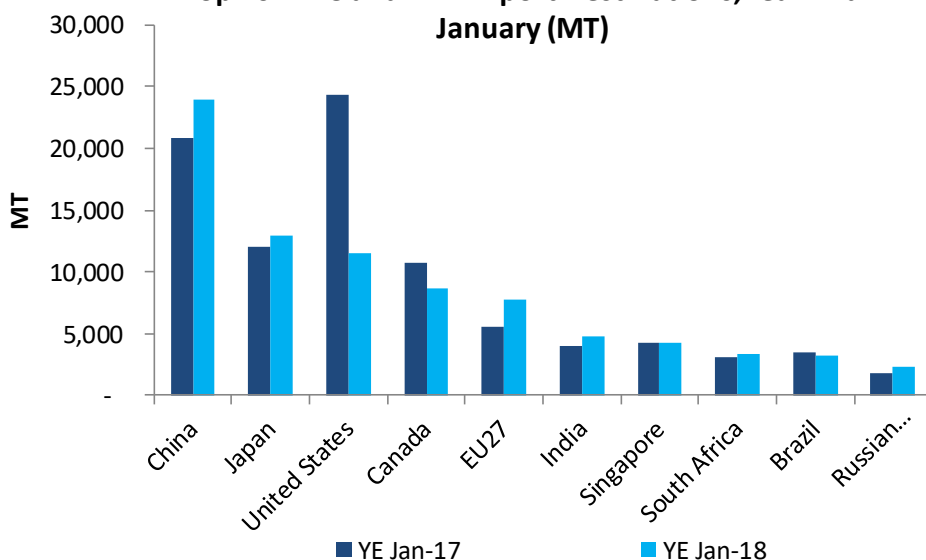
- Exports from NZ and EU have remained relatively strong.
- US production continues to largely be consumed domestically.
- NZ next season supply outlook for MPC 85 / MPI expected to be consistent to up vs. prior years driven by demand and product mix optionality.
- EU production currently remains strong and pricing within EU remains below the rest of the world due to surplus production and new suppliers without product mix flex and with cashflow challenges / limited customer base.
- MPC pricing has overall been stable this season despite the weakness / volatility in SMP pricing. Strengthening expected in MPC pricing over the next season based on rebalancing of supply and demand and gradual improvement in the SMP/NFDM markets
- USA MPC production grew only 2% in 2017, vs. 8% growth in 2016. Jan-Feb production for 2018 is significantly down vs. same period 2017 suggesting the supply / demand balance near term will support firming of prices.
- Demand overall is expected to remain supported due to consumer trends around health and wellness and the importance of protein in sports nutrition.

WPC/WPI

WPC and WPI Exports by Key Exporter (MT)



Top 10 WPC and WPI Export Destinations, Year End January (MT)



Commentary

- WPC/WPI: Exports from the three key export regions (US, Europe and NZ) have remained relatively strong.
- Today the US market for WPC remains slightly oversupplied and hence the gradual increase in exports
- There continues to be strong demand for WPC80/WPI especially in the key markets of Japan and China.

Current Supply / Demand Outlook

- Europe cheese/whey production remains elevated which is creating a supply / demand imbalance in this region. Outlook is for EU production to ease in second half of this calendar year
- US WPC/WPI production is also up YoY and this is also leading to a surplus in inventory in this region.
- The global market remains very competitive with overall demand still strong – but some companies are doing better than others.
- Expect demand for WPC/WPI into Japan, China and South East Asian markets to continue gaining traction.

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Questions