

Dairy Situation and Outlook



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The current situation

Key developments



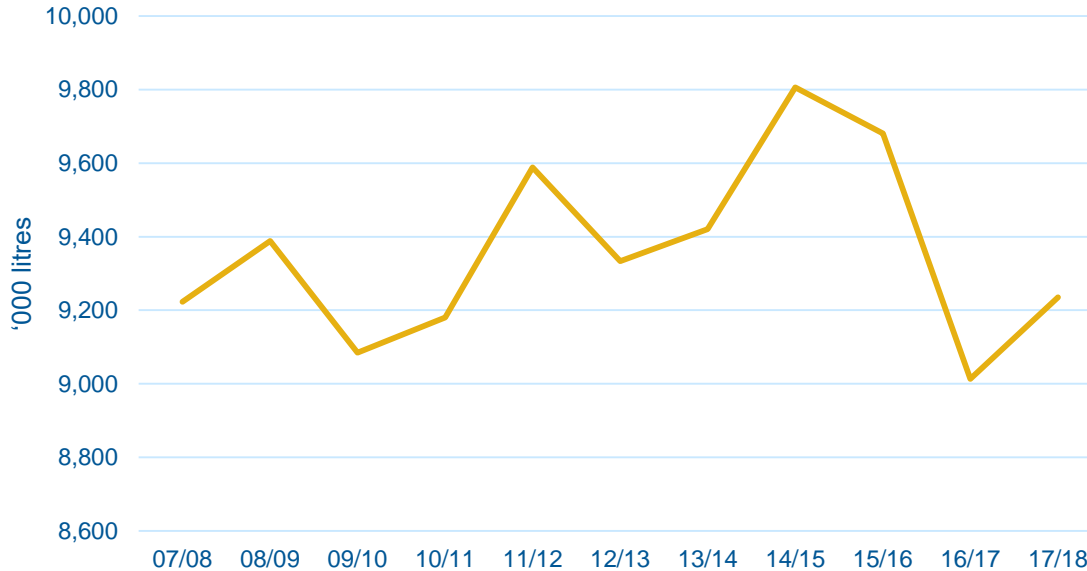
- Australian milk production up 3% for H1 2017/18
 - Improved weather in most regions, and
 - Incrementally higher milk prices.
 - Recovery from two difficult seasons
- International market holding for now
 - Slower milk production in NZ
 - Good import demand
 - BUT the fundamentals still point to significant 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

QLD	+1.0%		
NSW	-4.9%	Gippsland	-4.0%
VIC	-8.2%	Northern Vic	-16.5%
SA	-8.0%	Western Vic	-4.2%
WA	-1.9%		
TAS	-5.4%		

North/South divide growing

Milk production



Estimated volume growth by state:

	January	17/18 YTD
QLD	-8.3%	-5.0%
NSW	-6.5%	-1.9%
VIC	+5.9%	+3.9%
SA	+10.3%	+7.9%
WA	+5.4%	0.0%
TAS	+5.7%	+6.4%

By Vic regions:5.0%

	January	17/18 YTD
Gippsland	+8.3%	+3.9%
Northern	+11.3%	+8.4%
Western	-1.7%	+0.3%

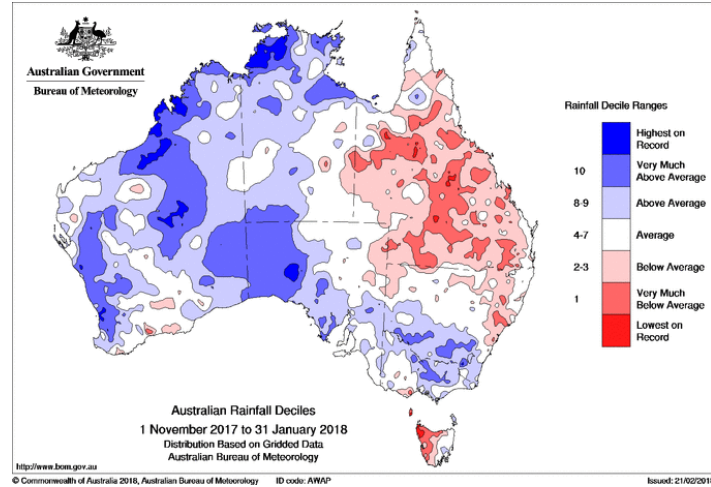


Rainfall patterns are also diverging

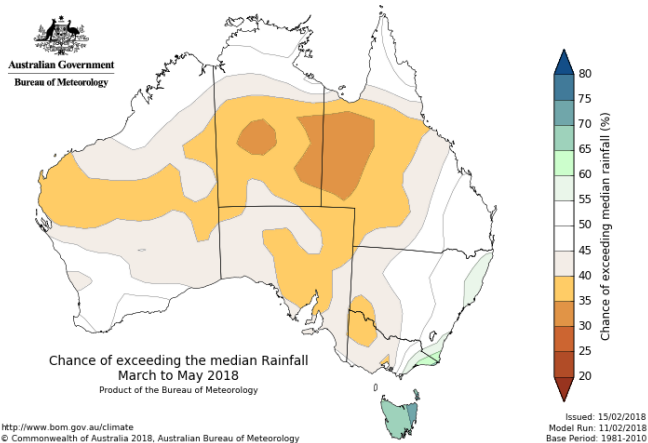
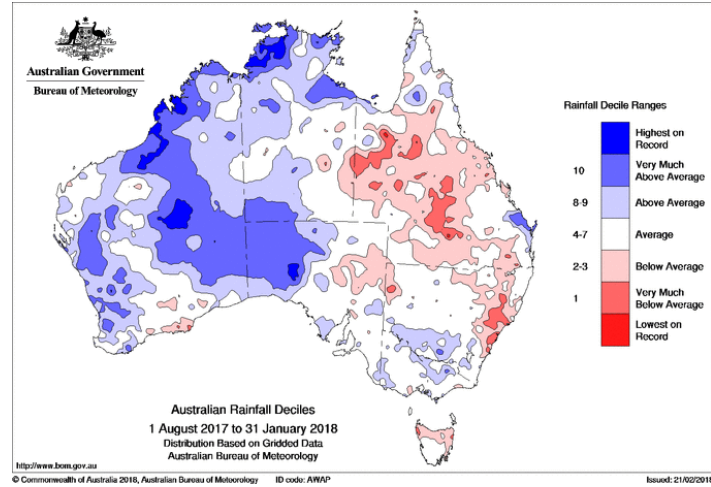
Seasonal conditions

- 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

3 month average



6 month average

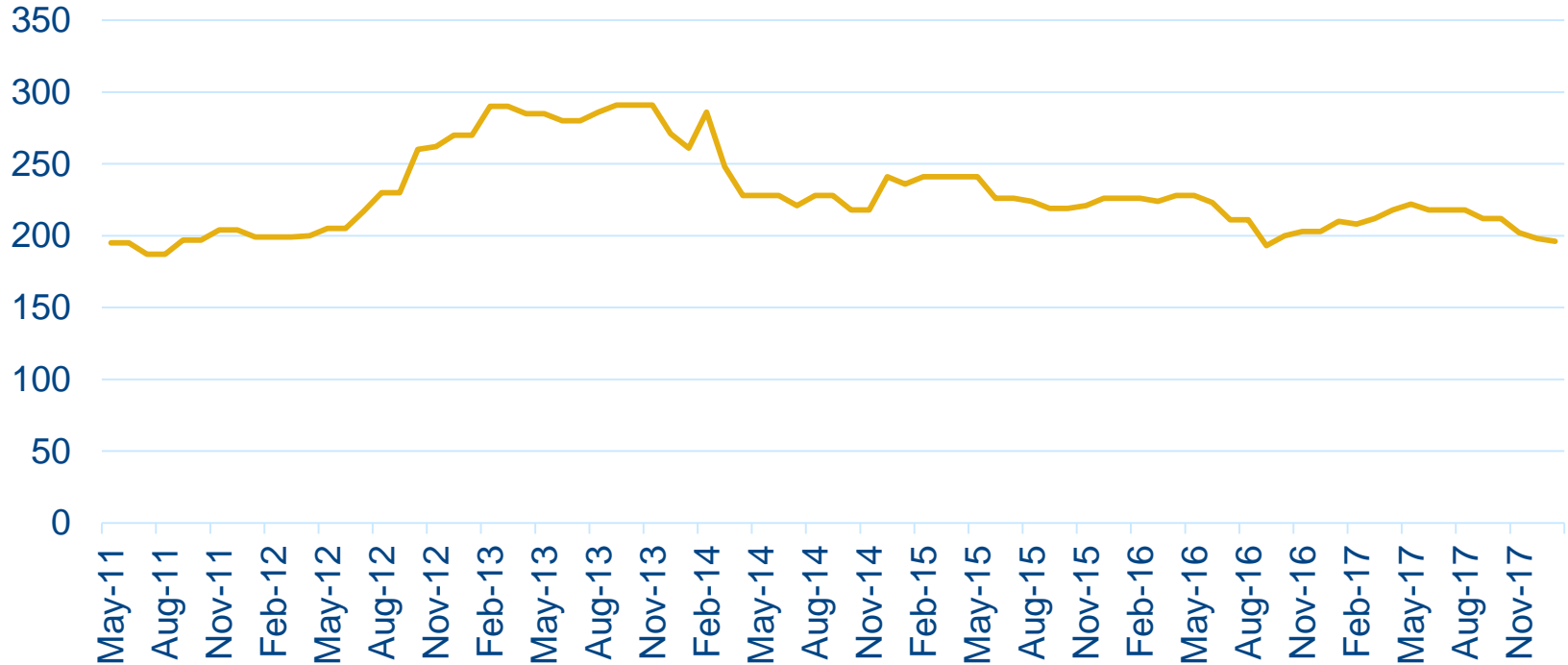


Grain price volatility increasing with uncertain harvest outlook

Input costs



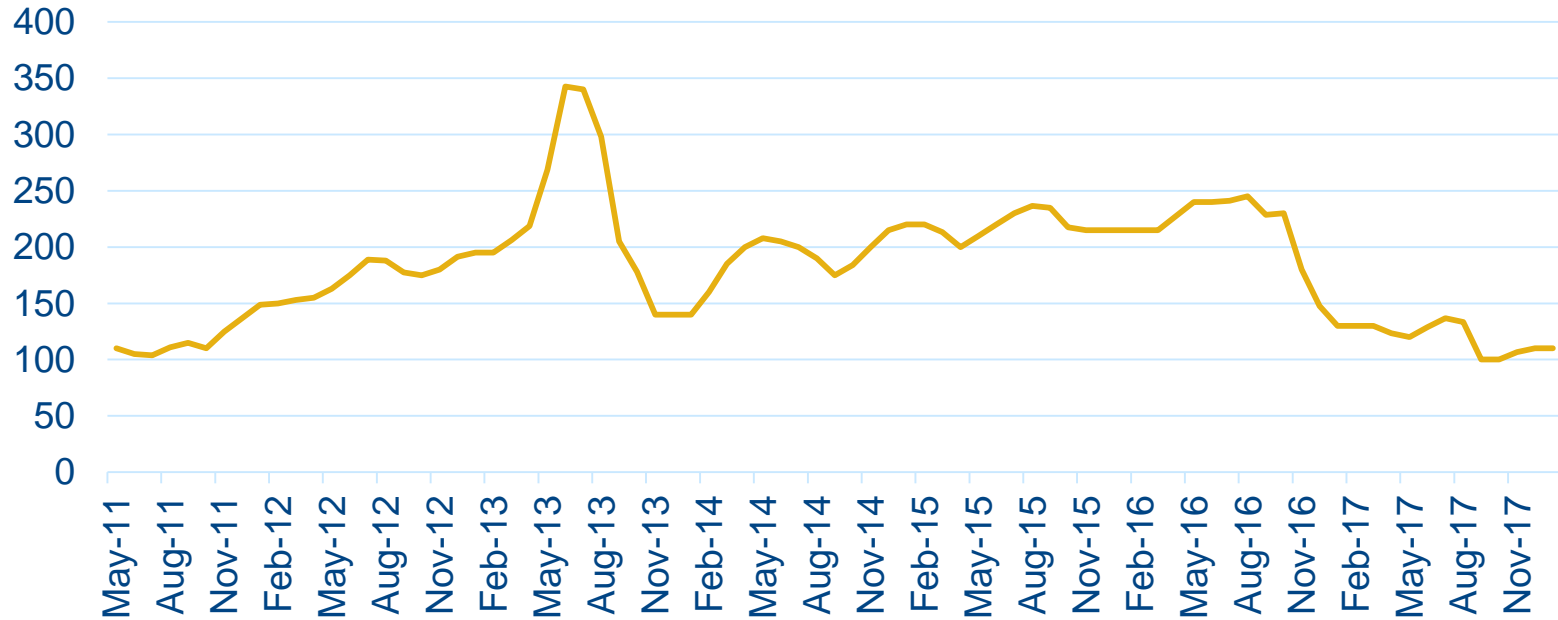
Goulburn/Murray Valley
feed wheat prices



Input costs



Goulburn/Murray Valley hay price



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

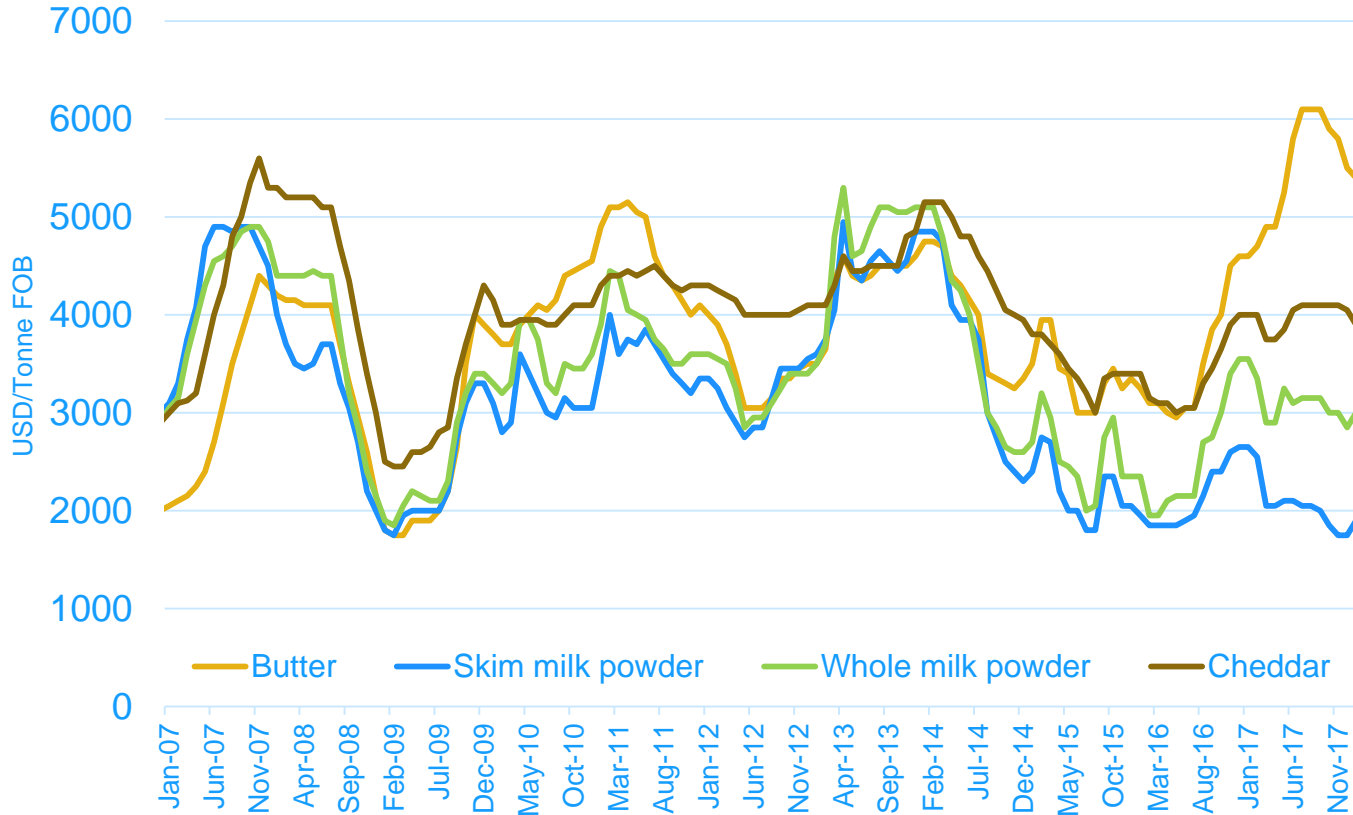
Dairy cattle exports

47,377 head

- 29% LY
- 35% 5Y

International markets more balanced...mostly...

International market

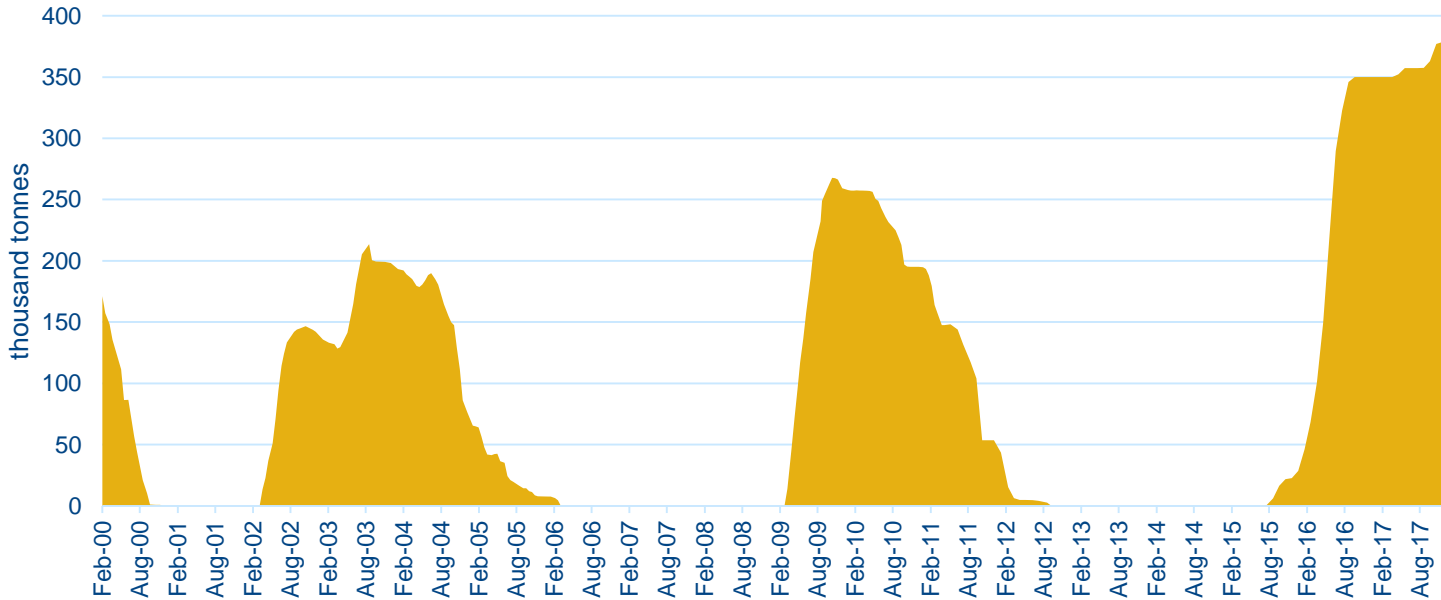


- China and Japan buying
- Butterfat demand
- NZ weather woes

- EU production growth
- SMP stockpile in EU
- US growth
- Slow sales in MENA

International market

European SMP in public storage - since 2000



Source: European Milk Market Observatory



Slow growth in supply

International market



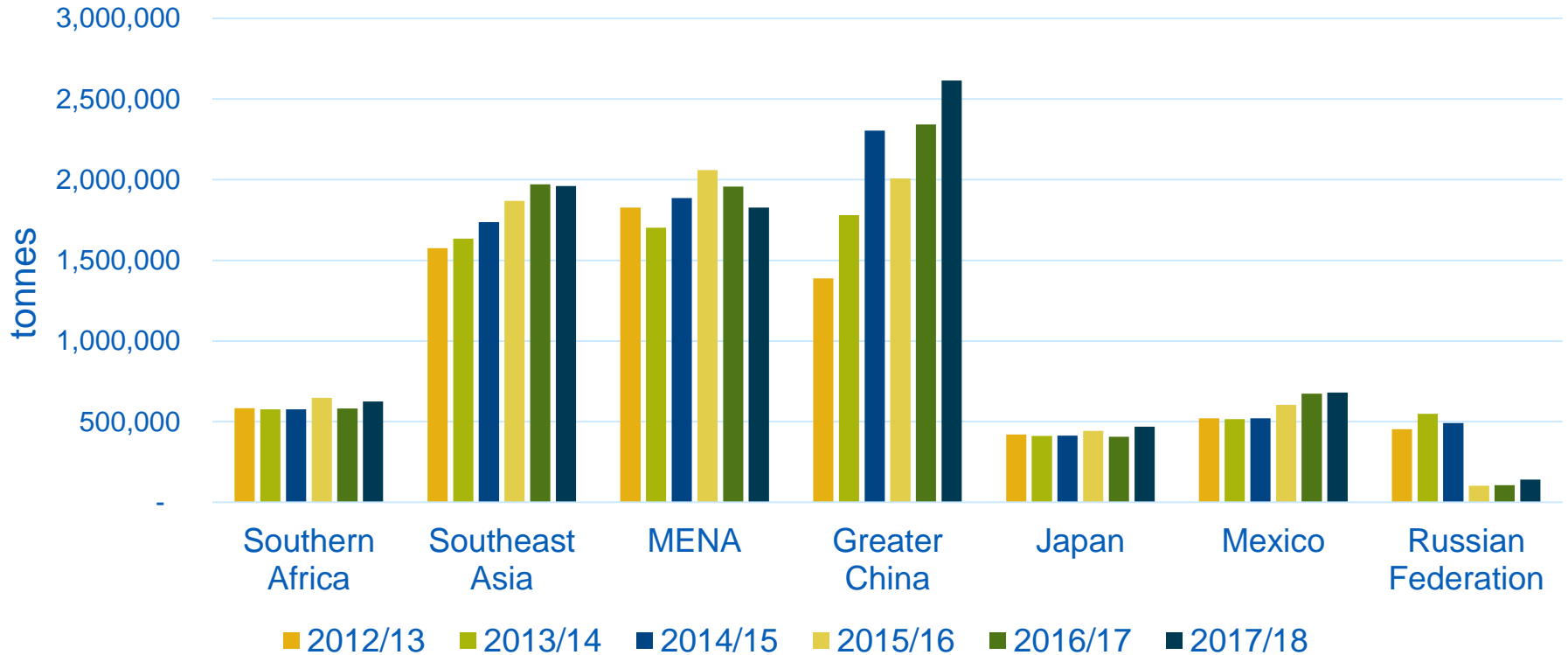
	EU-28	NZ	US	Australia
	150 billion litres	21 billion litres	99 billion litres	9 billion litres
YoY growth	+3.1%	-2.6%	+1.0%	+3.1%
Trend	<i>Accelerating</i>	<i>Likely to accelerate</i>	<i>Steady</i>	<i>Slow growth</i>
Forecast	+1.2%	0%	+1.5%	+2-3%

In general: demand is also growing

International market

...

Global exports to key markets by volume



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)

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%

Butter crisis?

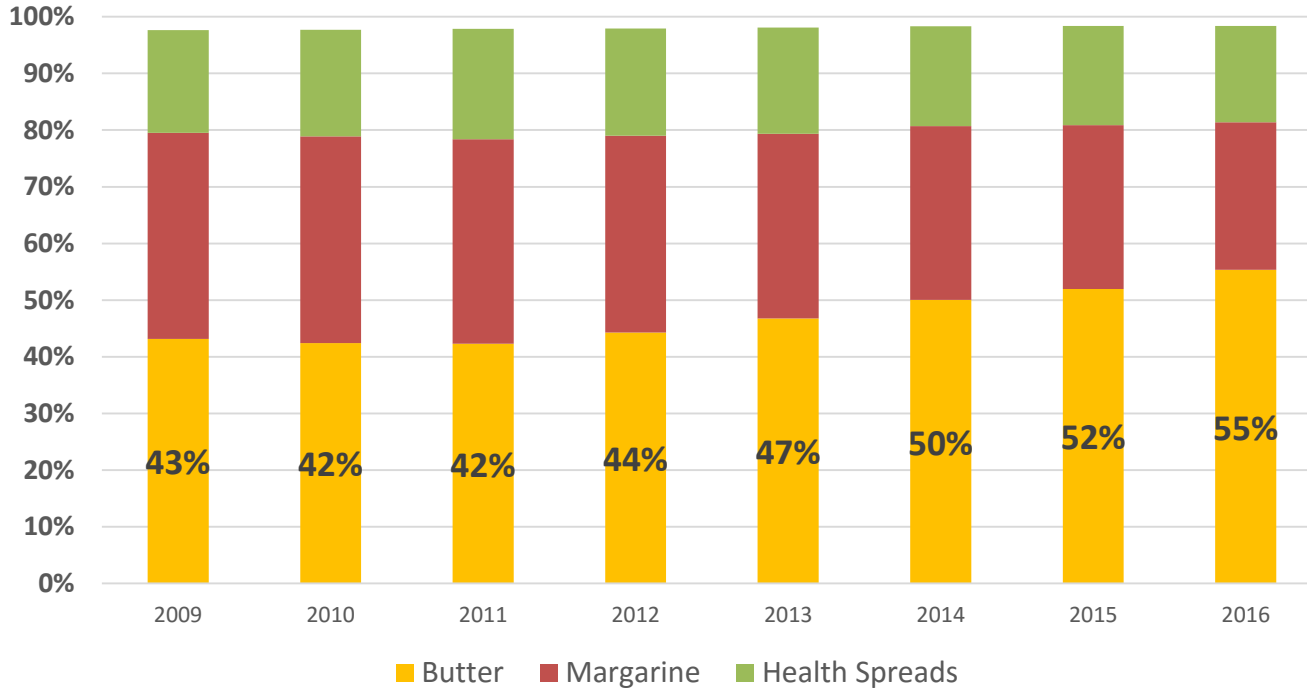
The Australian market

Weekly Supermarket Pat Butter Sales



The Australian market

Table spreads market share



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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