

The big milk battle has begun

SFMCA Victoria Branch Meeting

Michael Harvey
RaboResearch Food & Agribusiness
June 2018



RaboResearch Food & Agribusiness

A global network...

One of the **largest** F&A research hubs in the world and the world's **leading** F&A financial services provider

Broad **knowledge** of innovation, strategic development and **risk-reward** balances along the value chain

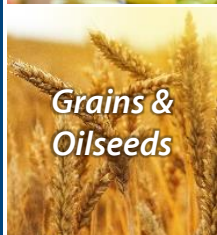
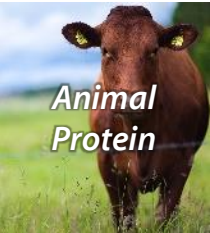
Unique combination of **strategic** business development and in-depth **research**

Vast global **network** with access to all players in the market

F&A coverage from farm to fork, across **rural** and **wholesale** sectors

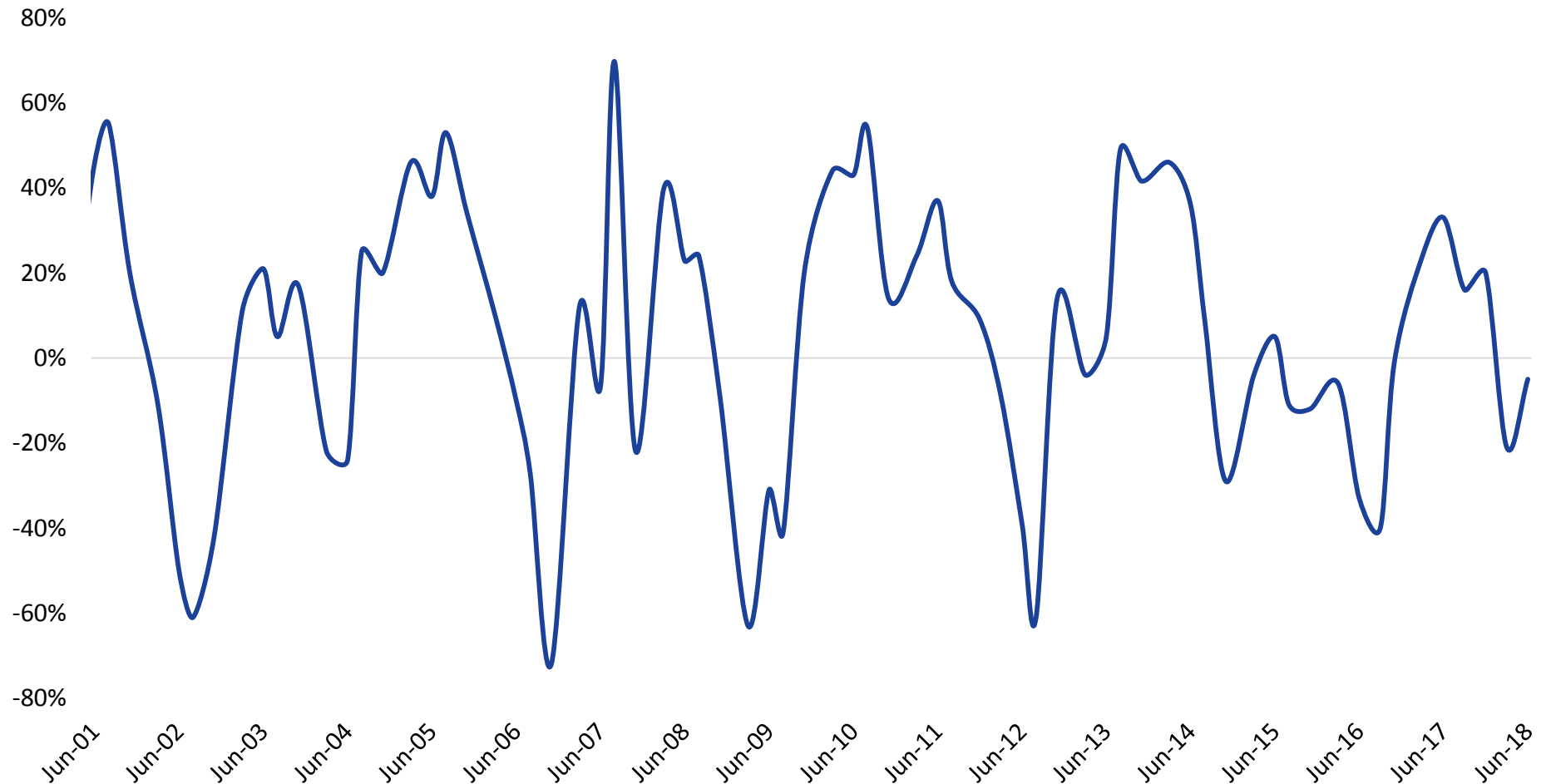
Global team of experts with real-time insights into **local** markets

of **local** experts



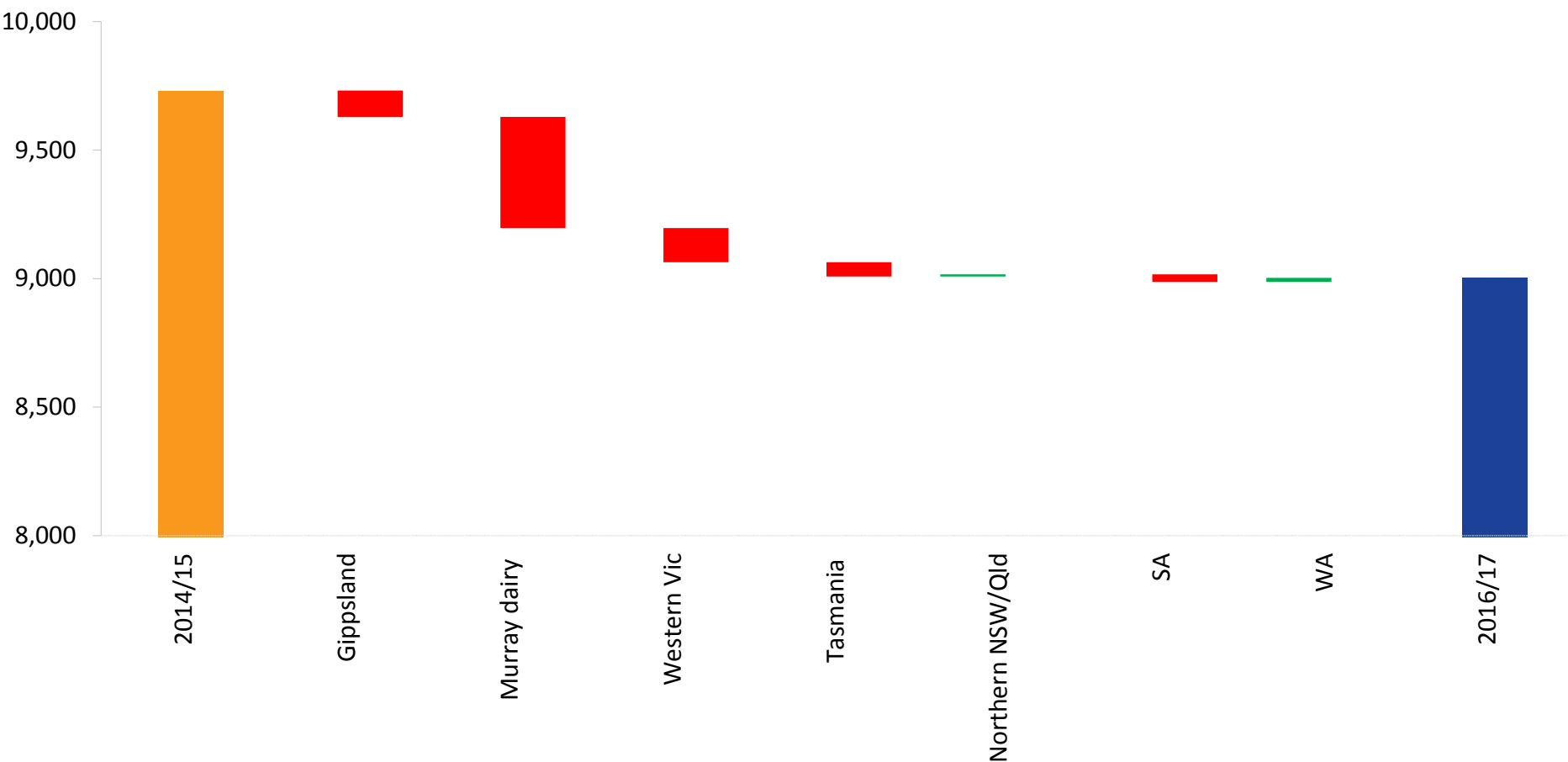
Dairy farmer confidence levels slowly on the mend

Rabobank Rural Confidence Survey – Dairy trends



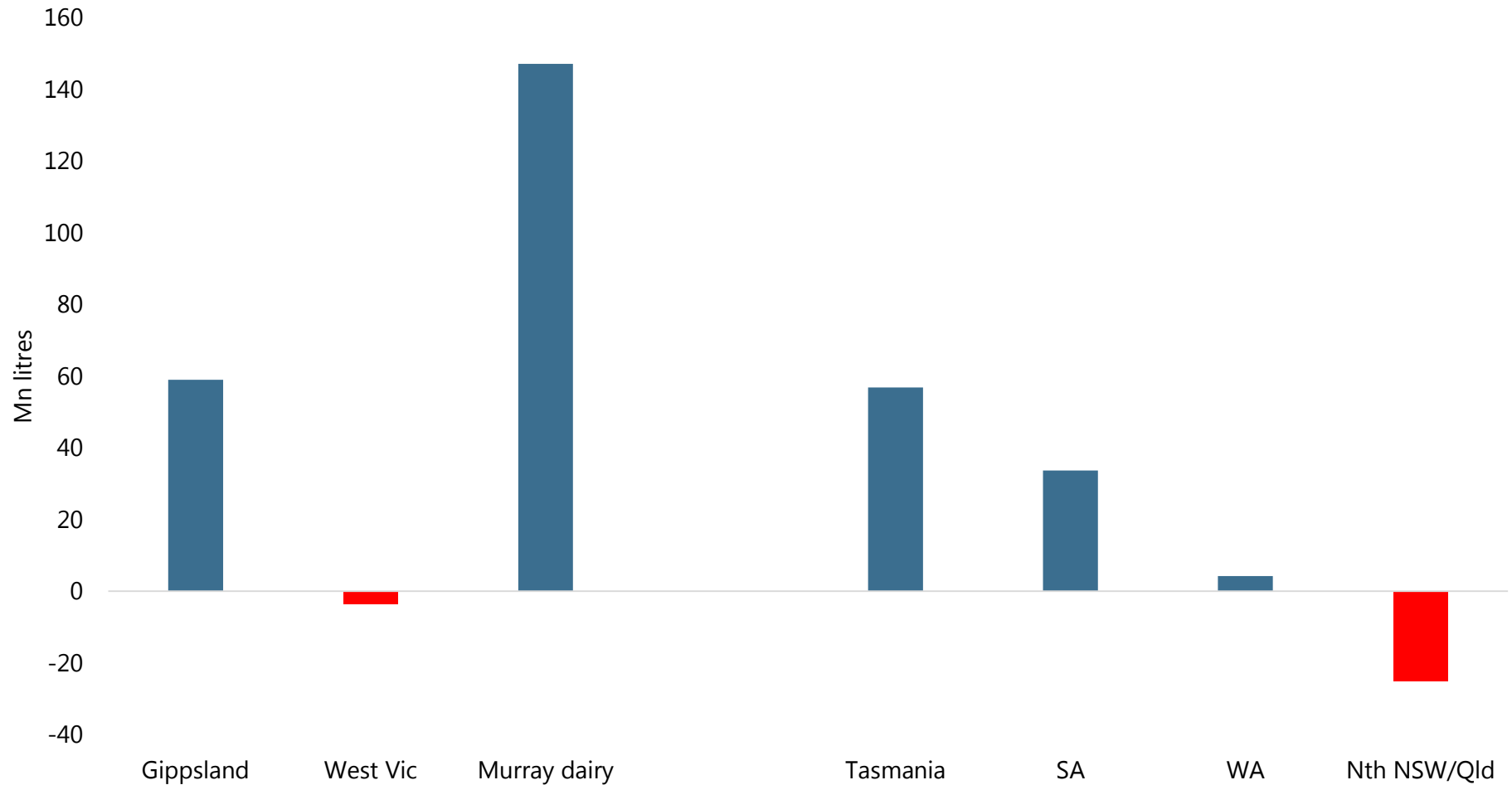
Australia lost a lot of milk over a two-season period

Australian milk supply, 2014/15 vs 2016/17 (mn litres)



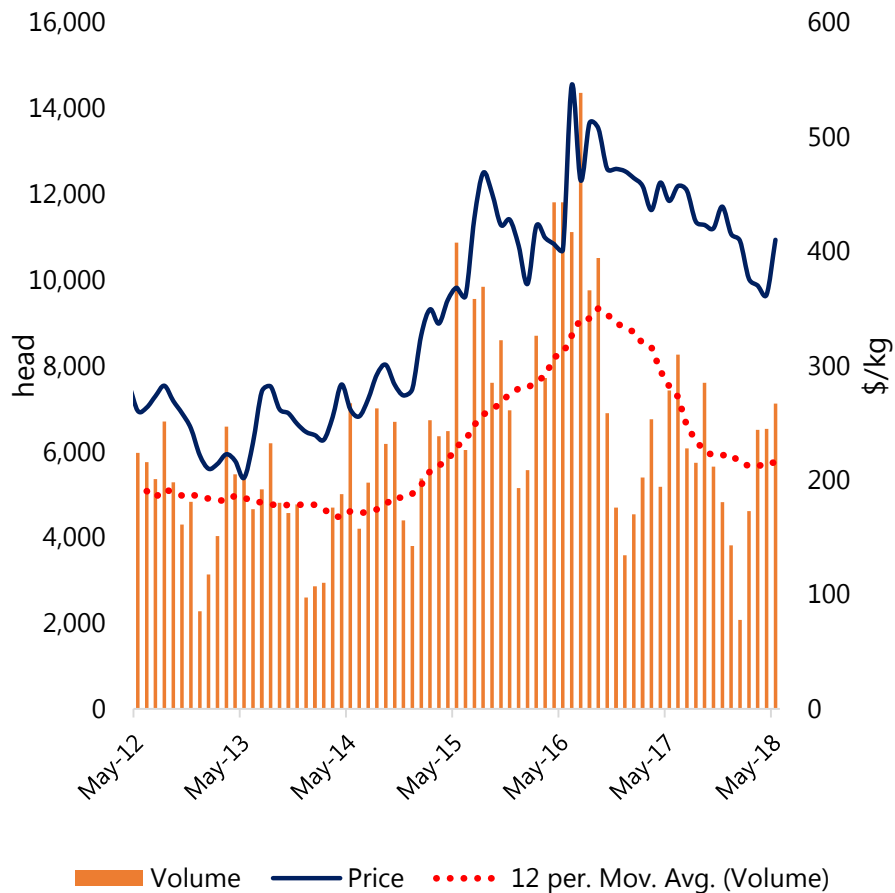
A recovery in milk supply has been patchy

Milk supply growth in 2017/18, as at April 2018



The herd rebuild will be slow

Australian cull cows and price

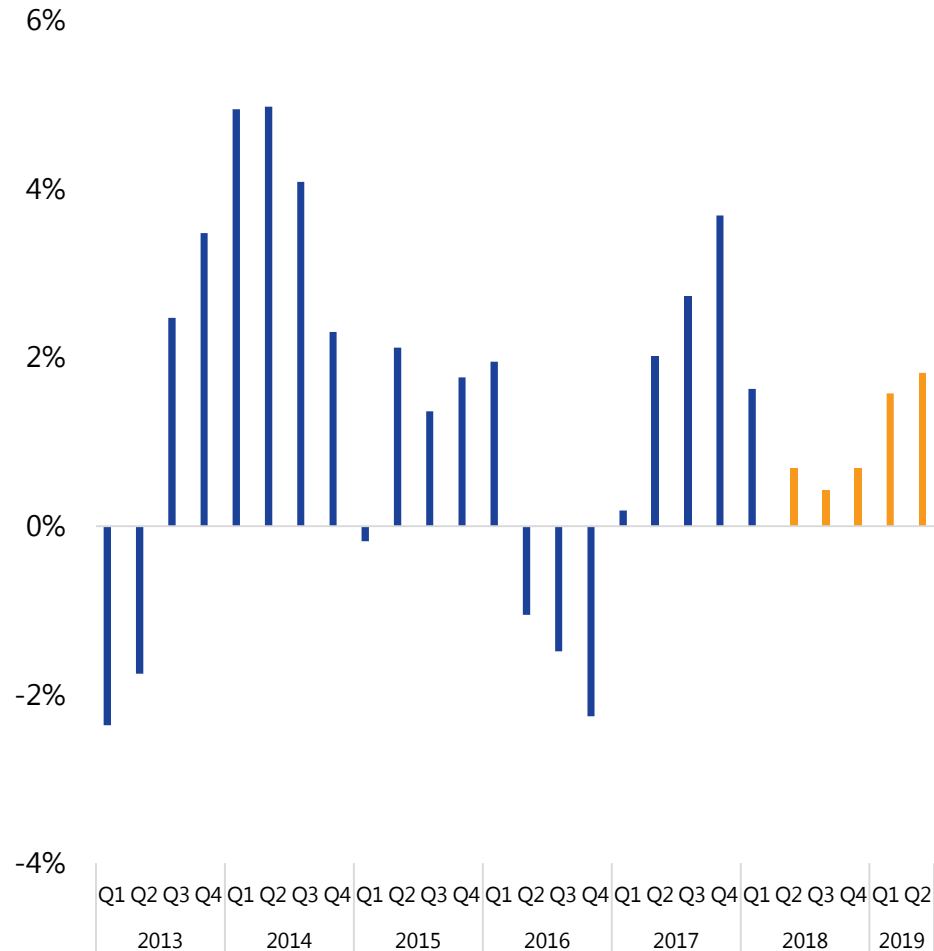


Average annual grain per cow 2017 (tonne)



Steady as she goes now for global markets

Combined year-on-year growth of the Big 7 (%)



Source: Big 7 government trade agencies, Rabobank, 2018

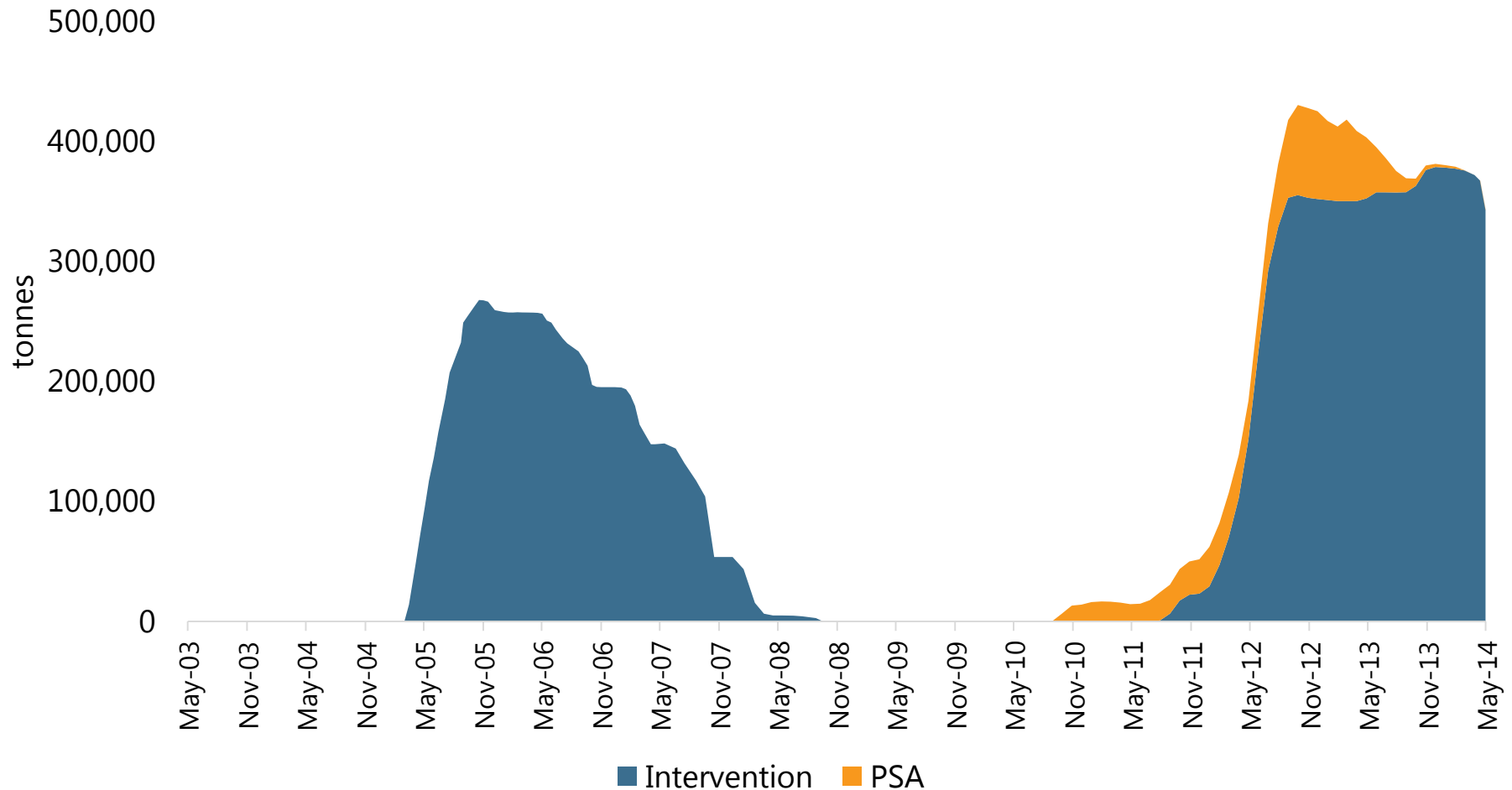
Global cheddar price, US\$/t fob, actual and forecast



Source: USDA, Rabobank forecasts, 2018

Some good progress has been made on EU stocks

Combined EU SMP stocks



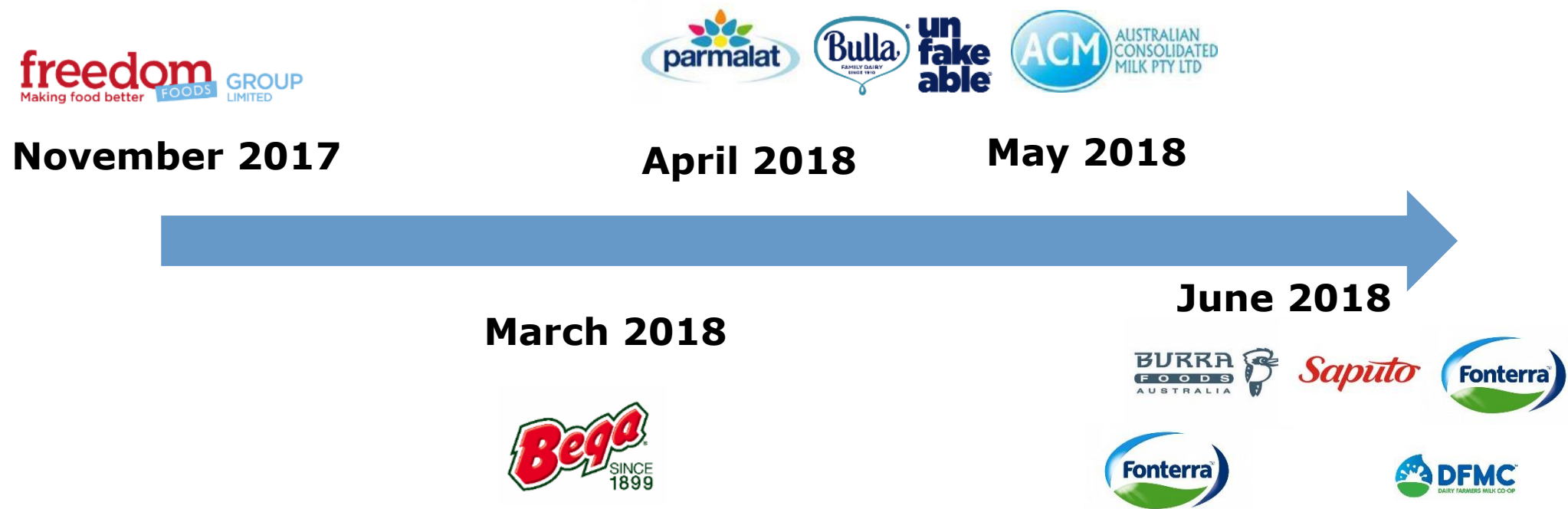
Trade
frictions

NZ spring
flow

Currency
shifts

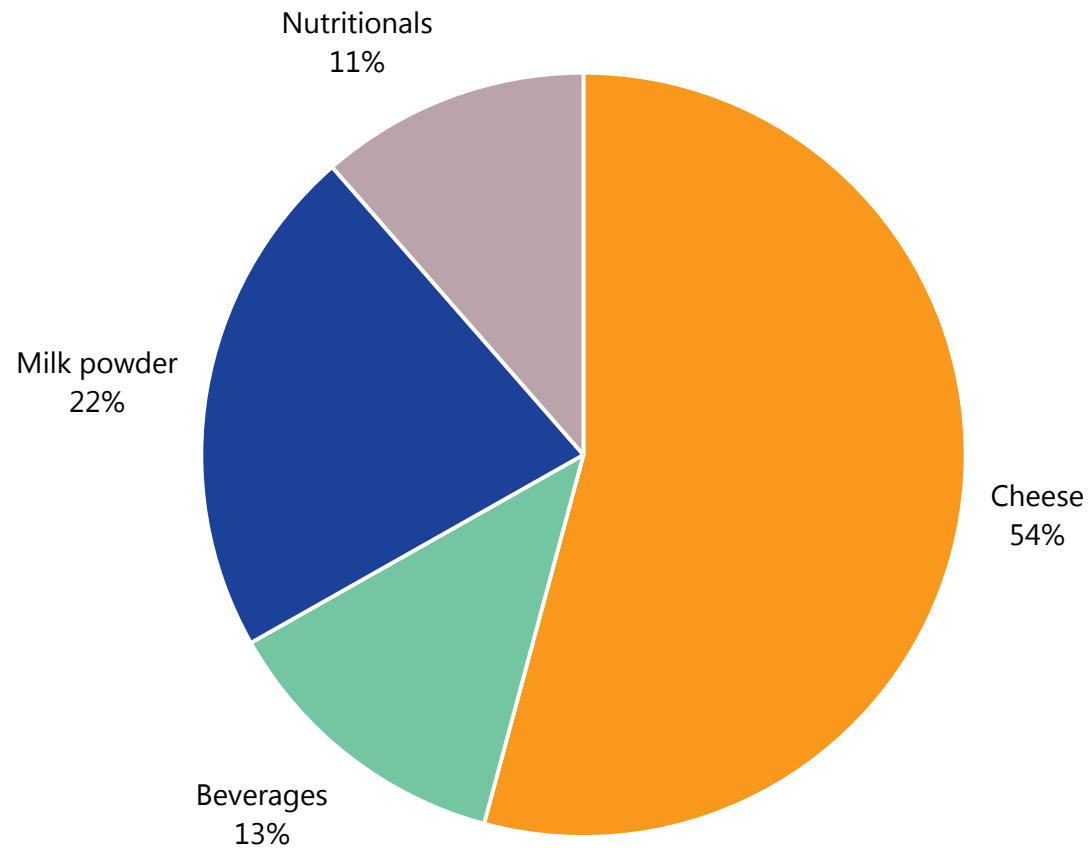
Stocks

The heat is on for milk supply earlier than normal



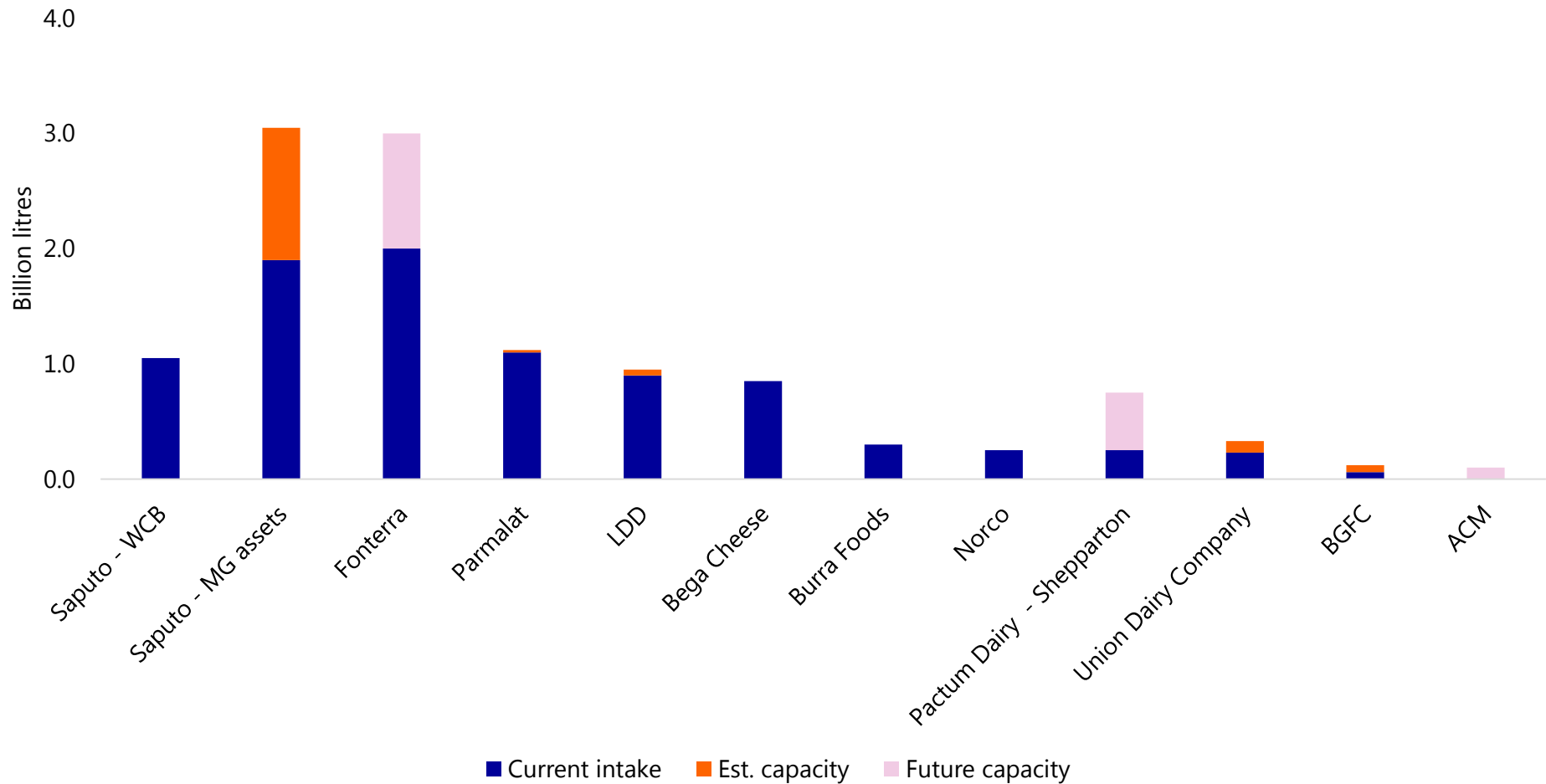
As Australia moves towards a cheese play

Dairy processing capacity expansions since 2015 (actual and announced)



Competitive pressure for supply will be an ongoing feature

Annual milk intake, current and forecast



Source: Company reports, Rabobank estimates. * Fonterra includes future capacity expansions

The project pipeline is still quite active

Warrnambool Cheese and Butter: A billion litres and not done yet

SIMONE SMITH, The Weekly Times
July 13, 2017 12:00am

JANUARY 24 2018 - 8:47AM

Fonterra announces \$165 million dairy expansion



Rachael Houlihan

DAIRY

Burra Foods \$24.5m expansion expected to create 40 jobs

DAIRY

Beston Global Food Company on the hunt for more milk

Penola plant shaking it up

EVERARD HIMMELREICH
03 May, 2017 05:18 PM A+ A-



A guaranteed minimum milk price is part of the package the Midfield Group is offering dairyfarmers to supply the new \$60 million Penola, South Australia, milk plant that is scheduled to open in July.

Dairy

New Girgarre factory plan

by GEOFF ADAMS | OCTOBER 31, 2017

Freedom Foods raising \$200m for dairy, nutrition factory expansion



Andrew Marshall
@BurrenAndrew

16 Mar 2018, 1 p.m.

Top Stories

\$130 million dairy project mooted

KEN JENKINS

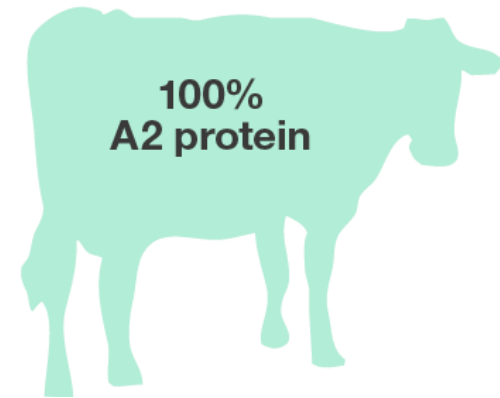
27 Feb 2018, midnight

Milk pools are being repositioned at a faster rate

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The bottom line

- Dairy farmer sentiment has improved; but remains cautious for major investments.
- Global markets have found a healthy supply-demand balance.
- This will support southern Australia farmgate milk prices in 2018/19.
- But margins will be squeezed by higher feed and water costs in 2018/19.
- There continues to be major change taking place across the Australia dairy supply chain.
- This includes a shift in:
 - Ownership structure of the supply chain
 - Who is collecting and processing the milk
 - What product streams are taking the milk components
 - How milk is being priced at the farmgate
- The long-term challenge is for Australian to generate sustained growth in milk supply.

Thank you