

Dairy



August Monthly Update



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Key Watchpoints – August

- Producers who held back from early farmgate offers have reportedly received contracts over \$10/Kg MS as processors scramble to secure supply.
- Things are heating up in the bid to acquire Fonterra's Australian consumer business as Bega and FrieslandCampina propose a joint bid.
- Australia could be a beneficiary from a US/Indonesia trade 'deal'.

\$10/Kg MS farmgate prices

The average southern farmgate price of major processors for 2025/26 is around \$9.10/Kg MS. But from all reports this is far from what producers are willing to settle for.

Opening offers averaging around \$8.80/Kg MS were not well received and resulted in producers reluctant to commit supply. A late flurry of step-ups in the week before the July 1 deadline saw the southern farmgate average lift to current publicly advertised levels, but the maximum potential prices from major processors averages around \$9.30/Kg MS. Meanwhile the average offer from smaller and fresh milk processors sits around \$9.60/Kg MS.

Industry talk suggests that major processors needing to secure supply have been offering private contracts well above publicly announced bids, some exceeding \$10/Kg MS.

While this calls into question the validity of the mandatory code of conduct, it also begs the question about the pricing strategy from major processors. Rather than starting from a low baseline and disenfranchising their suppliers, would a more effective strategy have been to offer slightly more if it meant avoiding having to offer special deals at inflated prices?

The upside of this is competition to secure supply remains and there is potential value for those that are in a position to challenge convention.

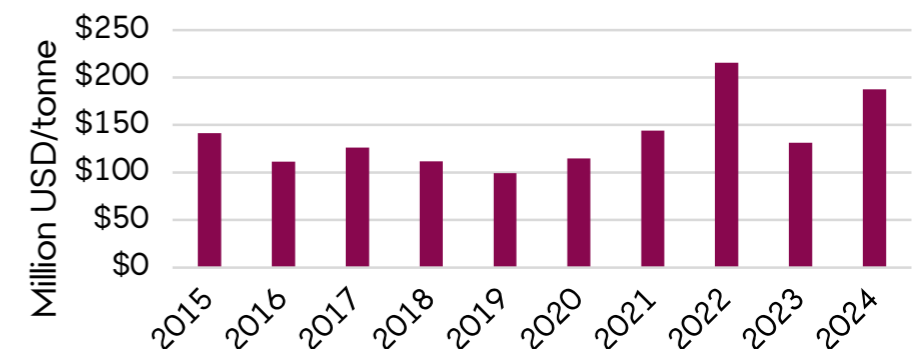
US/Indonesia dairy trade 'deal'

The United States and Indonesian dairy industries have built upon a Memorandum of Understanding outlining a framework for 'collaboration in a major step to strengthen cooperation and mutually beneficial dairy trade.' Without being dismissive, the announcement is nonbinding and seems more aimed at promoting dairy, market and trade data sharing and broadly growing the Indonesian market rather than specific trade targets.

The US exported US\$245 million worth of dairy products to Indonesia in 2024 compared to Australia's US\$188 million. Indonesia is the US' seventh largest export market compared to Australia's third largest, so a moderate gain for US market share would have an outsized impact on Australia.

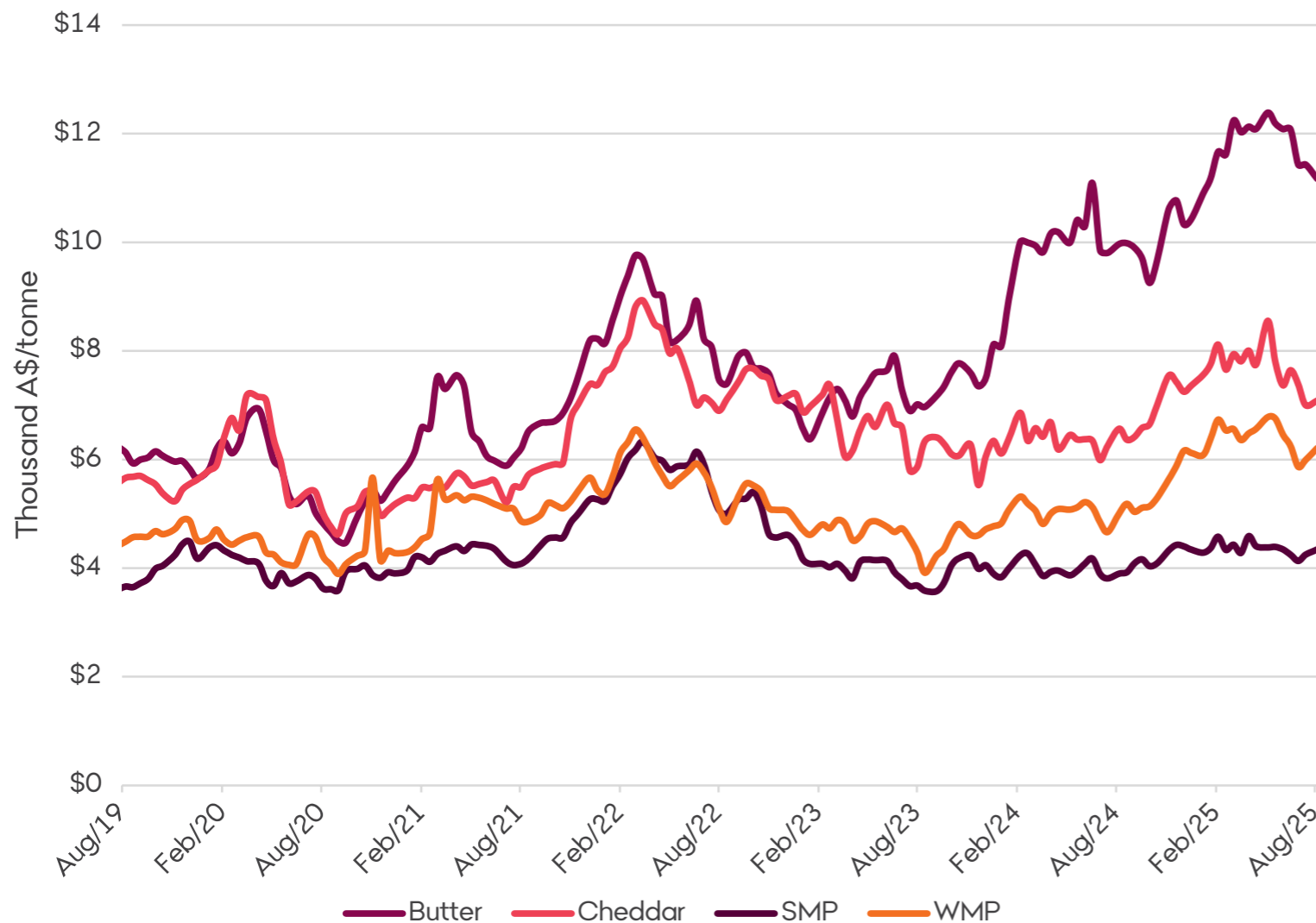
However, with the potential growth opportunity Indonesia offers, Australian dairy would likely be a beneficiary of higher demand for dairy products from Indonesia.

Value of Australian Dairy Exports to Indonesia



Source: Global Trade Atlas

Global Dairy Prices



Source: Global Dairy Trade

The Great Acquisition Race

The race is heating up to secure Fonterra's Australian food and consumer business and assets. The Australian Competition and Consumer Commission (ACCC) confirmed it will not oppose Lactalis' proposed acquisition, clearing the way for them to challenge Japanese company Meiji Holdings Co as the two prospective bidders. But Bega have made their move, with the ACCC now investigating a joint bid between Bega Cheese and Dutch multinational FrieslandCampina NV (FC) to secure Fonterra's assets. While the potential impact on suppliers is yet to be determined, this does set up a few interesting watch points:

Who gets which assets? Should the JV between Bega and FC succeed, the ACCC will likely be particular about how assets are split between the applicants given Bega's already substantial market presence in some areas.

How does FC negotiate being in a JV with two competitors? It may not be relevant dependent upon the carve out of assets, but FC is already in a 50/50 joint venture with Saputo for ownership of Great Ocean Ingredients in Allansford. It could create an interesting dynamic being tied to companies competing for supply.

What happens to the Bega consumer brand? Fonterra currently own the Bega consumer brand which is licensed from Bega Group. Fonterra have indicated they are unlikely to break up their full suite of assets, meaning if the Bega/FC JV doesn't succeed Bega will have to negotiate an arrangement with the new owner.

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