

## GMP timeline

Last year Fonterra announced the trial of a new guaranteed milk price (GMP) product for its suppliers for the milk season ending 31 May 2014. The targeted size of the trial was to be 15 million kilograms of milk solids (kgMS) being approximately 1% of supply.

The announcement was great news for dairy farmers because a GMP product would provide them with another much-needed risk management tool. Farmers strongly supported the trial with excess product offered. Fonterra has introduced a modified GMP for the current season but farmer support has been under-whelming.

For the GMP to be really useful farmers need to be able to access relevant and timely information, which they reasonably expect to be able to get from Fonterra. Our hypothesis is that the lack of support from farmers for the GMP this season is because of a lack of relevant and timely information.

Consider this timeline (and remember that dairy farmers get paid in NZ dollars on the basis of kgMS supplied and that GLOBALDAIRYTRADE™, Fonterra's twice-monthly global online auction that establishes the farm gate milk price (FGMP) for farmers, reports prices in US dollars on the basis of tonnes of product sold

### 30 April 2013

Fonterra announced the trial of the new GMP product for the milk season ending 31 May 2014.

### 11 June 2013

Fonterra announced that the GMP would be \$7.00 / kgMS.

By 11 June 2013, the weighted average price for all products on GDT for the season was more than US\$4,500 per tonne as was the weighted average price of the reference products that establish the FGMP. Using our estimate of the currency conversion at that time, those US dollar prices per tonne of product translated into NZ dollar prices per kgMS of more than \$8.60 / kgMS.

### 9 July 2013

Fonterra announced that its suppliers had offered to supply 37 million kgMS (over-subscribed by almost 150%) and therefore all offered supply would be scaled back by 60%.

### 31 July 2013

Fonterra reviewed its forecast FGMP up \$0.50 to \$7.50 – no change obviously in the GMP.

### Other relevant information:

- the price trend in the 12 months leading up to the first June 2013 GDT was a very strong increase in US dollar prices, up by something like 65%. With prices having peaked in April 2013, they were just starting to tail off a bit in May 2013;
- the FGMP for the milk season ending 31 May 2013 was \$5.84 / kgMS; and
- a FGMP in excess of \$7.00 had only been paid twice previously.

From a historical perspective a GMP of \$7.00 for the 2014 season looked fantastic. However, from the perspective of the prices actually being achieved on GDT at the time, a GMP of \$7.00 looked a bit average.

Fast forward...

### 1 April 2014

Fonterra announced that it would offer a GMP for 60 million kgMS for the season ending 31 May 2015. The 60 million would be split into two tranches, 40 million offered in June with the milk price fixed for 12 months and 20 million offered in December with the milk price fixed for six months.

### 28 May 2014

Fonterra announced its opening FGMP forecast of \$7.00 / kgMS for the 2015 season and a couple of days later detailed a possible range of \$6.60-\$7.00 / kgMS for the June GMP tranche. Farmers had to make a decision to participate in the GMP or not by 20 June.

### 17 June 2014

The weighted average price for all products on GDT for the season to date was less than US\$3,900 per tonne as was the weighted average price of the reference products that establish the FGMP. Using our estimate of the currency conversion, those US dollar prices per tonne of product translated into NZ dollar prices per kgMS of about \$6.60.

### 2 July 2014

Fonterra announced that its suppliers had offered 25.4 million kgMS versus a possible 40 million (and significantly less than the previous year) for the June GMP tranche and a GMP of \$7.00.

### 29 July 201

Fonterra reviewed its forecast FGMP down \$1.00 to \$6.00.

### Other relevant information...

- the trend in the 12 months leading up to the first June 2014 GDT was increasing US dollar prices through to February 2014 followed by a rapid decrease. The decrease in US dollar prices from February to May 2014 was more than 20%;
- the FGMP for the milk season ending 31 May 2014 is currently forecast to be \$8.40 / kgMS, the highest ever.

Compared to \$8.40, a GMP of \$7.00 for the 2015 season looks a bit average. However, from the perspective of the prices actually being achieved on GDT at the time that a decision had to be made, a GMP of \$7.00 looked pretty good.

According to our maths, the year-to-date (ie. up to and including the auction on 6 August) GDT prices translate into a FGMP of less than \$5.50.

Some of the farmers we talk to are of the understanding that Fonterra will announce a forecast FGMP change every time the forecast changes by \$0.30 / kgMS. The historical evidence suggests that that is clearly wrong. Others are of the understanding that the forecast FGMP is only reviewed quarterly and that the \$0.30 rule only applies to these reviews. Whatever the current practice is, it needs to change. A \$1.00 / kgMS decrease is unacceptable (as are \$0.50 / kgMS increases). Non-supplier shareholders would probably be quite interested in more timely and relevant information as well.