

MARKET UPDATE

Monthly Market Summary for Members of DFMC



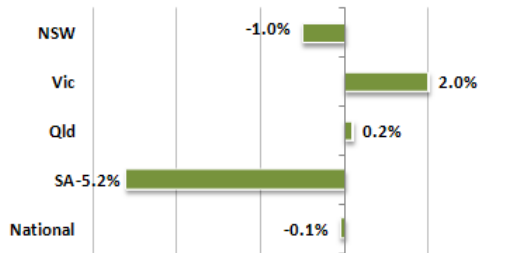
April 2011

Brands fighting to hold their place

Fresh white milk sales growing, as private labels hold most of their gains.

Dairy Australia said that milk sales in March fell by 0.1% compared with the same month in 2010, while the 9 months to date sales was 1.5% ahead of the previous season. Victoria and Qld were the only states to grow milk sales in March.

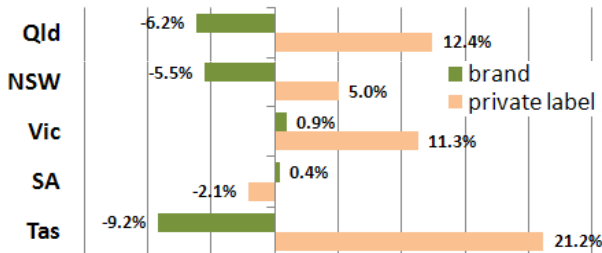
March 2011 Packaged Milk Sales



Source: Dairy Australia

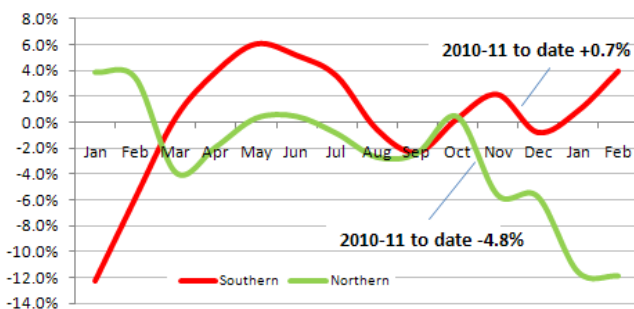
The chart below shows brand volume losses have been pulled back (from February data) in NSW, with small recoveries for brands in Qld, Victoria and SA. In overall terms, sales of reduced fat lines grew by almost 8% over the same time last year, with discounted private label lines up 21% over the comparative – the source of the greatest loss in value to branded lines.

March 2011 fresh white milk sales volumes (change from March 2010)



No comparable WA data - source Dairy Australia

Australian milk production - changes in southern v northern output in 2010-11 to date



More Victorian step-ups

Dairy suppliers received pre-Easter boost as processors step-up

Murray Goulburn announced a further increase in its farmgate milk prices for the 2010/11 season 25c/kg protein and 10c/kg butterfat despite a slight softening in world markets, which gives an average price to its suppliers of about \$5.45/kg milk solids – closer to the top end of MG's season forecast. In comparison, WCB increased milk pays to an average of about \$5.40 per kilogram of milk solids, with a lift of 20c/kg for protein and 10c/kg for butterfat paid retrospectively for milk supplied from the beginning of this financial year and Burra Foods' third step-up for the season lifted the company's annual weighted average price to \$5.25/kg of milk solids, with a 7c/kg increase for butterfat and 17c/kg rise for protein.

Important market indicators

Dairy export index	The index has fallen steadily in the past month to be at 128 at the time of this summary.
World dairy prices	Prices have weakened in recent weeks in tune with the fluctuations in the gDT auction.
Australian dollar	The \$A flew past \$1.07, after weeks of hovering around parity.
Grain futures	Feed grain prices in world markets remain high, with the influence of Chinese demand pulling prices higher. Local feed grain prices have weakened slightly.
Cow prices for cull exports to the US	The US market for Aussie cull cows remains firm but with easing demand within the US.

Retailers' 3rd quarter sales numbers

Majors' share strengthens with stronger sales results

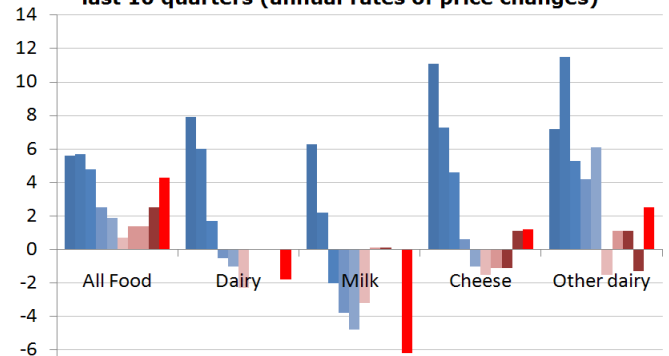
Coles sales growth again outpaced Woolworths' supermarkets for the 8th consecutive quarter, rising 7.1 per cent in the three months ended March, while same-store sales at Coles rose 7.2% - outperforming Woolworths same-store sales increase of 3.9 per cent (Easter adjusted) in the March quarter. Excluding the impact of higher tobacco excise, Coles recorded food and liquor price deflation of 1.4 per cent, compared with claimed price deflation of 3.6 per cent at Woolworths. Woolworths' sales through its Australian food and liquor division grew 4.6% increase on the year, but when adjusted for Easter 2010, sales were up 5.2%.

Food CPI jumps on higher costs

Food CPI skyrockets fuelling a risk of a near-term interest rate rise

Food CPI increased 4.3% year-on-year and were 2.9% compared to the previous quarter, triggered by the summer floods and Cyclone Yasi. The latest ABS figures show that after remaining in neutral position for the past 3 quarters, dairy has crept back to negative territory at 1.8%. The dip in milk is higher at 6.2%, which is offset by gains in cheese and ice cream and other dairy products at 1.2% and 2.5%.

Quarterly changes in Food and Dairy CPI over last 10 quarters (annual rates of price changes)



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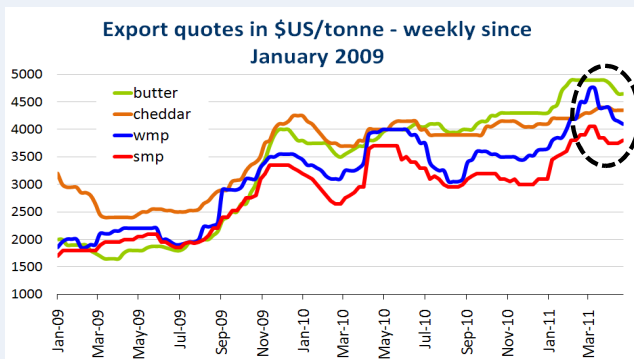
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World dairy market returns

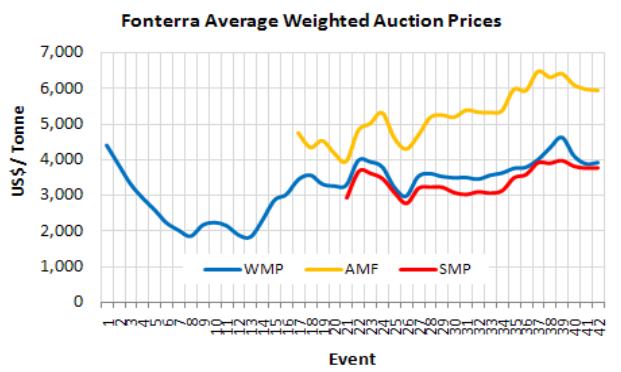
World market loses more steam

At the time of this report the index of Australian export returns was at 128 points after spending the past 5 weeks in a tight band between 138 and 130. The world market has lost some ground as buyers have become a little more cautious with the higher supplies available from Europe and the US and better prospects for milk growth in New Zealand in 2011/12. Prices for milk powder and butter have come off their peak, and the Fonterra auction delivered a couple of hefty falls in results before a steadying at the last event. Cheese meanwhile has remained fairly stable.



Fonterra auction prices steady after much fluctuations The correction in dairy prices halted at the latest Fonterra auction, rising slightly for the first time since early March – albeit by only 0.1%, but with anhydrous milk fat and skimmed milk powder chalking up further small losses. Whole milk powder posted an average rise of 0.8% across all contracts, but all prices remain below \$4,000 a tonne.

The amount of whole milk powder offered, at some 7,000 tonnes, was less than one-third that in October, when southern hemisphere producers are at peak output.



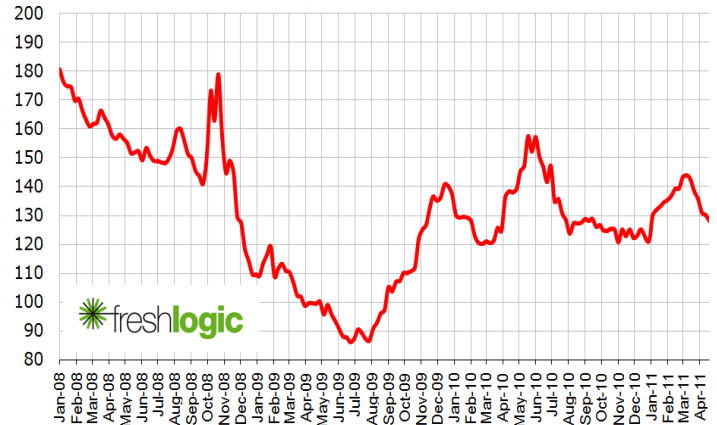
Cheese to be added to GDT Fonterra is adding cheese to its roster of products traded online every fortnight to provide customers with a wide range of products on a world-class platform. Bidders will be able to buy block cheddar as an ingredient for processing from July 19.

Chinese growth rate slowed

Changes due to quality management have halted rapid expansion

China's rate of dairy production has slowed, according to official figures - down from 21% four years ago to less than 10%. The switch to foreign milk powder by Chinese consumers has now been matched by a tough crackdown by the authorities on processing standards. Milk output reached 21.5 million tonnes in 2010, from 17.8mt in 2007, but the relative annual growth rate fell from 21.8% to 11.2%. This year, figures for February revealed national output of 3.2mt, a growth rate of 9.2%.

Australasian export index from Jan 2008



Take note: The index is an indicator of spot trends in gross export returns to the industry based on quoted Australasian export prices, movements in currency and the total milk usage in exports by the Australian industry. It was set at 100 on 1 January 2004.

Source: Freshlogic

Supply responds on EU and US farms

Higher milk prices will brought stronger milk flows back.

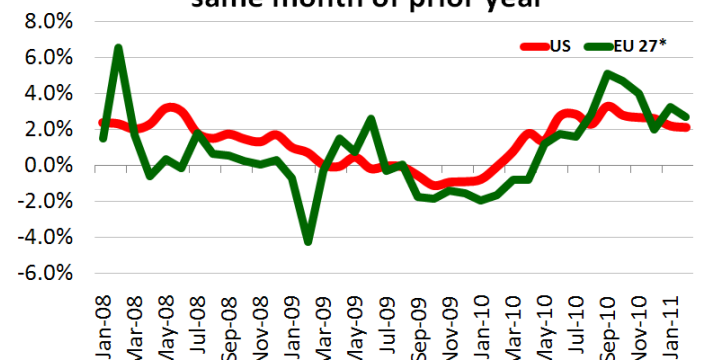
The higher farmgate milk prices in Europe and the US has kicked in for producers and delivered more milk to dairy companies.

EU milk output in February 2011 failed to reach the expected growth after a strong month in January. Total EU output was up 2.9%, with French producers bucking the steadying trend, while for the 10 months the EU was ahead 2.2%. EU output rebounded strongly in the 2nd half of 2010 but thankfully has contracted a bit as the end of the quota year neared.

In comparison, US milk production is growing stronger. During March total US milk flows were 2.4 percent higher than March 2010, lifting the year-on-year growth rate from that seen in the prior month, when February's output was 2.2 percent above the same month in the prior year. The worry for Australian exporter is that the US resilience in output comes despite sharply higher feed costs, indicating the industry has probably moved up to a new level where it is defying some of the conventional logic about growth at certain margins.

Production per cow in the top 23 States averaged 1,872 pounds for March, 24 pounds above March 2010, while the number of milk cows on farms in the 23 major States was 93,000 head more than March 2010 at 8.42 million head. Growth in the month in the largest 6 states shows a mixed bag but 4 of the 6 exceeded the national rate of expansion.

EU and US milk supply % changes on same month of prior year



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