

MARKET UPDATE

Monthly Market Summary for Members of DFMC



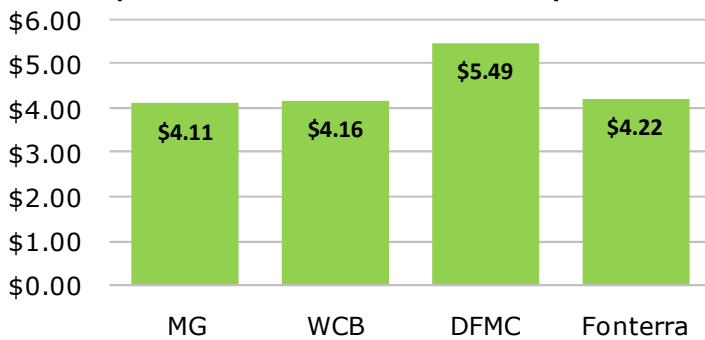
January 2010

Manufacturers keep milk prices moving

Fonterra latest to move in tit-for-tat step-up contest

The recent spate of step-ups continued as Fonterra announced a base milk price rise of 10c/kg for butterfat and 25c/kg for protein, applying across-the-board to all Victorian and Tasmanian suppliers and backdated to 1 July 2009. "Our average annual price is now \$4.06 per kg of milk solids," milk supply chief Heather Stacy said. Warrnambool Cheese and Butter has announced a second step-up for the season, pushing the milk price to an average of 30.9c a litre based on its estimates. The step-up was 15c/kg for butterfat and 30c/kg for protein.

West Vic comparison based on declared step-ups and announcements to 11 January 2010



This is based upon a 3.0 million litres farm at estimated average Western Victoria butter fat and protein components and milk supply profile. Comparisons relevant to individual dairy farmers or average supply base of respective companies may vary from this indication

Tasmanian prices tied to Fonterra

Dispute settled, new formula to set NFL's Tasmanian prices

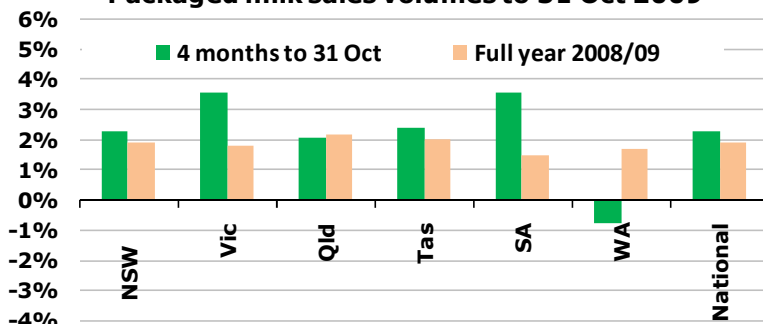
In resolution of the dispute between National Foods and its Tasmanian collective bargaining group, the company has undertaken to at least match Fonterra prices and will provide to every supplier a twice-yearly comparison of the price they are receiving for their milk based on individual supply patterns, with the price they would receive if they were supplying Fonterra.

Milk sales continue steady growth

NSW and SA grows strongest, Qld growth slows a bit

Year to date milk sales for the 4 months to the end of October lifted to be 2.6% over the same period in 2008, as NSW and SA showed strongest gains, of 4% and 4.7% respectively. The building momentum in Qld milk sales that has shown up in the prior few months abated as the state posted a slowing of the monthly gains to 3%.

Packaged milk sales volumes to 31 Oct 2009



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Important market indicators

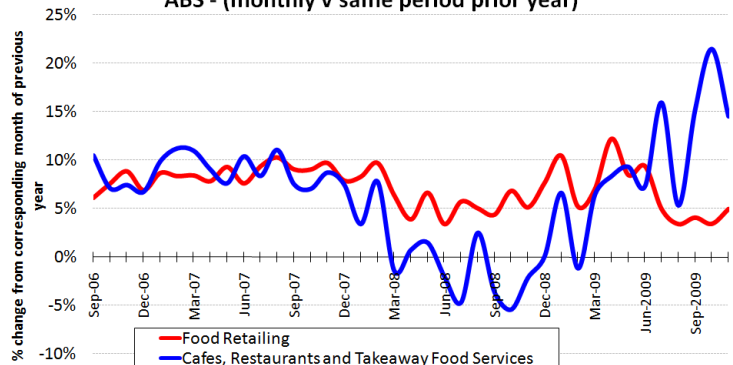
Dairy export index	The index has fallen 7% since the week before Christmas to around 130
World dairy prices	Weakening at present with butter and WMP losing most ground.
Grain futures	Prices in US have fallen in the past week. Australian prices so far remain steady
Cow prices for cull exports to the US	The US market was a little firmer pre-Xmas with limited local supply of cull cows, \$A returns however steadied

Retail sales stayed strong in November

The year kicks off with numbers that suggest the economy is doing OK – sentiment suggests further interest rate rises and helps push the \$A back past US90 cents

The Australian Bureau of Stats said Australian retail sales surged in November, rising at the fastest pace since the launch of economic stimulus at the start of 2009. Grocery sales through supermarkets were up 4.5% on the same month in the prior year, but sales through takeaway, cafes and restaurants were 14.5% better than November 2008. The trends numbers suggest that for the past 6 months, grocery sales are up 5% and eating out up more than 13%, evidence of the improved flow of cash to consumers, but the underlying rate of cost inflation through grocery would suggest supermarkets are still taking share away from other outlets.

Retail Food Channel Sales Growth
ABS - (monthly v same period prior year)



Milk supply slowing further

Continued contraction in milk supply helping tighten the market

Official numbers from Dairy Australia report national milk production was down 5% for the 4 months to the end of October 2009. Hotter, drier weather in Qld and NSW halted production growth compared with the same month last year. For NSW, production was in line with the same period last year, while Qld output grew 2.1%, the slowest monthly rise since September 2008.

You can sign up for a weekly emailed update on market trends and other developments by sending your email address to DFMC's Executive Officer Greg Griffith on GriffithG@dairyfarmers.com.au

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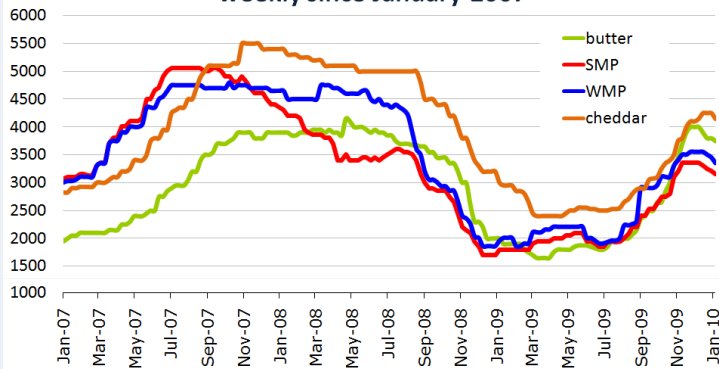
World dairy market returns

Heat goes out of export prices

At the time of this report the index of Australian export returns has fallen 10 pts from its pre-Christmas level to around 130 pts, due to a combination of weaker spot prices and a rebound in the value of the \$A. Cheddar prices have been the last of the big four commodities to soften while whole milk powder and butter prices have felt the biggest corrections in the past few weeks, losing \$200-\$250/tonne, reflecting buyer concern about the heat in the market and the possible effect on demand. Meanwhile the \$A stays pumped up with sentiment about the economy helping expectations about further interest rate rises.

World supply isn't getting any better and the world economy if anything is getting stronger. Other news on this page about NZ production and further problems in China can only help stabilise the market.

Australia & NZ export quotes in \$US/tonne - weekly since January 2007



WMP prices fall in latest Fonterra auction

After a small rise in the December auction, the January result shows the market is still pretty cautious. Whole milk powder (WMP) prices at Fonterra's January internet auction held on January 6 dropped by 7%, the first price decrease in six months. Fonterra played down the fall, describing the drop as a minor price correction after five months of price rises totalling 95%. The average price achieved across all contracts and contract periods at the *GlobalDairyTrade* auction was US\$3,309/tonne, \$251/t less than December's auction, while the price range was \$3,230-\$3,555/t.

Grain prices fall on US crop news

The size of the US grain crop may be good news for grain users

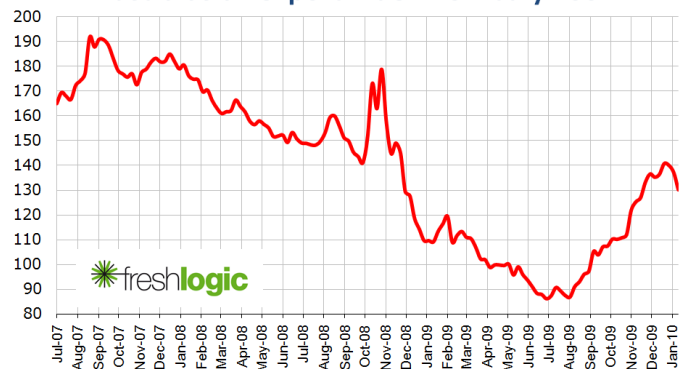
US corn, soybean and wheat prices plummeted on the Chicago Board of Trade following a USDA report that showed corn and soybean production exceeded forecasts made in November and hit record levels last year. Analysts say the surging crop supplies may mean that world grain prices may have already seen the highest levels they'll ever reach in 2010 - less than two weeks into the year.

Fonterra: Less milk from NZ in 2009/10

Less milk out of NZ will help keep the world market tight and support stronger commodity prices

Fonterra says it may collect less milk from its New Zealand suppliers this season as dry weather adversely affects pasture growth in North Island regions. Fonterra expects milk production in the North Island will be down about 2%, while South Island production is expected to increase about 3%. Overall it predicts collections will fall 0.8%. Summer rainfall and river flows are forecast by weather experts to be below normal in much of the North Island for the three months through to February.

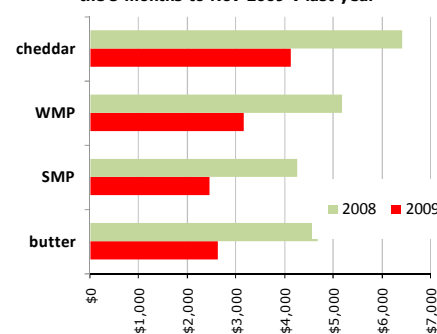
Australasian export index from July 2007



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

Average Australian export prices in \$Aus - for the 5 months to Nov 2009 v last year



The chart shows the stark contrast between average export prices achieved pre and post GFC. While prices are in recovery at present, spot prices are still well ahead of what exports are being booked at in real terms.

Japan's cheese market is still tough

Australia's most valuable export market is still down on prior years, but a mixed bag for our manufacturers

Japan import customers are trimming their purchases of cheese even despite prices that are much lower than a year ago. Total cheese imports in the year to the end of November were down 6% on the prior year, with cheddar down 2% but fresh cheese imports off more than 14%. Australia has had a mixed result over that period and in net terms has exported less to the largest cheese export market than a year earlier, with a small growth in cheddar exports (up 7% but still below the levels of 2 years ago), while fresh cheese sales were down nearly 15%.

Chinese imports may get more support

A new melamine scare may give further help to Chinese import demand

Just prior to Xmas, a fresh melamine scare was reported in China and has taken a further twist with news that Chinese officials waited nearly a year before they acted in shutting down a major dairy. Food safety authorities shut down the Shanghai Panda company after discovering it was producing condensed milk and milk powder laced with melamine. Panda was one of 22 Chinese companies involved in the original melamine scandal and was briefly shut until it was found to have made improvements.

Since the news initially broke, evidence has stacked up to indicate that authorities were slow to make the disclosures, and order the recall of the products. Panda was found to have been recycling products that were supposed to have been destroyed. Chinese industry sources expect the new developments to increase the demand for imported milk powder and infant formula ingredients.

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