

# MARKET UPDATE

Monthly Market Summary for Members of DFMC



March 2011

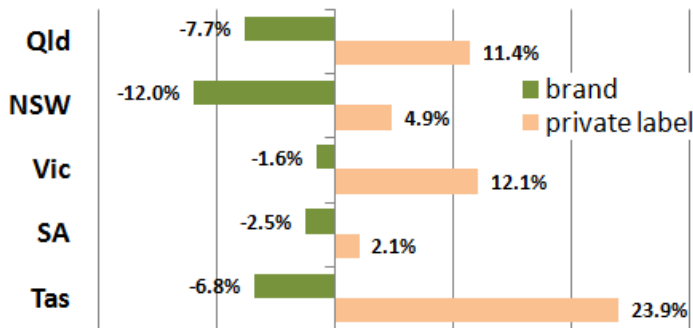
## Branded milk sales suffer

Early data shows the loss to brands is significant.

Dairy Australia's data on February milk sales shows varying effects from the reduction in private label pricing, with branded fresh white sales volumes down in all states and private label volumes well up. While the full impact may not be known until we see March numbers because of orders in the system and product on shelf when the price cuts took effect, the impact is nonetheless significant in several states. The numbers for brands are worse in modified milk products, where the price cuts are more severe.

WA data is omitted due to inconsistencies in the data pool in 2011.

February 2011 fresh white milk sales volumes (change from Feb 2010)



## Risk to farmgate values

Freshlogic's analysis suggests that the effect of the above changes – which are probably at the low-end of the monthly impact – are 3-4 cents per litre if they are sustained for a long period of time in Qld and NSW. It will be important to see March data which may increase the size of the bars – and risk to farmgate values.

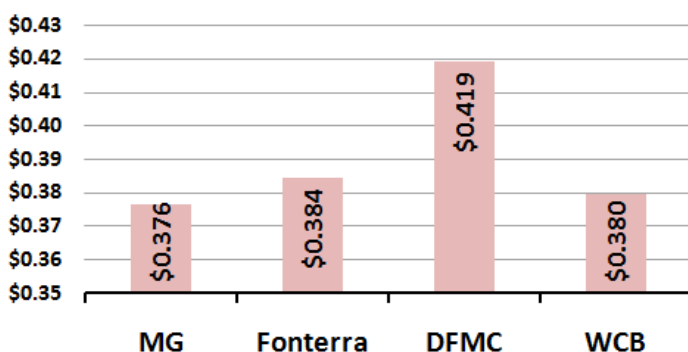
## More step-ups – manufacturers up to 38c

Fonterra puts itself back ahead of MG in full-year payments

Fonterra increased its average annual farm-gate milk price by 26 cents per kilogram of milk solids to \$5.30/kg/MS. This price rise, for Victorian and Tasmanian suppliers, includes an increase of 16c/kg of butterfat and 40c/kg of protein

The chart below shows the announced milk prices for the 2010/11 year based on a typical western Victorian farm of 1.5 million litres in milk supply. This does not include any provision for further year-end or closing step-ups which may or may not be announced.

Western Victoria: Pricing Comparison (Cpl)



## Important market indicators

Dairy export index	The index has remained steady in the past month to be at 138 at the time of this summary.
World dairy prices	Prices have weakened in recent weeks as the fears of uncertainty after the Japanese tsunami and nuclear accident affected confidence.
Australian dollar	The \$A continues to hover around parity, but has gone past US\$1.02. The \$A remains strong due to the influence of commodity values for metals, and the currency market's appetite for riskier economies – which Australia is seen as.
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 strong with a tight of meat supply within the US.

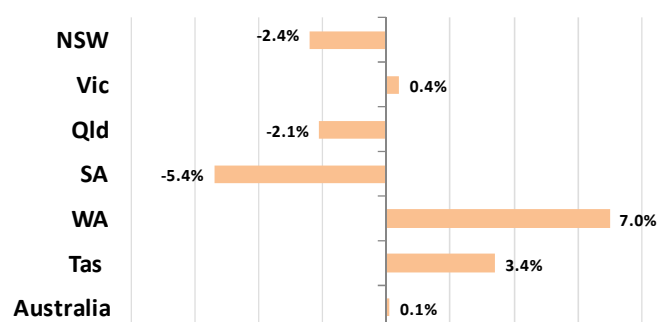
## Production fall sharply in Queensland

West still in spectacular growth, while rain dampens Qld milk flows.

The big wet in southern Queensland took its toll on milk production in January as milk collections fell 20% from the same period in the prior year, to drag year to date production for the state to almost 5% below the prior year. NSW output was also lower – 7% down on the same month in 2010, with the north coast down 9%, and inland and southern region 12% lower in January.

Despite this, national milk production was only down slightly by 1.3% to leave year to date deliveries a shade lower than the first 7 months of the 2009/10 year. Despite wet conditions, southern supplies rose to remain just ahead of the prior-year comparative. WA and Tasmania remain well ahead of last year's output, South Australian milk flows are well behind.

Australian milk output - YTD to Jan 2011



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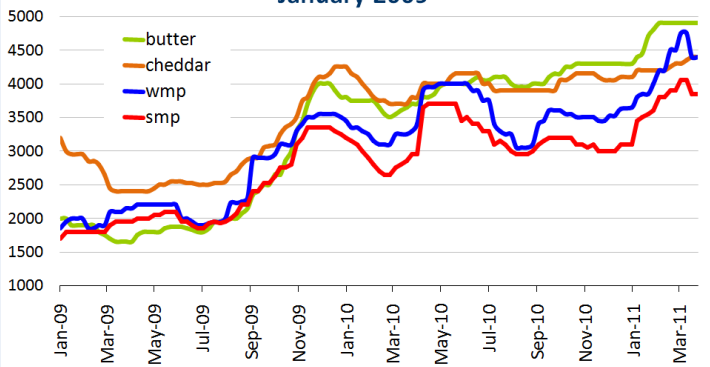


## World dairy market returns

### World market loses a little steam

At the time of this report the index of Australian export returns was at close to 138 points after spending the past 5 weeks in a tight band between 137 and 144. Sentiment in the world market has turned a little cautious after the disasters in Japan, with prices for milk powder coming off their peak. More interest for Australia is the effect on the cheese market in Japan which is the biggest and highest value cheese outlet for exports.

Export quotes in \$US/tonne - weekly since January 2009

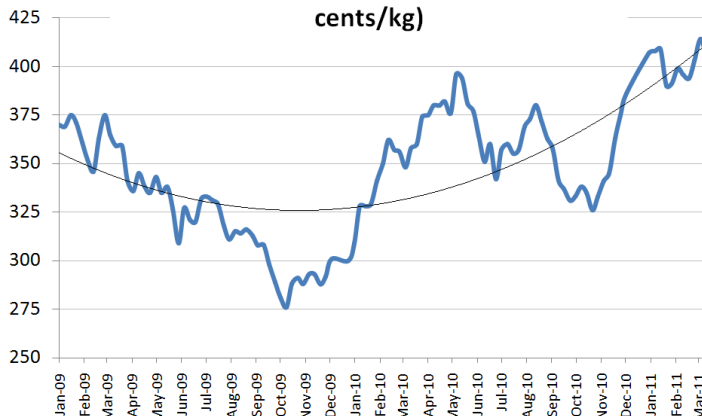


It is expected that the market will stay firm. NZ production is just ahead of last year despite the stronger milk price outlook. Weather seems to be the biggest deterrent to further expansion as the season winds down. EU production is ahead of the prior year but growth is patchy.

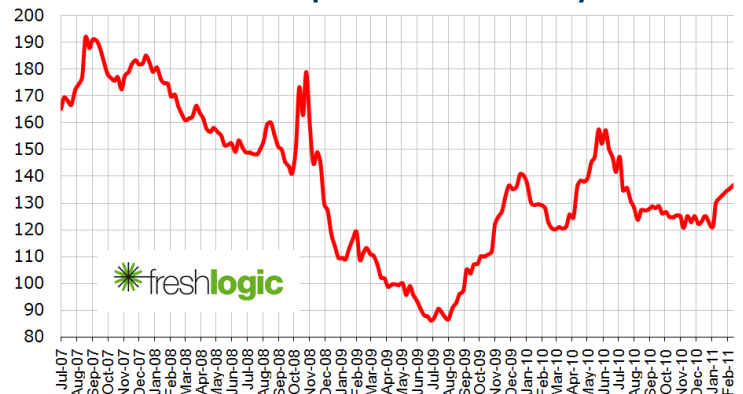
**Fonterra auction prices have stalled in a reflection of the anxiety over Japan.** Milk powder prices fell heavily at the latest Fonterra online auction, a 11.4% decline for whole milk powder (WMP) to US\$4 105/tonne from two weeks earlier. The average price was dragged down by the lower price of \$3 890/t for longer-term orders due for delivery more than 6 months out. The drop in prices for June-August orders was sharpest - down 13% to \$4 303/t. Skim milk powder (SMP) was also down 4.6% to \$3 816/t, with earlier shipment orders dropping hardest to \$3 730/t for shipments in June to August.

**Others may play with auction** Fonterra is to allow other dairy companies to sell their products on globalDairyTrade, and widen the range of Fonterra products for sale. Major manufacturers Arla Foods and FrieslandCampina from Europe; California Dairies and DairyAmerica from the USA; and Murray Goulburn have provided input into the development of a draft set of market rules that will govern multiple sellers using the platform

US 90CL "cull cow" prices riding high (in Aus cents/kg)



## 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 first published in January 2004.

## Lower growth, higher prices in US outlook

**Higher feed prices will put the brakes on US milk expansion.**

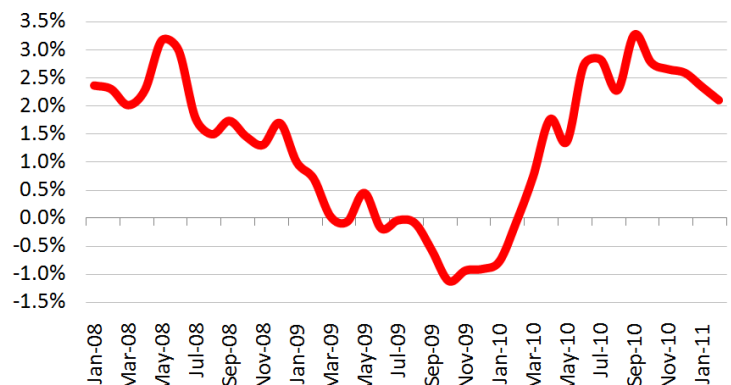
US milk production is an important factor to watch in the world market, as the US exports of milk powder and, to a far lesser extent, cheddar cheese have an impact on world prices. US production was building during 2010 as milk prices recovered, but recently monthly numbers showed a slowing.

The USDA has cut its milk production forecast and accordingly lifted nearly all of its dairy product and milk price forecasts for 2011. USDA has trimmed its milk production forecast to 88.9 million tonnes, though this is still up 1.6% from 2010's record output.

Relatively high milk prices and more replacement heifers are expected to encourage further increases in the herd through much of 2011, but the rate of increase in milk per cow is forecast to slow, USDA said. US exports are forecast higher as global SMP and cheese demand remains strong, with tight supplies in competitor markets (Australia and NZ) expected through the first half of 2011.

**US production in February was up 2.1%** - a further slowing in the rate of increase over the prior year, with production staying up mainly due to higher cow numbers, rather than increased milk per cow.

US milk production % change on same month of prior year (since Jan 08)



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