

# MARKET UPDATE

Monthly Market Summary for Members of DFMC



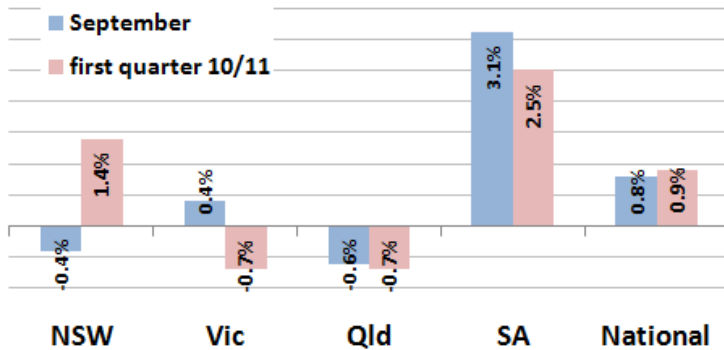
November 2010

## Milk sales better but still sluggish

National milk sales were less than 1% better than the same time last year

Milk sales volumes for the first quarter of the 2010/11 year remain slightly ahead of last year's comparative but are patchy in the regions supplied by DFMC members. Queensland sales remain in negative territory while SA and NSW are doing much better.

Packaged milk sales changes for first Qtr 2010/11

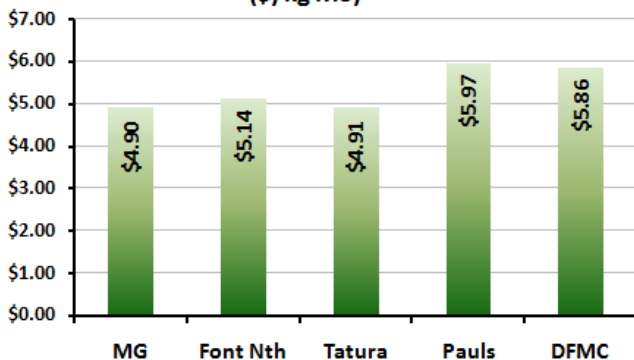


## Steady start to year for milk prices

The first 4 months of the year have seen one step-up from manufacturers

There has been a cautious start to the season by major manufacturers regarding farmgate milk prices, given the relatively positive market conditions, that have been partially offset by the rise in the \$A. Single step-ups from MG, Fonterra, WCB (a 2<sup>nd</sup> half adjustment) and Tatura have edged prices up from season openings. Comparable announced North Victoria/Riverina prices are shown in the graph, featuring Parmalat contract prices – for a 1.5m litre farm with a typical regional supply curve.

Northern Vic-Riverina Price Comparison (\$/kg MS)



## Fonterra holds 2010-11 NZ payout forecast

The sinking value of the US dollar remains a risk to the full year number.

Fonterra has held its forecast farmgate payout for the 2010/11 season at NZ\$6.60/kgms due largely to the strength of the New Zealand's currency against the US dollar. The rising NZD/USD exchange rate was putting pressure on Fonterra's export returns in New Zealand dollars, although Fonterra's hedging policies were continuing to shield farmers from the full brunt of the appreciating Kiwi dollar. Fonterra said the average farmer should receive a total of \$6.85-\$6.95/kgMS in cash payments for the 2010/11 season, which includes a share of profits. The forecast distributable profit range for 2011 is unchanged at 40-50 cents per share.

### Important market indicators

Dairy export index	The index has slid over the past month to 110pts.
World dairy prices	Powder prices have softened in recent weeks with likely higher full-year supply, while butter and cheese prices have remained in steady upward directions.
Australian dollar	The \$A has gone past parity since the start of November.
Grain futures	Grain prices in US remain high due to fears of a shortage of global wheat. Local feed grain prices have steadied as the value of the \$A has risen and plenty of supply beckons.
Cow prices for cull exports to the US	The US market for Aussie cull cows has weakened with plenty of local supply and the weight of the \$A.

## MG steps up, holds full-year forecast

First step-up for MG amid other bad news

Murray Goulburn announced a 10c/kg butterfat and 25c/kg protein milk price step-up as the first price increase for the 2010/11 season, prior to the company becoming embroiled in the controversy over payments to CEO Steve O'Rourke's wife for a "support role. O'Rourke said that world prices held reasonably firm during the first quarter of the season and the expectation is that the market should continue to remain solid. MG maintains its final weighted average forecast range of \$5.30-\$5.50kg of milk solids..

## Coles leads in a price-sensitive market

Coles continues its sales to grow faster than Woolworths.

Coles continued its long comeback against its bigger rival as the overall food market remains price sensitive and dominated by discount promotions. Coles food and liquor sales grew 5.9% in the first quarter of 2010/11, while Coles recorded comparable food and liquor store sales growth of 6.2%. Coles said it tracked food price deflation in its stores of 0.3 per cent in the quarter despite the impact of higher excise on tobacco prices.

Woolworths again reported lower-than-expected first quarter food sales with its Australian food and liquor division sales up just 3.2%, with only 2.0% same store growth. In the detail of the numbers it is clear that new stores being added by Woolworths aren't delivering. While it is growing faster, Coles has a long way to catch its rival in terms of store productivity and sales margins. Woolworths has deeper pockets if a price war escalates from here.

According to the ABS, the overall food market grew sales 5.6% in the quarter to 30 September compared with last year, with supermarkets growing just 3.4% in total over that period. Eating out has picked up considerably but when people are shopping, they are able to take advantage of keen prices in the grocery store.

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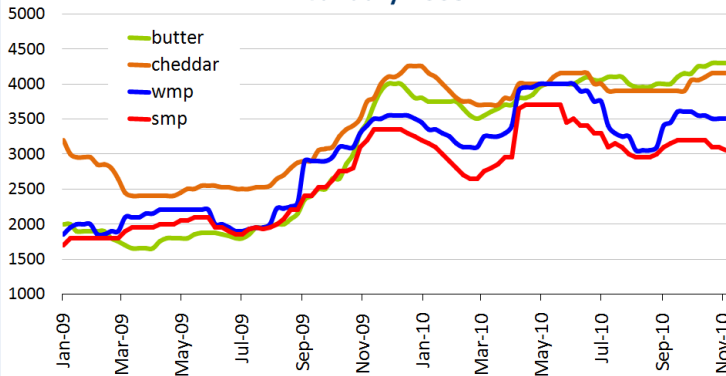


## World dairy market returns

### Slides in export indicator continues

At the time of this report the index of Australian export returns had weakened over the past month due to the strong lift in the \$A which went through parity in the early part of the month. Spot prices have been mixed – milk powders are a little weaker which cheddar and butter are rising.

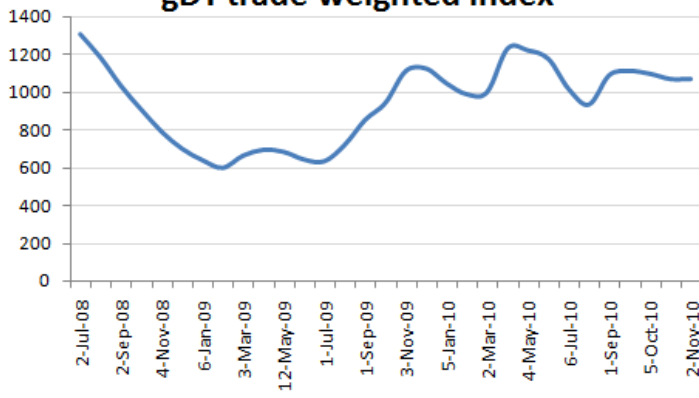
NZ export quotes in \$US/tonne - weekly since January 2008



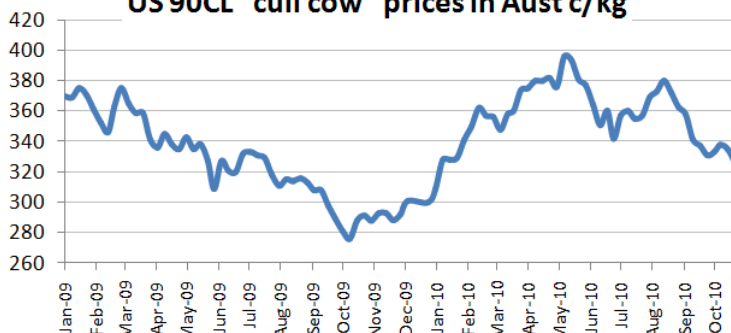
### Prices steady in September GDT auction

The overall average trade-weighted price achieved in the latest gDT auction was steady after the November 2 auction event, with no change in average WMP prices, a slight fall in SMP and a 4.5% lift in Anhydrous milk fat prices. WMP for January delivery however gained 0.9 percent from two weeks earlier, as the average spot price rose to US\$3,516 a ton, and is the highest for the spot contract in 5 weeks, while the 6-9 month delivery contract price fell 6.7% to US\$3,316. The later-term SMP prices provided a welcomed lift jumping a further 2% to be \$400/t higher than the spot price.

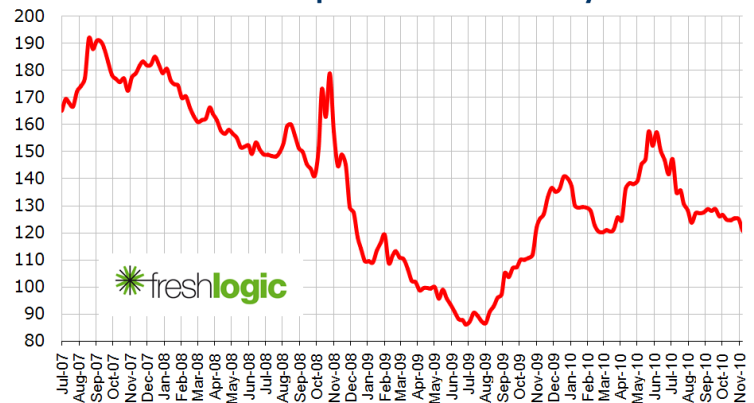
gDT trade weighted index



US 90CL "cull cow" prices in Aust c/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 set at 100 on 1 January 2004.

Source: Freshlogic

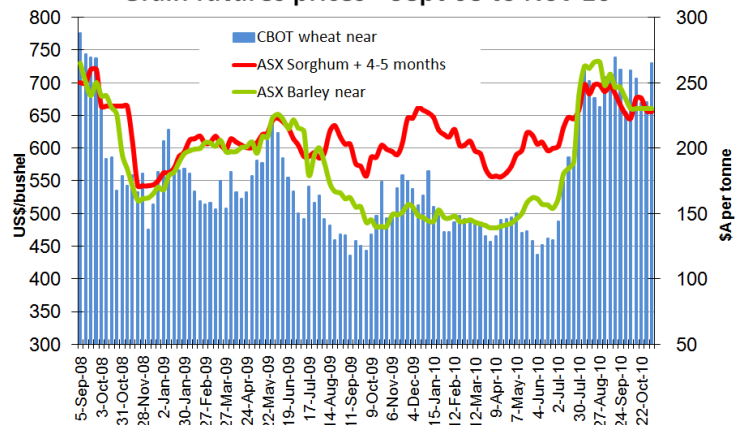
## \$A & rain keeps grain prices subdued

### Higher values for grains don't flow into Australian feed prices

Futures prices for feed grains have stayed fairly flat in the past month as the higher \$A has stopped the effects of the tighter global feed market from pushing prices higher. Local prices for feed barley and sorghum remain in the vicinity of \$230/t, but there may be plenty of crop availability as the Australian harvest continues to battle in abundant rainfall.

The global grains market remains affected by the fear of crop shortages in the US which has sustained wheat prices since late July as seen from the blue bars (US cash futures prices from the Chicago market) in the chart below. The outlook – combining the effects of weather in several key growing countries – suggests that the market will stay like this until well into the 2<sup>nd</sup> quarter of 2011.

Grain futures prices - Sept 08 to Nov 10



## \$A takes the shine off cull-cow values

*The US market isn't in bad shape for Australian imports but the \$A isn't!*

The US market for "manufacturing meat" which generally sets the value for Australian cull cows has weakened for importers to the US market, with export volumes to the US market at their lowest since 1996. There is an increased volume of US cows being culled providing cheaper local meat for US buyers. The high value of the \$A has done more damage to the returns in past weeks after the revival in prices in August.

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