

# MARKET UPDATE

Monthly Market Summary for Members of DFMC



September 2009

## Price updates from DFMC reflect market reality

*The sharp fall in milk values in southern states and the surplus supplies in NSW and Queensland has affected milk values in these latest DFMC price announcements*

The DFMC Board in negotiation with National Foods Limited has determined announced milk prices for suppliers who require a new contract in this current year, and has also announced the new guaranteed minimum prices for 2009/10, 2010/11 and 2011/12.

The table below shows regional comparatives for the expected new milk prices for suppliers on these new contracts, compared with those prevailing for other "already contracted" existing suppliers. Note there are options for southern producers – the table below takes the lower of the options in terms of future minimum price guarantees. Base prices shown in the tables are prior to any adjustments and incentives for composition, quality, volume, location, new milk and collection.

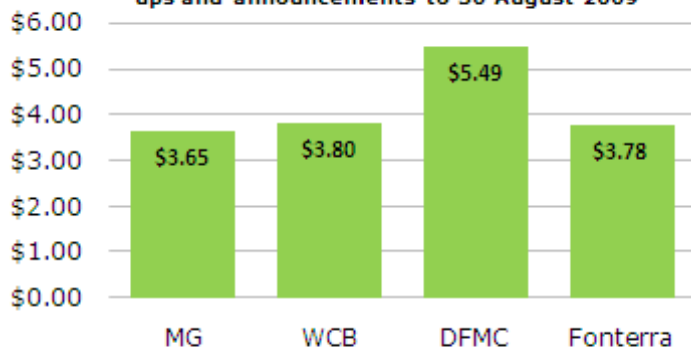
	Base prices 2009/10		Guaranteed minimum prices	
	New contracts	Existing suppliers	2010/11	2011/12
Southern	30.04	35.04	29-35	28
Central NSW	44.04	50.54	42	42
Northern	48.03	52.12	48	48
Far North	39.04	45.25	38	38

## MG steps up to claw back some of the gap

*Murray Goulburn delivers on the first of its promised 3 step-ups in 2009/10 as the world market gives exporters a bit more confidence*

The farmer-owned Victorian manufacturing group announced a milk price step-up of 17c/kg protein and 7c/kg butterfat to recover ground against higher opening prices of its major regional rivals, but more importantly, restoring faith in the traditional price announcement patterns that were reversed in 2008/09.

West Vic comparison based on declared step-ups and announcements to 30 August 2009

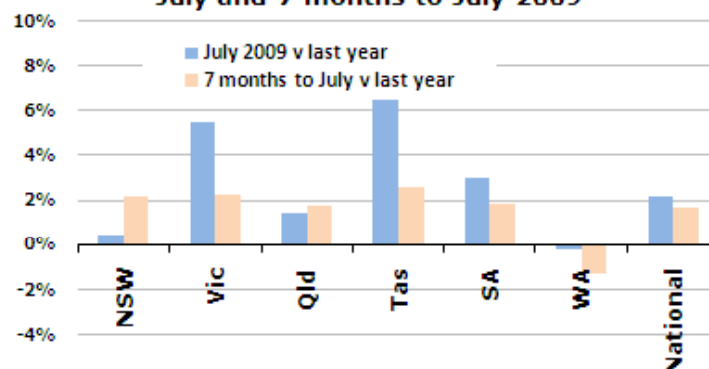


*This is based upon a 3.0 million litres farm at estimated average Western Victoria butterfat and protein components and milk supply profile. Comparisons relevant to individual dairy farmers or average supply base of respective companies may vary from this indication*

## Important market indicators

Dairy export index	Around 105pts, with the recent surge in spot prices
World dairy prices	Rising strongly in August and early September
Grain futures	Prices in US and Australia continue to weaken
Cow prices for cull exports to the US	Weaker in \$A terms due to the stronger \$A, but the market is better for Australian sourced product

## Packaged milk sales volumes – month of July and 7 months to July 2009



## Milk sales continue patchy increases

*Growth strongest in southern states as Qld and NSW show much weaker sales than in recent years*

July milk sales were up 2.2% over the same month in 2008 said Dairy Australia, with Tasmanians posting the strongest growth and WA the weakest in the month. So far in this calendar year, increases in sales are similar across a number of southern states, with the worrying delay in revival of growth in the Qld market no doubt remaining a worry for processors watching increased milk flows coming off farm.

## WCB posts \$20m loss, scraps JV

*The cheese company that is part of NatFoods cheese business books a loss bigger than expected and says it can't play in the ACC venture*

Warrnambool Cheese and Butter (WCB) booked a net loss of \$19.9 million for the 2008/09 financial year, down from a \$44.4 million profit the previous year. WCB has previously foreshadowed a loss of \$16-18m a few months ago. The company said revenue dropped 16% from \$525 million to \$441 million with the fall in commodity prices, while milk intake grew by 8% to a record 922 million litres in the year, including milk sourced from 3<sup>rd</sup> parties.

WCB also announced it had formally scrapped attempts to form a cheese joint venture with National Foods, and will revert to a bulk cheese supply agreement, broadly similar to that which it formerly had with Dairy Farmers prior to the NatFoods purchase late last year.

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](mailto:GriffithG@dairyfarmers.com.au)

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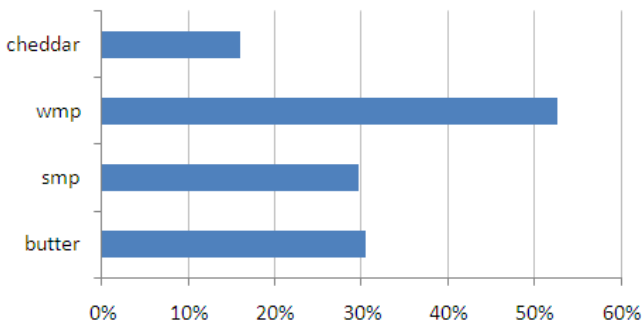


## World dairy market returns

### Spot prices surge, but the \$A is the nemesis

At the time of this report the index of Australian export returns has jumped to 105 points, up 15% from the last report, but is being kept lower than the rate of price rises by the ever stronger \$A, which had passed US86c at the time of writing. Spot prices have risen strongly – especially in the month of August as belief that the market is again tightening and that demand is improving in developing markets.

Increases in spot prices since 30 June 2009



The \$A is being pushed up by confirmation that Australia is out of recession and starting to feel some inflationary pressures, requiring higher interest rates to tone things down a bit. With the US and EU still bouncing along the bottom, our interest rate increases will spark more capital to come into the country and therefore demand for the \$A will increase.

### WMP prices surge in Fonterra's September auction

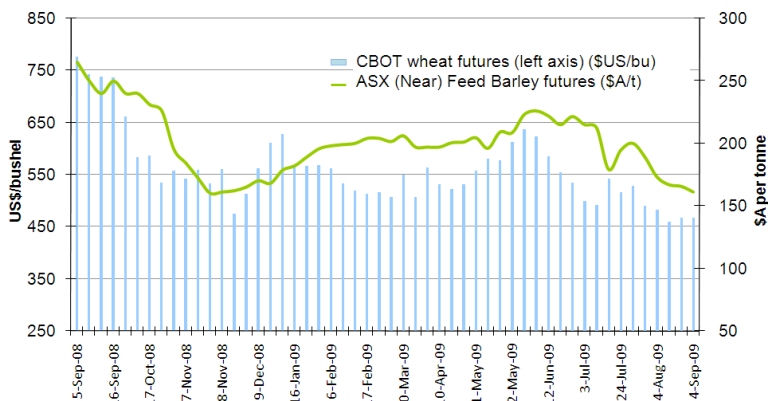
The September "trading event" for globalDairyTrade saw the price for Whole Milk Powder surge another 25%, after rising 26% in the August auction. Again the average prices achieved across all powder types and contract periods for Whole Milk Powder (WMP) lifted at around the same rate.

A resurgence in demand, reduced US output and tight supplies in Oceania were reasons for the price increase, said Kelvin Wickham, managing director of the trading platform. Wickham also said that from November 3 globalDairyTrade trading events would include anhydrous milk fat (AMF), in line with plans to offer an expanded range of products.

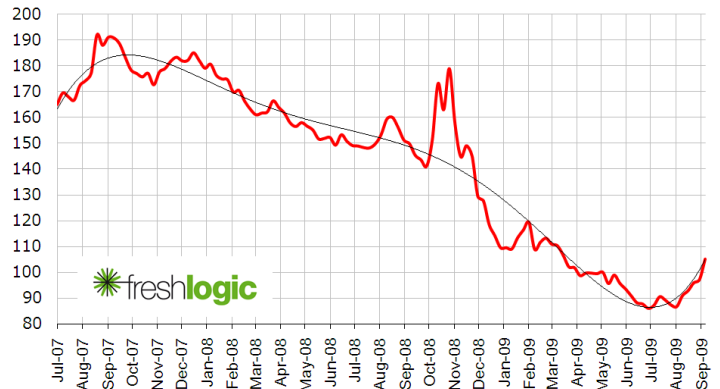
## Grain markets stay weak

The key grains market indicators remain weak as weather has kept hopes up for a decent supply of feed grains onto the world market, and within the Australian feed market.

Feed grain price indicators - Sept 08 to Aug 09



Australasian export index - Jan 2008 - present



**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

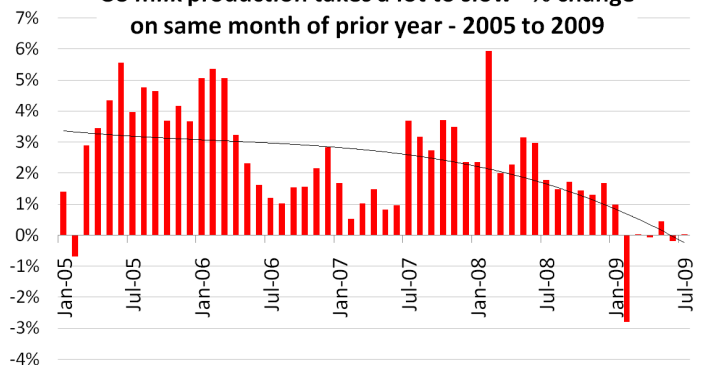
## US production flattening

After months of poor prices and negative margins, US milk flows have flattened.

US milk production in July again stayed in line with the same volume for the corresponding month last year, meaning total production for the 2009 calendar year was a fraction behind where it was in the same month in 2008. Intensive feed-lotting south-western producers remain those strongest at curbing production, with California again 4% below July 2008, Arizona more than 6% below, while the heartland upper mid-west still don't get it as Wisconsin is 3.4% up and New York up 3%.

The milk price-feed cost ratio improved to 1.76 to reach its highest point in 2009 as the all-milk average price in the US increased to US26/litre

US milk production takes a lot to slow - % change on same month of prior year - 2005 to 2009



## EU cranks up subsidies

The supply response to low prices is only showing up in parts of the EU

The EU has cranked up the level of support given to its exporters as demand in the export market picks up. More than 15,000t of SMP were granted export refunds in the last EU Dairy Management meeting in Brussels, after 24,000 tonnes were bought just 2 weeks before that, which was more than 3 times the tender at the end of July. 5,000t of butter also secured refunds, over twice as much as in the last July tender. Offers for subsidised intervention storage of butter and skimmed milk powders (where the Government stockpiles to take product off the market) had slackened off considerably, with more applications filed for EU export licences.

Farmer and politician angst in Europe remains strong putting pressure on the European Commission to do more to help their farmers. This is a space to watch over the rest of 2009.