

MARKET UPDATE

Monthly Market Summary for Members of DFMC



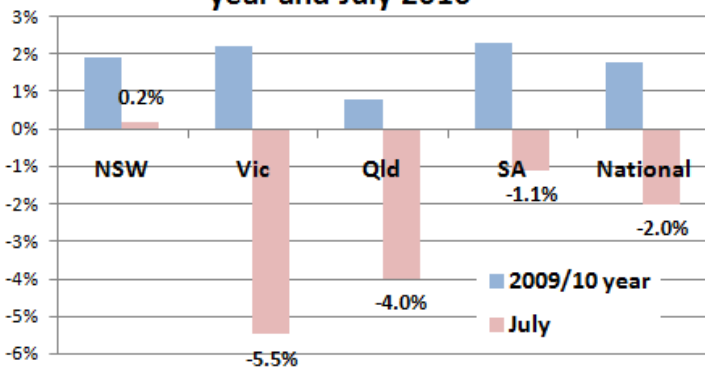
September 2010

Milk sales start poorly in 2010/11

National milk sales were well down in July

Latest data from Dairy Australia shows that national packaged milk sales were down by 2% in July 10, after revised full year sales were up just 1.8%. DA said in the release that problems with sales numbers have now been solved which affected 2009/10 numbers. There was the continuing shift to reduced fat/no fat milk from full cream. Fresh flavoured continued to bounce back with a 3.3% gain month on month. UHT saw a large drop of 27% but this is expected to recover in the next month.

Packaged milk sales changes for 2009/10 year and July 2010

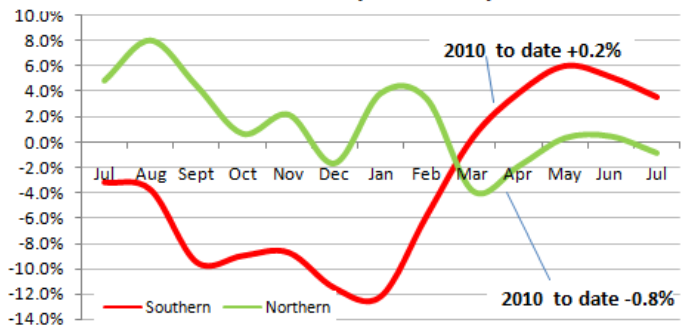


DA: Milk output up 1-2% in 2010/11

Dairy Australia's first quarter outlook report sees limited growth

Dairy Australia's S&O update reports that national milk production is tipped to increase 1 to 2% in 2010/11, with the final result dependent on movements in milk and grain prices. Dairy Australia's forecast for the full year farmgate price for southern Australia remains in the range \$5.00 to \$5.40 per kg MS. Nevertheless, ongoing economic concerns continue to cause uncertainty in both dairy and currency markets which will affect the final return to dairy farmers. **Farmer confidence** - surveyed in August - was higher than in February, reflecting improvements in price and seasonal conditions in southern Australia. However, significant regional differences have emerged in response to more negative price signals in NSW, Queensland and Western Australia.

Australian milk production - changes in southern v northern output in 2009/10



Cheese sales fell in total

Tight times stopped demand growth.

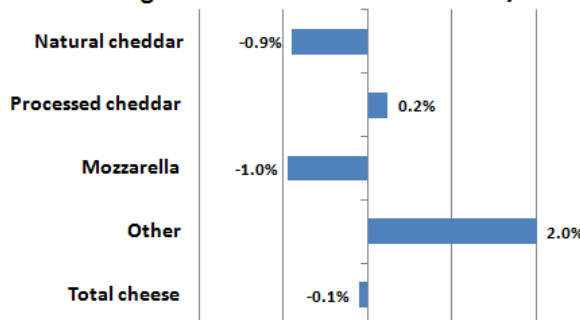
Australian cheese sales were down slightly in the full 2009/10 year, across retail market segments. Importantly for DFMC suppliers, the total market for natural cheddar was down by almost 1% as tighter economic times affected overall demand. Sales of mozzarella were also down as the pizza market went into reverse, and only "other lines", where NatFoods has a small role, saw benefit through some specific promotions of hard and speciality cheeses.

Ironically, sales of natural and processed cheddar were higher outside the supermarket, while there was a 2% fall in grocery sales for each of these product groups.

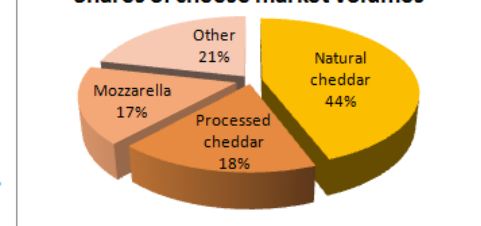
Cheese values subdued despite better world prices

While the global cheese market has been generally stronger in 2009/10, these higher values did not translate into higher wholesale prices across the industry for the important block cheese market. While branded grocery products were fairly consistent with the prior year, selling prices for private label products and sales into food service were on average lower than the prior year.

Changes in cheese sales volumes 09/10



Shares of cheese market volumes



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World dairy market returns

Slides in export indicator continues

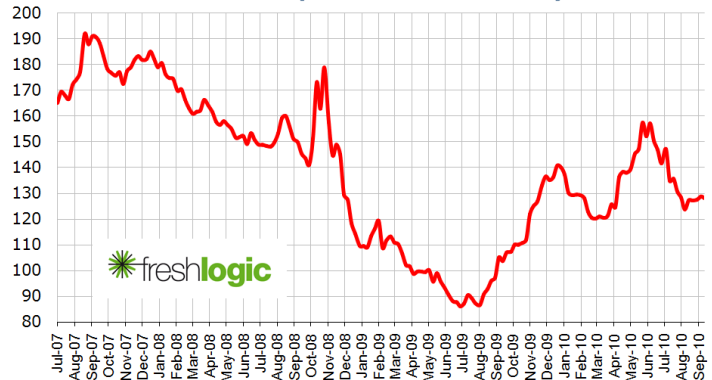
At the time of this report the index of Australian export returns has remained relatively steady over the past month. Spot prices have improved – especially milk powders – as the fears of over-supply have been overcome at least in the short-term. The \$A remains erratic under the influence of many signals but has risen in the past 2 weeks to settled back over the US91c level.

Prices improve in September GDT auction

Export spot prices have turned the corner in the past couple of weeks, with the latest *globalDairyTrade* auction returning good news. Dairy commodity prices surged 17% at Fonterra's latest auction on September 1 after four consecutive months of falls. Whole milk powder (WMP) surged on average by 19% to \$3 522/t. Skimmed milk powder (SMP) prices increased 18.8% to \$3 197/t, while prices for anhydrous milkfat gained 9.5% to \$4 681/t.

The auction is now moving to a fortnightly event and it will be interesting to see what effect this has on bidder activity. The next event will be held on September 15.

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

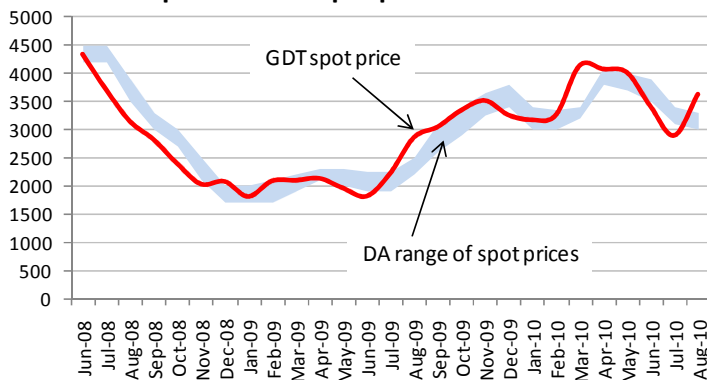
More milk in Europe, US

Weaker world prices have been partly due to the return to growth in milk output in Europe and the US

Milk output for the EU-27 countries in the 7 months to July 2010 was marginally ahead of the volume for the same period in the prior year, but a mixed bag on a country-by-country. Big western producers Germany, France, UK and Netherlands were all ahead to varying extents, but the Polish and other smaller producers trailed. Supply has picked up in the past few months across Europe as weather and milk prices have improved, with milk flows strongest in Germany, Netherlands and the UK.

Meanwhile July production was 3% ahead of the same time last year in the US, the biggest single monthly gain for a couple of years, but higher feed prices may stunt growth into the next year. The USDA says production for the year from 1 October to the end of September 2011 will be 1.8% higher, causing lower US exports as the domestic market (hopefully) recovers and consumes more US milk.

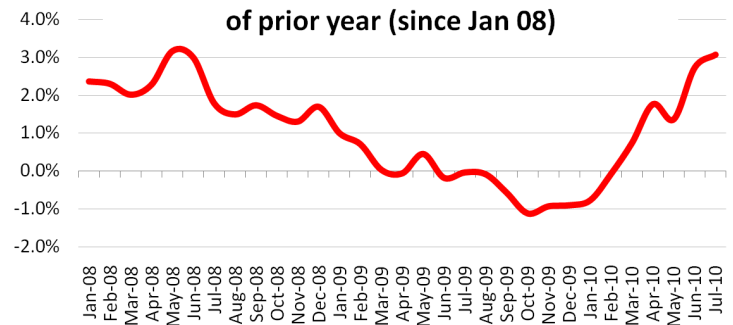
WMP prices - Aust spot prices v GDT results



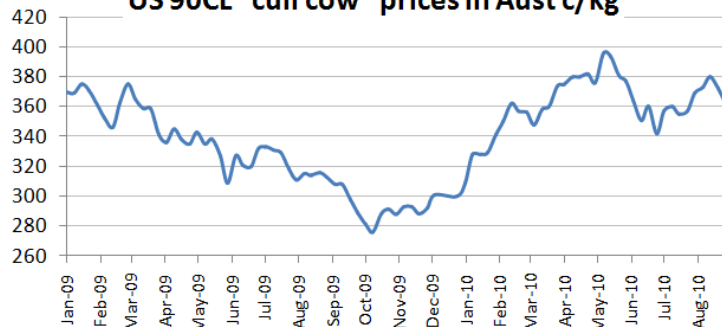
October launch for WMP futures contract.

The Global Whole Milk Powder (WMP) contract – the global dairy industry's first derivative product for WMP – will be launched by the New Zealand Exchange (NZX) on October 8. The global WMP would enable manufacturers and dairy trading firms, to manage price volatility as they can lock in prices in the WMP market up to 18 months in advance. According to NZX, this contract would also help farmers by providing them a view of the future market sentiment. The NZX contract will be cash settled and will be traded on an electronic platform. A range of futures and options products could be added to the market through 2010 and 2011, including skimmed milk and anhydrous milk fat futures, as planned by NZX.

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



US 90CL "cull cow" prices in Aust c/kg



US beef prices coming off the boil

The peak seems to have passed in prices for cows in the US

Rejuvenated supply concerns with tighter volumes from Australia, Uruguay, and NZ combined with lower US cattle throughout pushed the US imported beef market to stronger prices in the past months. The market has come off the boil slightly in the past few weeks and from here, several factors could sway the US market either way - tight imported beef supplies could continue to support prices, while the contracting US foodservice industry, with its year-on-year decline in quick service sales during August, could pose as a negative for manufacturing beef.

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