

DAIRY REPORTER

Weekly Dairy News for Members of DFMC

1 Feb 2011

Milk prices slashed in retail price war

Retail competition heats up, as rivals use milk as cannon fodder.

Coles and Woolworths have slashed prices on their own-brand milk products to \$1 a litre for 2 and 3 litre packs, in a move which they claim will not affect farmgate prices for their milk suppliers, but which has deeply angered and disappointed the dairy industry. Coles led this action with 2 litre lines which quickly extended to 3 litre packs, matched by Woolworths. Aldi took matters further, selling products at 96c per litre, with the new price for 3-litre milk reduced to \$2.89.

The biggest threat posed by the move – the latest phase of a long-running intense price war between the majors which will now involve other household staple foods – is to the sustainability of wholesale and farmgate prices should the new pricing remain in place for more than a couple of months, when the supermarket chains negotiate new milk-supply contracts. The effect of sales of branded lines will also be felt as the move has dramatically widened the distance between brands and private label. Coles said that the cost of reducing its milk prices would be absorbed by the business, and formed part of the company's "Down Down" campaign to reduce prices on staple items. Woolworths said that they would also be absorbing the cost of the price drop, but couldn't say how long the situation would last.

Dairy Australia's analysis based on retail sales numbers suggests that for sales by Coles and Woolworths the full annual effect of the price reductions is that about \$75 million would have been handed to the consumer – that is provided there is no change in milk consumption. This effect excludes the impact of any shift in volumes from branded milk to private label as a result of consumers switching to the cheaper option, and cuts by other retailers. National peak dairy farmer body ADF has lashed out at Coles, calling on the retailer to justify its claims that the new levels of milk prices are sustainable, as other retailers have acknowledged the situation can't last.

Food CPI numbers can't be right

Retailer deflation begs questions about the latest ABS CPI numbers.

The Australian consumer price index rose 2.7% from a year earlier according to the Australian Bureau of Statistics. Core inflation rose by 2.3%, its slowest year-on-year pace since 2000. The ABS survey showed that food prices rose 2.5 per cent on the previous December quarter, at odds with the price movements of the major chains. Given that ABS tracked eating out price movements for eating out at between 2% and 2.5%, and that grocers have reported their own food price deflation (see **the story on the right**), prices in other parts of the retail market must be rocketing ... or someone in ABS needs to revise methods!

Activists target bobby calves

Animal Australia runs an anti-dairy campaign.

Animal Australia launched a scathing attack on the dairy industry demanding "a kinder future" for bobby calves, calling on consumers to boycott dairy products through a series of national newspaper ads and internet/email alerts. The attack comes as the industry readies itself to implement a new set of national standards for the "time off feed" and transportation of bobby calves. Chair of animal health and welfare for producers' lobby group, Australian Dairy Farmers, David Basham, said that the standards were developed to address a gap in the national guidelines for transport and treatment of bobby calves.

The dairy industry concern is that a shorter "no feed" period before slaughter would result in an unviable bobby calf processing industry. There would therefore be a substantial increase in the number of calves needing to be disposed of on-farm. The standards, outlined in Australian animal welfare standards and guidelines: land transport of livestock, are open for public consultation until February 3.

Headlines

- Milk caught in retail price war
- Animal activists target bobby calves
- Coles still outpacing Woolies
- NZ hopes rain is enough
- Red Sky boss to run Uruguayan farms

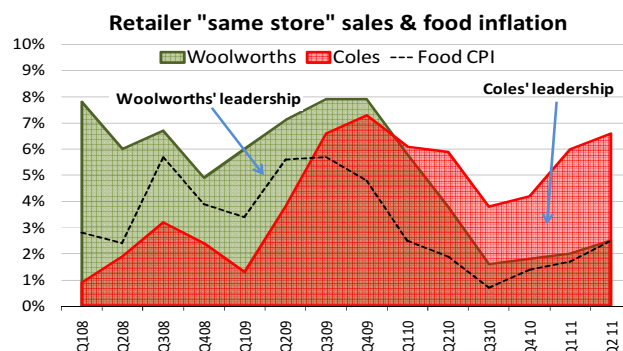
Indicators	
Dairy export index	Prices keep index stronger despite rising dollar
World dairy prices	Butter and powder prices firmer
Australian cull cow prices in the US	Small lift in prices, as supplies remain short
Grain futures	US wheat prices remaining firm

Retailers' slug it out in sales updates

As the price war escalates, Coles continues to make inroads against Woolies to be seen as the cheapest.

This is what the price war that milk is caught up in is all about. Both major retailers continued the pitched battle to be seen as the champion of the price-conscious consumer as they each released sales updates in the past week. The data continues to show Coles gaining ground on its rival as the food price war picks up pace. After Woolworths delivered food & liquor sales growth of 3.7% last week (with same store sales rising 2.5%), Coles gazumped their larger rival with overall growth of 6.4%, while same-stores put on 6.6%.

The retailer food inflation numbers are more interesting, with both groups now reporting price deflation including the effect of promotions and discounts – Woolworths suggesting their prices fell 3.7% for the December quarter compared with last year (adding some spin about the implied underlying volume growth of their business), while Coles' deflation was more modest at just 1.6%.



Proudly sponsored by



DAIRY REPORTER

Weekly Dairy News for Members of DFMC

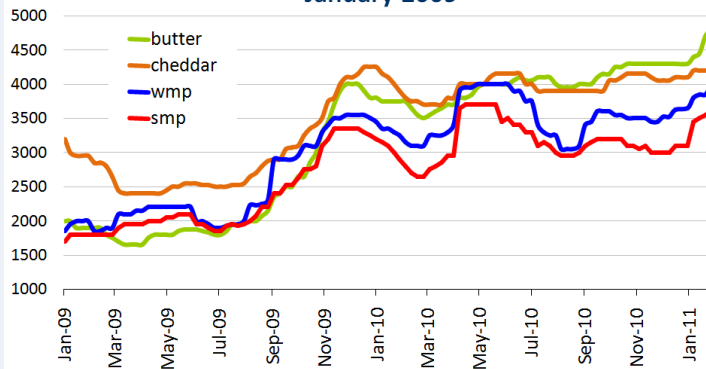
Index of export returns

Freshlogic tracks an index of the \$A value of spot returns from dairy exports as an indicator of the potential impact on southern milk prices.

Prices for butter and powders stronger

Spot prices for butter and both milk powders moved higher again this week, with NZ quotes for whole milk powder now at US\$4,000/t. The \$A was a little stronger over the full week to close at \$US0.9928, but the index gained another 1.5pts to **134.7**. Spot prices have climbed steadily over December and January as fears of shortages of supply from NZ and Australia have lifted values.

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



UK milk prices rose 6% last year. Average farmgate milk prices in the UK rose just 6% over the course of last year, from 24.74 pence per litre in January 2010 to 26.15ppl in December, according to latest figures from DEFRA. The figures will further inflame farmers who feel the rise is not matching those in commodity markets, but given the relatively small role played by export markets and the intense retail competition in the UK, not much upside is flowing back to the farmgate.

Japanese milk delivery decline continues. Milk deliveries in Japan continue below prior year levels, according to figures from the country's Agriculture and Livestock Industries Corporation. Higher feed and beef prices might have a bit to do with that. Japanese dairies collected in 4.1% less milk in November than a year earlier, while deliveries in the first eleven months of 2010 were down 2.3% compared 2009. Less milk in Japan = more imports for Australian manufacturers.

Red Sky boss to run Uruguay farms

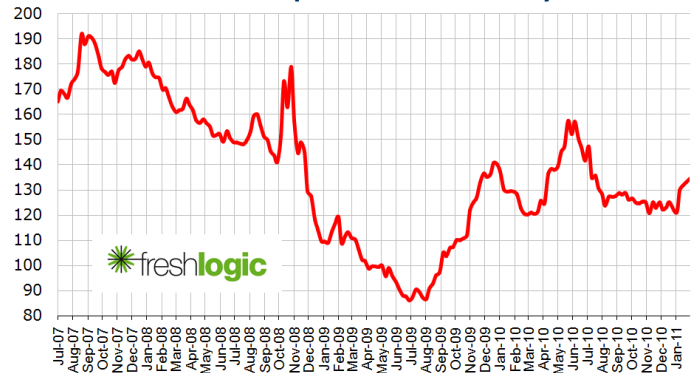
Dairy consultant takes a job to implement the plan he had for NZFSU.

New Zealand Farming Systems Uruguay, 78% owned by Olam International, has named David Beca as managing director. Beca is to be based in Uruguay, and has more than 30 years experience in agriculture, including dairy farm ownership and management. Some readers may know Beca who ran Red Sky Agricultural, a dairy business analysis and benchmarking service. Beca advised Olam in developing a turnaround strategy for NZFSU.

New Holland's T7000 POWER COMMAND Tractors. Professional arable and contract operations demand genuine tractor versatility. New Holland T7000 tractors are hard working tractors built to tackle a wide range of jobs with no compromise in performance and productivity. Active Power Command™ transmissions offer seamless shifting in all forward ratios via a simple push button control. Active Power Command™ adds automated features to enable the operator to get the very best in productivity and economy. Choose between 18x6 40kph or direct drive 19x6 50 kph for optimised transport economy. New Holland T7000 tractors are hard working tractors built to tackle a wide range of jobs, your local New Holland dealer can advise you on a T7000 tractor that best fits your requirements.



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.

Rain for NZ, but was it enough?

NZ is struggling with a problem at the other end of the extreme – trying to ward off a return to drought.

Heavy rains have brought relief to dairy farmers in several regions of New Zealand's North Island. The rain will help revive milk production in key dairying provinces. Many farms were reported to be on knife-edge following a dry first two weeks of the year which caused soil moisture levels to plummet, according to DairyNZ. Northland, North Auckland, Waikato and the Ruapehu district were officially declared in drought in December.

But has the rain been sufficient? DairyNZ regional team leader Chris Murphy (a former Dairy Australia manager) said that the situation remained fragile on many farms where pasture growth was still limited and farmers were relying on feed supplements. David Rose, Federated Farmers' adverse events spokesman, said that many farmers remained heavily reliant upon supplementary feed because the drought had affected their winter crops.

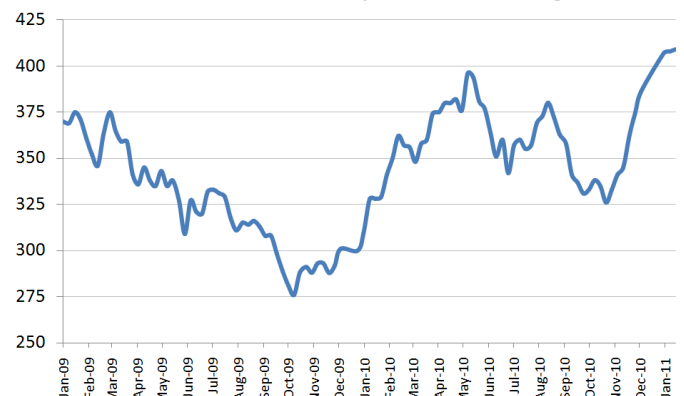
US meat market good for culls

The general shortages in beef influencing cull values.

The US beef market is reflecting continuing fears of shortages of supply from their domestic beef industry as well as imported supplies from its main sources Australia, Canada and NZ. The lower culls of dairy cows in the US is helping prop up these record prices.

Elsewhere the general shortages of livestock supply due to the floods and the increased demand by domestic cattle buyers (mainly due to a shift in approach by Coles to purchasing more animals rather than portions to meet its new HGP-free meat policy) have helped support the shortages of Australian supply to export markets.

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



Proudly sponsored by

