

DAIRY REPORTER

Weekly Dairy News for Members of DFMC



02 Nov 2010

MG milk price step-up

MG steps up milk price in face of solid world market.

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. This increase will be retrospectively paid for premium and base quality milk supplied from July 1. In a letter to suppliers, MG managing director Stephen 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. O'Rourke said MG would maintain its final weighted average forecast range of \$5.30-\$5.50kg of milk solids.

Challenge puts itself into administration

Challenge Dairy crumbles amid volatile market conditions and intense competition.

Long-struggling 51% supplier-owned Western Australian dairy manufacturer Challenge Dairy Australia placed itself into administration last week. The company succumbed to its long struggle with inadequate processing throughput and the age of its facilities, and the inability to successfully manage operating cashflows in volatile market conditions and an intensely competitive WA market. It came after Challenge Dairy Co-op suppliers had their mid-October milk payments suspended due to cashflow difficulties. Suppliers through the Challenge Dairy Co-op will now rank equally with unsecured creditors in any payout of their liabilities, should the company not survive this phase in administration under its administrators and bank-appointed receivers PriceWaterhouseCoopers.

Challenge lasted many years longer than many industry players considered possible given the total WA milk pool - it was established at the time of industry deregulation with WA Government assistance to provide some stability for WA by sourcing new markets alongside the local fresh dairy markets dominated by NatFoods and Brownes.

MG exposure gains unwanted profile

MG defends its "support role" payment.

The Financial Review has – in a front page story - raised the profile of an item of disclosure in the Murray Goulburn financial statements filed with ASIC. The chairman of the co-operative has defended the company paying the wife of its chief executive, Stephen O'Rourke, more than \$1 million in the past two years for what the Fin Review termed a "support role". The payments were revealed for the first time in Murray Goulburn's 2010 accounts. Chairman Grant Davies said it was standard practice to employ the chief executive's wife at Murray Goulburn, and had paid the wife of previous chief executive Alf Leysen. Davies said the board disclosed the payments for the first time this year when it realised there was an "oversight" in disclosure.

Wet outlook for Vic and southern NSW

Strengthening La Nina to usher in more rain for Vic and southern NSW.

More wet weather is expected in the coming months in Victoria and southern New South Wales. The Weather Bureau's latest three-month outlook shows average or above average rainfall is likely between now and the end of January. The Bureau says the La Nina weather pattern in the Pacific Ocean is firmly in place, and should continue into next year. The Hume Dam near Albury has reached full capacity for the first time in a decade. The Hume has not been full since October 2000 and got as low as 2.1 percent in April. The NSW Water Minister Phil Costa says there is still more water on the way. "We've still got some water coming out of that and what that does is contributes to the improvement of the wetlands and improvement of the environmental flows along the river.

Headlines

- MG steps up
- Challenge goes under
- The big southern wet continues
- EU reform package leaked
- Butter boom end in sight

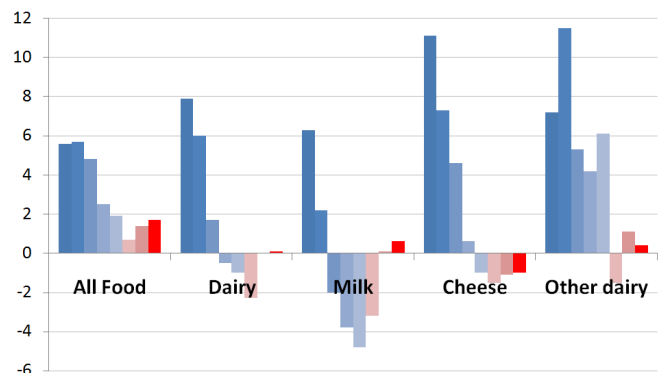
Indicators	
Dairy export index	Index slightly weaker with steady index
World dairy prices	Butter and cheddar prices higher, powders weaker
Australian cull cow prices in the US	Prices lower in \$A
Grain futures	Lift in wheat prices, local grains down

CPI shows little change...

... While overall dairy category makes positive inroads.

CPI numbers for the September quarter released by the ABS showed little movement in the dairy category over the quarter compared to the same period in 2009. Overall food CPI was up slightly at 1.7% year-on-year, while the overall dairy category moved very slightly into positive territory.

Quarterly changes in Food and Dairy CPI over last 8 quarters (annual rates of price changes)



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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 and dollar steady.

spot prices for dairy products were unchanged this week, while the \$A improved slightly over the week to finish at **US98.34c**. The index of the \$A value of export products was a shade weaker at **125.2**

End of EU butter export boom in sight.

European butter exports will decline next year, predicts USDA's analysts, but global shortages should ease with more supply from New Zealand and Australia. EU imports, however, are forecast to remain stable with the existing 65 000 tonnes import quota and existence of relatively high private stock levels. Butter is currently in short supply on the world market, with demand in Asia not being adequately met, says the report. However, "with Oceania re-entering the global market after a brief absence", international butter markets are expected to relax by the last quarter 2010. The report expects EU intervention stocks to be used up by the end of this year under food assistance programs. It predicts that, if market prices remain constant, EU intervention in butter in 2011 would not be likely. The experts predict little downward movement in the average weighted butter price.

NZ production outlook

NZ milk production seen at record high in 2011.

The USDA has had a stab at an estimate for full calendar year NZ milk production, suggesting milk production for January to December 2010 is estimated at 16.9 million tons, a 3% decrease compared to last year. The cold wet spring (August - September) has erased any chance of national milk production reaching or exceeding last year's level and clawing back the damage from the earlier drought. Production is however forecast by USDA's analysts to jump 10% in CY2011. Production of whole milk powder WMP is forecast to increase 8%. Meanwhile NZX Agrifax says the full production year (to May 2011) lift in production will come in at an increase of 3-5%.

Fonterra has sights on 20 farms

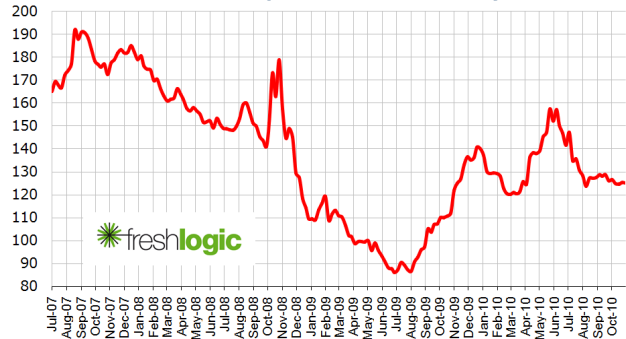
Fonterra plans massive expansion to strengthen dairying base in China.

Fonterra is looking to set up as many as 20 dairy farms in China. The cost of each farm is about US\$30 million (NZ\$40m), of which a high percentage is for livestock. Mr Ferrier said the company was looking at establishing farms in partnership with its customers who would provide capital, while it would control management. The ideal cluster was four farms close together for synergies of feed and the ability to create long-term milk supply contracts.

Rotary Clubs launch agriculture exchange between NZ and Australia.

An annual agricultural exchange between Australia and NZ has been organised for young people in the agricultural industry aged between 24 and 36 years of age. The Coordinator for the first exchange, former Shoalhaven dairyfarmer Max Cochrane, said this would give young people from the area a great opportunity to gain new knowledge in dairying. The exchange is being organised by local Rotary clubs for a period of 3 weeks and will take place in March 2011. It will be to the Canterbury plains area of NZ's South Island and would be an ongoing exchange between the two countries. He stated that these young people will be able to build a network of contacts in both countries in the dairy industry that will bring benefits both for the young people and the dairy industry as a whole. Mr. Cochrane said young people who are interested in applying to go on the exchange and would like further information should call him direct on 0412 351 686, applications will close on the 16th November.

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.

Leaked proposal reveal EU reform agenda

Leaked EU report, a bag of mixed fortunes for producers.

The European Commission seems it is ready to give producers more scope to work together on dairy price negotiations, but will stop short of imposing a mandatory EU milk contract framework, according to reports of leaked dairy reform drafts in the EU. The dairy paper is due out on December 8, but leaked proposals show that Farm Commissioner Dacian Cioloș is willing to push for the HLG's recommendations to become law, despite objections from several member states, including the UK, Netherlands, Denmark, and Sweden.

The Commission wants to specify optional "basic conditions" for contracts at an EU level, including price, timing and volume of deliveries, and the duration of the contract. But the door is open for member states to make the use of such contracts compulsory provided EU law is respected. The draft proposals allow farmers to negotiate contracts collectively through producer organisations. The paper proposes raising the threshold for producer concentration by amending EU competition laws, which is where several states take offence. Collective negotiations would be permitted provided that the total volume of raw milk under negotiation does not exceed 3.5% of total EU production, or equate to more than 75% of the total national production of any the member states concerned, in cases where they individually or collectively account for more than 1.5% of EU milk production.

CWT votes to focus on exports after 2010

CWT on the verge of ending herd buyout as it sets to work differently.

Members of Cooperatives Working Together (CWT), the dairy farmer-funded self-help program, voted to focus the seven year-old program exclusively on building export markets after 2010. At the annual meeting of the National Milk Producers Federation (NMPF) – which manages CWT – CWT's management committee determined that an export-centered program was the most appropriate course to follow in the future. This means that CWT will no longer fund any herd retirement rounds, through which CWT member farms are paid to reduce their herds. CWT conducted its 10th and final herd retirement this past summer. NMPF's Board of Directors voted Tuesday to support a CWT program that will be funded at two cents per hundredweight, starting Jan. 1, 2011, and running through 2012 (the program currently collects 10 cents/cwt. on its members' milk volume). Members also determined this week that 75% of the nation's milk supply must be contributing at that level in order for the program to continue. They also voted to take the remaining funds not allocated so far in 2010, and shift those to the export assistance program in 2011.

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