

# DAIRY REPORTER

Weekly Dairy News for Members of DFMC



03 Aug 2010

## DFMC milk pricing

*DFMC sets different prices in four collection regions.*

DFMC has announced its milk prices for the 2010/11 season, incorporating major changes with the structure of the milk payments system in all regions with application of supply management by NatFoods, with pricing based on Tier 1 and 2 values. **Supplier letters contain all details.**

DFMC suppliers are each offered an annual allocation of milk supply based on the anticipated full demand (AFD) required by NatFoods in each region. Suppliers will be paid Tier 1 prices up to that allocation – Tier 2 on the excess, only if the overall region exceeds the regional AFD struck between DFMC and NatFoods.

The Tier 1 prices are prior to additional incentives for contractual commitment, productivity, location and quality. These incentives – with the exception of the contract bonus – are also paid on Tier 2 milk volumes. The cooperative offers flat and variable pricing options in each region. The table below shows prices for suppliers starting new contracts in July 2010, while a number of suppliers remain on “old” contracts until June 2011. The two-tiered pricing structure first applies to those suppliers in 2011/12.

	DFMC's estimate of weighted average milk prices (variable monthly price)	
	Tier 1	Tier 2*
Far North	\$6.62/kgms or 47.0cpl (up 3.7%)	33.4cpl
Northern	\$6.62/kgms or 47.0cpl (down 9%)	28.0cpl
Central	\$6.62/kgms or 47.0cpl (down 7%)	25.1cpl
Southern	\$5.24/kgms or 37.2cpl (up 5.8%)	31.7cpl
* only if the volumes align with average annual milk supply patterns.		

## Parmalat's strong half year performance

*Parmalat focuses on value to lift margins in its local operation.*

Half year profits for the Australian subsidiary of Parmalat SpA rose sharply in the period to the end of June 2010. Parmalat Australia posted sales of \$508m up from \$376m in the corresponding period, but that was after including first-time sales from businesses acquired from NatFoods, which were about \$138m. Taking account of that new business, underlying sales actually fell about 1.5% for the first half.

But margins improved significantly, as the local operation posted an EBITDA of \$48.6m, which was up 33% after accounting for the small contribution of about \$4m from the new units. The skinny margins on the new parts of the business held that result back – underlying margins of the existing business went from 8.8% in the first half of 2009 to 12.1% by our reckoning, in a market with no overall price inflation. Parmalat SpA's take on the result said the Australian operation benefitted from lower milk prices and a stronger focus on higher-value lines in yoghurts and flavoured milk boosted performance.

## Full year production was down 4%

*Southern Australia continues to recover in an excellent season.*

The recovery in southern milk production continued in June according to provisional numbers from Dairy Australia, which said total 2009/10 milk collections reached 9.016 billion litres, after production for the month of June finished 4.5% of the same month in 2009.

## Headlines

- DFMC unveils prices
- Parmalat's EBITDA up 33% in first half
- 2009/10 milk flow was down 4%
- Dairy CPI neutral for the year to June
- Fonterra cops flak in India over imports

Indicators	
Dairy export index	Index pruned with sharp lift in \$A
World dairy prices	Powders and butter lose ground
Australian cull cow prices in the US	Prices steady in \$A with market in short supply
Grain futures	Strong gains in wheat and barley prices

## Sustainable farming boost for Bega

*Grant helps Bega improve the impact of dairy farms.*

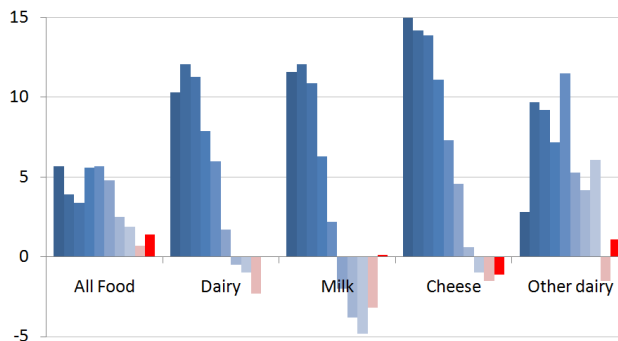
Bega Cheese – with its suppliers nestled in the marginal NSW Labor seat of Eden-Monaro – has secured a timely sustainable farming grant of \$750,000 under the federal Caring for Our Country programme, which will enable it to expand its environmental initiatives to all of its suppliers in NSW and Victoria, such as work to improve runoff into waterways.

## Food CPI stays low

*Low inflation remained the order in the June quarter.*

June food CPI rose slightly by 1.4% after the tiny increase in the March quarter. After 3 quarters in deflation, the ABS said dairy CPI crept back to a neutral position for the 12 months to June 2010, with milk at 0.1%, cheese still in negative territory at 1.1% - offsetting small gains in ice-cream and other products.

Food and Dairy CPI over last 10 quarters (showing annual rates of price changes)



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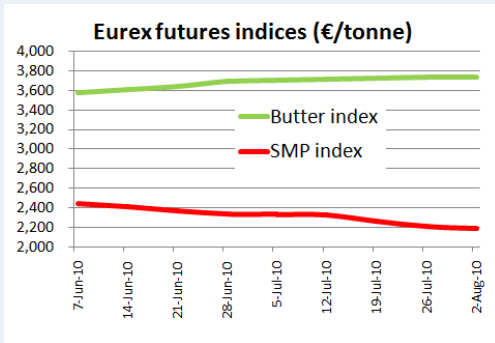
## Index of export returns

**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.**

**Index weakens further as prices go softer.**

spot prices for butter and SMP were each weaker by US\$100/t this week, and the \$A gained most part of the US cent to again cut the value of the export index. The \$A settled for the weekend at **US90.4c**, and the index lost more than 2 pts to be at **128.3**.

The Eurex futures quotes from the EU which started operation in early June 2010 have shown the story of the world market – weaker powder prices and stronger butterfat values. The new futures platform is helping provide traders in commodities another means of reducing volatility..



## Rethink on overseas investment rules

**Looming overseas sales in NZ kindles worries about farm assets.**

The NZ government is having a last-minute rethink on land sales under a review of overseas investment rules. Prime Minister John Key said he had deep concerns about increasing overseas interest in farms, and warned that the huge resources available to foreign buyers could mean that they would become dominant players.

A bid by Chinese company Natural Dairy for 16 Crafar farms, which cover more than 8000 hectares, has raised concerns about the potential for significant parcels of highly productive land being sold to overseas buyers. Mr English said the review was trying to strike a balance between protecting important assets while allowing sufficient foreign investment.

## Kirin cuts forecasts, buys stake in F&N

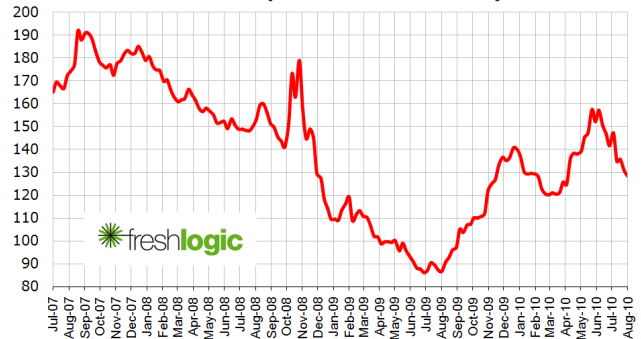
**Kirin says poor start to 2010 won't affect full year.**

NatFoods parent company, Kirin Holdings, has cut its sales and profits forecast for the first half of 2010. Kirin expects net sales to be JPY43bn (US\$492m) for the six months to the end of June, 14% lower than previously predicted, while net profits are expected to be 7% lower than its earlier forecast, with operating profits set to be 14% lower at JPY29bn. Despite the worse-than-expected performance, the group said that it has not changed its full-year profits guidance.

## New Holland Round Balers.

New Holland offer a complete range of round balers in 5' x 4' & 6' x 4' models. All models feature the New Holland 2.3m XtraSweep™ pickup with roller windguard for efficient crop feeding and endless belts for durability. Rotor feeder models are available with both twine & net wrap while the rotor cutter models are offered with net wrap only. Rotor Cutter models feature a hydraulic rotor reverser to assist with clearing plugs. The *Bale Command Plus* monitor ensures the operator is informed of baler functions. Talk to your local New Holland dealer for a brochure and quote on your round baler 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.

## Parmalat finds it tough at home

**Parmalat posts a bag of assorted results in its half-year report.**

Parmalat reported a 9.6% increase in revenues in a half-year report. It was helped by strong performances in Australia (see page 1), Canada and South Africa. But sales for its Italian operations fell 5.3% and for those in Central and South America, the cut was deeper at around 29%.

EBITDA for the group at the end of June rose to €174.5 million from €162 million. Net profit totalled €113 million, up from €69m in the same six months of 2009. The worst impact for the group was in Venezuela where deflation and lack of electricity power hit volumes and productivity down.

The strength of the Australian dollar helped the overall result, contributing a gain of more than €53 million in sales and €6 million at the EBITDA line – half of the net overall improvement.

## Danone reflects economic recovery

**Fresh dairy sales serve as the key to Danone's half-year success.**

Danone announced half-year results, with sales up 7% and a forecast of sales growth of "at least" 6% for the remainder of the year. Before the effect of exchange rate movements, actual sales growth averaged 11%. Total operating margins of 15.3% were similar to that of last year.

Danone's Fresh Dairy sales rose by 7% with the best growth coming from outside Europe, from the United States, Brazil, Mexico, Argentina and Japan. Danone's trading statement said the financial, economic and social crises will continue to weigh on consumption trends in Europe, where trading in Spain, in particular, is "challenging". By contrast, emerging markets are expected to keep developing.

## Fonterra "concerned" over Indian protests

**Fonterra wants assurances that trade won't be affected in India.**

Fonterra Cooperative Group said it is concerned about protests in India over imports of New Zealand dairy products and has sought assurances from the Ministry of Foreign Affairs & Trade that any future export sales are safe.

Members of the Hindu nationalist party Shiv Sena attacked a milk tanker at Pune, south of Mumbai last week, spilling milk in protest at the National Dairy Development Board's importation of 30,000 tonnes of milk powder and 15,000 tonnes of ghee from New Zealand.

Some 50,000 litres of milk was spilled by local farmers angry at the prospect of imported milk competing leading to cut in the local purchases of milk.

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