

DAIRY REPORTER

Weekly Dairy News for Members of DFMC



7 Dec 2010

Challenge companies with receivers

Challenge Co-op's collapse slashes thousands out of farmers' pockets.

Farmer members of the Challenge Dairy Co-op were told the co-operative had gone into voluntary administration and had stopped collecting their milk. Suppliers were directed to seek alternate arrangements for the collection of their milk, and were last week anecdotally reported to be receiving milk prices under 20c a litre, due to the difficulty that rival companies would have using the milk profitably.

Receivers for collapsed WA processor Challenge Dairy say that the company's Boyanup plant has been shut down and staff made redundant, due to the cessation of milk collections by Challenge Dairy Co-operative. Challenge Dairy went into administration just over a month ago. Challenge Australia Dairy is jointly owned by Challenge Dairy Cooperative (51 per cent) and Singapore company QAF Ltd (49 per cent). The Western Australian State Government is working with the industry to coordinate services including on-farm visits for impacted suppliers of Challenge Dairy Cooperative.

MG talks up Kiewa growth

Japanese demand for cream cheese brings huge rewards for MG.

- Export demand for cream cheese - largely to the Japanese market where it is a "tariff-buster" product - has driven a 92 per cent increase in production of the export product at Murray-Goulburn's Kiewa factory. The company is talking up the growth and the benefits that are flowing to the north-east Victorian region. MG reported that cream cheese production has risen from 5.6 million kilograms in 2008-09 to 10.7 million kg last financial year, following a 31 per cent increase from 2007/08 to 2008/09. Packaged milk production had also risen by more than 50% over the past 2 years, with MG winning a higher share of NSW and ACT markets. Work to complete a yoghurt plant is due to be completed by March 2011 as part of the company's joint venture with French dairy and drinks company Danone.

ABS Retail numbers defy reality

Flat dairy volumes outside grocery question accuracy of ABS survey methods.

Retail sales fell in October, dropping 1.1 per cent seasonally adjusted from the previous month, against expectations for a 0.5 per cent rise. The latest figures from the ABS follow a rise of 0.1 per cent in September, and come a day after slower-than-expected GDP growth figures. The numbers showed a major adjustment in food sales - especially those out of the home - which fuel the argument that the food service numbers reported by the ABS are wildly inaccurate. The monthly comparisons with the same period from the prior year showed that the growth in out-of-home food sales fell sharply per the October numbers.

But when dairy volumes into the non-grocery channel are compared with the ABS "out-of-home" sales numbers, there has been a significant disparity for at least the past year. Dairy Australia data - presented in monthly reports to industry and to a food service seminar last week - show that monthly volume growth year on year has been mostly flat or negative over the past 12 months, while the ABS numbers have been in double-digit most of that time, suggesting their pruned survey methods are not delivering an accurate picture of what is still a very tough market for processors and manufacturers. Price inflation hasn't been that significant in non-grocery channels, and dairy volumes are regarded as a reasonable indicator of the health of food service numbers.

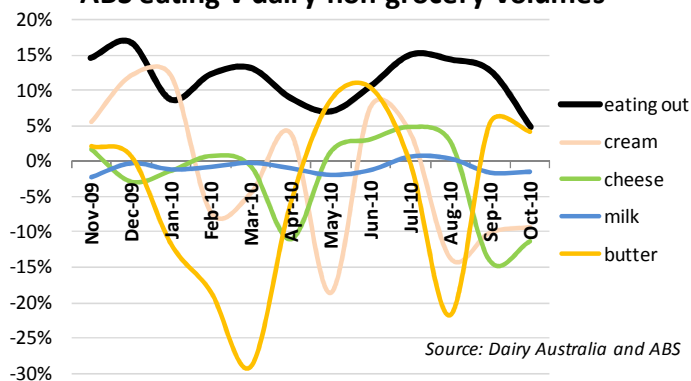


Headlines

- Challenge Co-op goes under
- Metcash bleak on its outlook
- ABS retail sales numbers defy reality
- Drought fears in NZ
- Russia corporate dairy plays

Indicators	
Dairy export index	Index weaker with stronger dollar
World dairy prices	Rise in WMP prices, others flat
Australian cull cow prices in the US	Recovery continues as US supply falls
Grain futures	Increase in US wheat while local feed prices fall

ABS eating v dairy non-grocery volumes



Metcash talks down its outlook...

Deflationary conditions and weak consumer demand dampen Metcash's full-year profit target.

Grocery wholesaler Metcash booked a rise in first-half underlying earnings, but said that it may not be able to hit its full-year targets, due to the continuation of the "extremely tight trading conditions" in the first half which will exert pressure on its ability to achieve its full-year forecast. Metcash said that the strong Australian dollar was helping a deflationary climate for food prices, while the company itself was also facing higher labour and utility costs. The wholesaler talked also of an "elevated promotional landscape" which was sustaining the cautious mood for value-conscious consumers. The company recorded a 2.1% gain in underlying earnings for the half year ended 31 October, while EBITA rose 7.7% to \$199m, and wholesale sales rose 5.8% to \$5.94bn.

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.

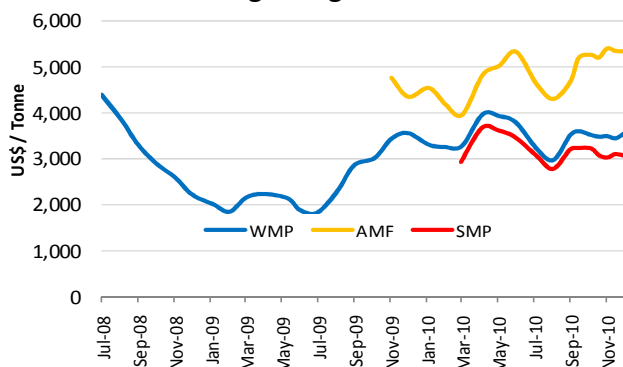
Index cycles again with a fluctuating \$A.

All spot prices were steady this week ahead of another round of Fonterra's on-line auction, with the exception of a rise in WMP following a positive auction result last week. The index of export returns reversed last week's gain with the dollar almost 3 cents stronger - the index down to **122.2** after the \$A climbed to **US99.26c**.

GDT prices slightly better.

Whole milk powder (WMP) prices rose slightly in Fonterra's globalDairyTrade online trading event last week. WMP was on average 2.6% higher than the previous auction two weeks ago, delivering an average price of US\$3 556/tonne. There was little change in the average price of anhydrous milk fat (AMF) to rest at \$5 333/t, while skimmed milk powder (SMP) was up 0.5% on a fortnight ago, and butter milk powder (BMP) was down -2.7%. The trade-weighted index which covers all four dairy products offered was 1.6% higher than the previous auction.

Fonterra Average Weighted Auction Prices

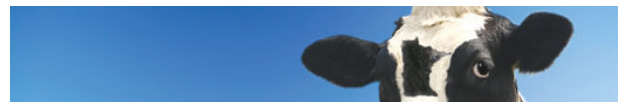


Drought fears grow in NZ

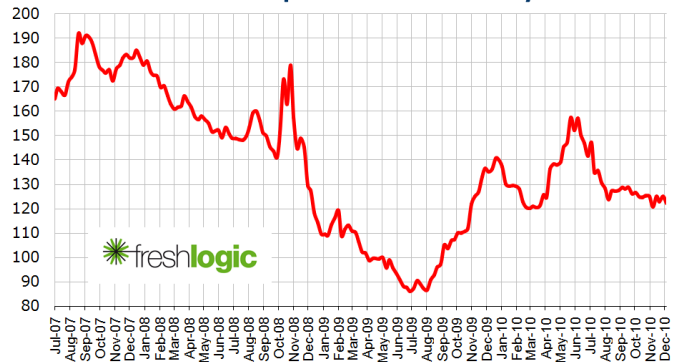
NZ farmers stressed as they await one of the driest summers in record.

There are once again fears spreading the NZ industry that the lack of spring rains in Northland and Waikato is tipping the balance towards extremely dry conditions, and probably drought. NIWA has said that the nation is experiencing a La Nina weather pattern and the hot and dry conditions were forecast to persist in regions such as the Waikato, with any rain likely to be "too little, too late". It did not predict drought, but expects soil moisture levels to be average or below average over most of the country. The latest stats on milk solids production released by DCANZ last week suggested that the season-to-date output for the 4 months to September 2010 was up 1.3%, which would have improved with the reported peak production ahead 3% of the same time in 2009. But this situation is expected to worsen as the dry takes hold, and may start to put a positive edge on product prices in the coming months.

New Holland T1500 Compact Tractors give you big - tractor reliability wrapped in a compact, manoeuvrable package. They're loaded with features that keeps you comfortable while saving time and money. Available in 30, 35 and 45 Horsepower, with the option of Mechanical or 3 speed Hydrostatic transmission. Operator layout is straight forward and un-cluttered, allowing easy entry and exit to the operator's station. Fitted with separate steering and hydraulic pumps, the optional level lift loader or optional rear hydraulic flow is not compromised in performance when turning. Mid mount PTO is standard on the Hydrostatic transmission, for easy fitment of a mid mount mower deck. The Boomer 1500 series comes with a choice of turf or Agricultural tyres, and Industrial tyres on the 45 HP model.



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.

Food wheat climbs, feed grains get cheap

Concern over tighter supplies prompts strong jump in global wheat prices.

A delay in Australia's wheat harvest and damage to crop quality from adverse weather in the past few weeks have raised concerns over global supplies of milling wheat, pushing up prices. Australian milling wheat futures surged last week, taking gains over a week to nearly 20 per cent, while Chicago Board of Trade wheat climbed more than 7% in one session, up 14% over the full week. Further, the expected significant downgrades in the quality of wheat and barley have helped push feed grain prices lower.

Big EU increase in milk output this year

High prices drive record milk deliveries in the EU this year.

The better EU milk prices is likely to help the total EU milk deliveries in the 2010 calendar year rise 1.1 to 1.2 billion litres higher than 2009, making the increase one of the largest year-on-year variations in output on record, according to German market analysts ZMB. EU milk deliveries in January-September 2010 are estimated to be up by 0.9% on the same period in 2009, but the year-on-year rise for the month was about 4.5%.

Russian corporate dairy plays

Pepsi makes a major dairy play...

PepsiCo is to buy a two-thirds stake in Russia's leading dairy company, Wimm-Bill-Dann (WBD) for US\$3.8 billion to quickly make the US soft drinks giant the largest food and beverage business in Russia. It plans to complete the acquisition of Wimm-Bill-Dann in two stages. The first consists of buying a 66 per cent share in the company for \$3.8bn and the second in acquiring the remaining shares once regulatory approval has been gained for the initial buy. With \$5bn in revenue in Russia, PepsiCo will also become twice as large as its nearest food and drink rival in the country. Its presence in key markets in Eastern Europe and Central Asia will increase as well. WBD was founded in 1992 and is the largest manufacturer of dairy products and a leading producer of juices and beverages in Russia and the CIS, and has a listing on the NYSE. Since 2005, WBD has nearly doubled its revenues and in the 12 months to the end of June this year, they reached approximately US\$2.4bn. In 2005, WBD became the first, and only, Russian dairy producer to receive approval to export its products into the European Union. It's the growth prize that Pepsi has its eyes on.

...While the other deal is completed.

Danone and Unimilk have finalised the merger of their fresh dairy product businesses in Russia and other members of the Commonwealth of Independent States (CIS). The new entity, announced in June will be controlled by the French company with its 58% interest, while existing shareholders of the Russian company will hold the remainder.

Proudly sponsored by

