

# DAIRY REPORTER

Weekly Dairy News for Members of DFMC



7 Sept 2010

## WCB posts strong turnaround

*The company restores health to its balance sheet after 2009 horrors.*

Warrnambool Cheese and Butter announced a net operating profit after tax of \$8.8 million for the year ended June 30, 2010 - a \$28.7m turnaround on 2009. Total milk intake for 2010 was 896 million litres, 3% short of the 922m litre record of 2009. Total revenue for 2010 was \$416.3m, down by 5.6% on 2009, but sales volumes were up by 7.4% however.

WCB says it has continued the development of its export and domestic markets achieving a 5% growth in commodity volumes and a 23% growth in domestic consumer goods volumes during 2010. It says initiatives are under way to improve both market volumes and margins in 2011.

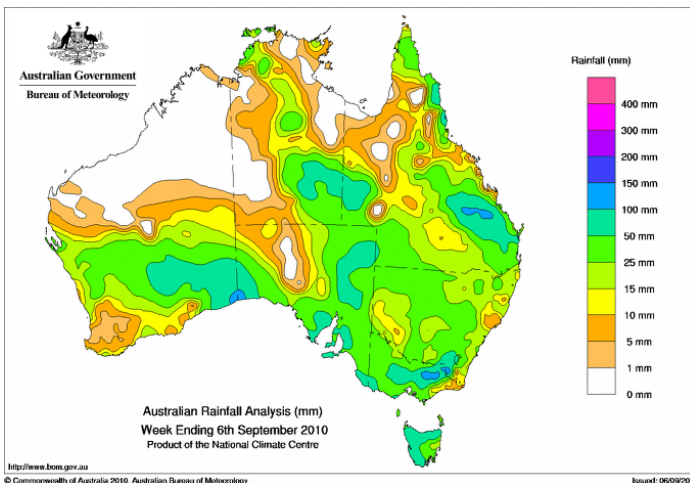
## Big wet to cause production problems

*Bursting clouds no friend of dairy herds.*

Southern Australia has quickly gone from one extreme to another. Flooding and soaking wet pasture conditions will cause fresh production problems in the north and west of Victoria after a record wet for many in August and big rains since the start of September including the weekend drenching. Rain may have earlier brought hopes of a good full-year season, but the problem is now serious with flooded paddocks and lingering cold weather which are affecting the health of stock and availability of feed.

Regional vets and extension officers says changes in track conditions and surfaces had increased the rate of lameness in dairy herds, and producers will be forced to adopt a range of strategies to avoid excessive damage to pastures and stock numbers.

Victorian water storages are expected to fill rapidly in the next week setting the Riverina region up for good water reliability for 2 or more years.



## Farmer confidence on a high

*Rain and good prices has lifted spirits says Rabobank.*

Business confidence among Australian farmers hit a two-and-a-half year high this month, with rising commodity prices and winter rains across most states. Rabobank's national quarterly survey of 1,300 farmers found rural confidence spiked in August, with 37 per cent of farmers expecting conditions to improve over the next 12 months. This was up from 29 per cent in May and was the highest level since March 2008. Half the farmers attributed their bullish sentiment to seasonal conditions and higher commodity prices pushed up by Russia's worst drought in 100 years. Rabobank general manager for Rural Australia Peter Knoblanche said the global grain balance sheet was tighter and the bank did not expect prices to fall back to levels seen earlier in 2010.

## Headlines

- WCB recovers
- Fonterra's auction prices rebound
- Quake damage to dairies is unclear
- NZ South Island financier on the brink
- A different take on the climate debate

Indicators	
Dairy export index	A small improvement despite a 2c lift in \$A
World dairy prices	Rise in powder spot prices after positive NZ auction
Australian cull cow prices in the US	Prices lower in \$A with rise in the \$A's value
Grain futures	Rebound in US wheat prices after Russian ban extension, local grains steady

## Quake damage to dairies is unclear

*Milk flow continued but irrigation systems may bear major damage.*

Much of the cost to Canterbury farmers from Saturday's magnitude 7.1 earthquake is unknown and under the ground, say farming leaders. Agriculture Minister David Carter says the full extent of the quake damage to rural areas in Canterbury won't be known for weeks. Dairy farmers spent the weekend helping each other to ensure cows were milked and there was an immediate and large scale response to shift eight thousand tonnes of grain from collapsed silos.

No milk has had to be spilt despite around 20% of Fonterra farmers in the region remaining without power on Monday morning. But David Carter says it's the damage underground that could potentially be the biggest concern. "At this stage we have no idea about the extent of damage to underground irrigation systems," he said.

## Big South Island dairy financier sinks

*Future of large SI dairy finances unclear as receivers assess damage.*

New Zealand's second biggest nonbank finance company, South Canterbury Finance, was put into receivership last week after the troubled lender failed to pull together a bailout program that could keep it afloat. South Canterbury owns a third of New Zealand's biggest dairy farming group, Dairy Holdings, which has 58 dairy units on 14,201 effective hectares. It also owns a third of Aorangi Securities which has loans with 25 dairy farms. At least 29 nonbank finance companies have collapsed in New Zealand since the start of the world financial crisis in 2008.

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 improve after auction

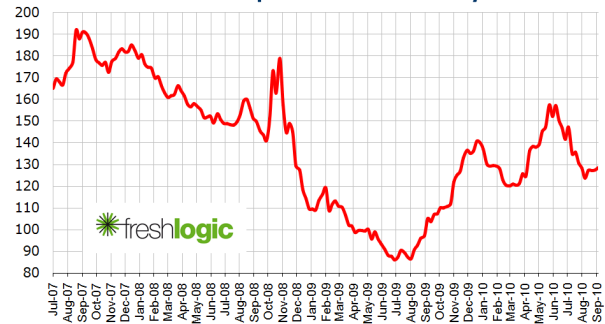
Export spot prices for both milk powders rose again this week, with WMP jumping US\$300/t to reflect the positive result in the gDT auction in the middle of the week. The \$A also rose sharply, up by almost 2 cents over the week to **US91.65c** on the back of positive employment news and a solid gain in the equities markets on Wall Street. The index rose on the new effect of those movements to **128.7**.

### Auction prices rebound strongly

Dairy commodity prices surged 16.9% at Fonterra's latest *globalDairyTrade* auction on September 1 after four consecutive months of falls. Paul Grave, *globalDairyTrade* manager, said the result appeared "to indicate a firmer tone has returned to the market over the last month."

Whole milk powder (WMP) surged on average by 18.8% to \$3 522/t. WMP for delivery in November climbed 24.9%, powder for shipment between Dec 2010 and Feb 2011 rose 17.7%, and product for delivery between March and May 2011 increased 14%. Skimmed milk powder (SMP) prices increased 18.8% to \$3 197/t, while prices for anhydrous milkfat gained 9.5% to \$4 681/t. Buttermilk powder prices were 10.6% higher at \$3 199/t. A record 151 bidders participated in the auction. 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.

## Fonterra readies for final step

### Share trading platform design will use NZX's expertise.

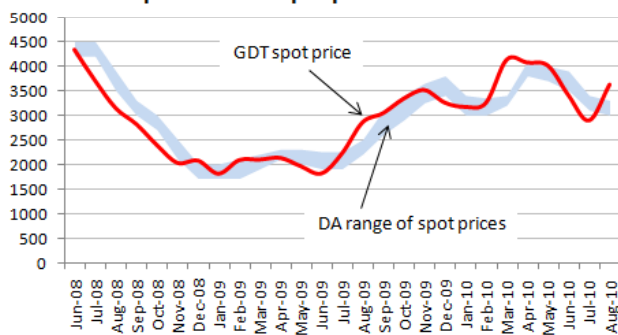
Fonterra will hire securities market operator NZX to help design a platform for shareholders to trade shares amongst themselves. NZX won the contract because of its experience in designing and building trading markets and its local knowledge of conditions and regulations. Mr Mason says the farmer-only exchange will operate on Fonterra's intranet site, Fencepost, and will be built from scratch. Trading isn't expected to begin until late next year at the earliest. Fonterra also appointed First NZ Capital-Credit Suisse and Deutsche Bank-Craigs Investment Partners to advise on its plan. The advisers will provide the specialist expertise to develop "deep and liquid markets" to help create the new Shareholders Market in which farmers will trade shares between themselves, and the Fonterra Shareholders Fund, which will help farmers buy or retain shares and provide the vehicle for indirect public investment in the company.

## A different take on the climate debate

### A new study combines climate concerns with nutritional benefits.

In what is billed as the first study to look at nutrient profile in comparison to emissions throughout a product's lifecycle, researchers have produced an index called the Nutrient Density to Climate Impact (NDCI) index. Milk has come out on top of other beverages in the analysis. Nutrient density was calculated using the Nordic Nutrition Recommendations for 21 nutrients. The researchers in Sweden and the USA recommended that the index be used to explore different dietary settings, and as nutrition and climate research advance more complete data will become available – and more sophisticated lifecycle analyses can be undertaken.

WMP prices - Aust spot prices v GDT results



The chart compares spot prices tracked by Dairy Australia for WMP with the average spot auction price from monthly auctions.

## Russia extends grain export ban

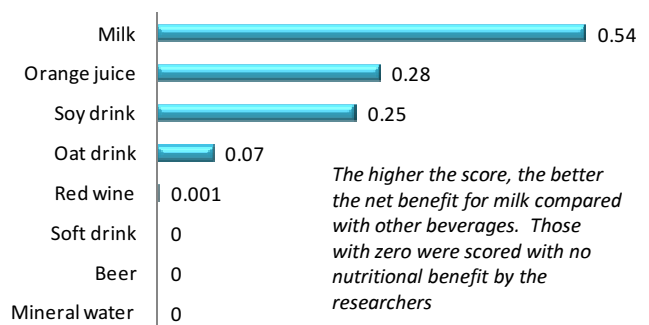
### The extension will keep upward pressure on grain prices.

Russia will extend its ban on grain exports until after next year's harvest has been collected (November 2011), catching the global industry off guard. Russian PM Putin said the extension was to "provide stability and predictable conditions for all market participants". Russia expects to harvest between 60 million and 65 million tonnes of grain this year, down from initial forecasts of 97 million, but needs 80 million to cover domestic consumption. US wheat prices jumped 7% over the past week.

### New Holland Self Propeller Windrowers.

For the large scale operator New Holland offer a range of Self Propeller Windrowers (SPW) and associated fronts. The SPW range from 126hp to 226hp and can be purchased with *HayBine™* sickle bar front cutting fronts from 14' to 18', *DiscBine™* front from 12 discs cutting 15'5" to 14 discs cutting 18'. Additionally draper fronts can be installed cutting from 25' to 36'. If you are a large operator or contractor, call and talk to your local New Holland dealer for a brochure and quote on your requirements.

Nutrient Density to Climate Impact Index



Proudly sponsored by

