

### Anger about milk price cuts continues

**ADF slams Coles over "anti-competitive behaviour", as the supermarket slashes more dairy prices...**

Australian Dairy Farmers has continued attacking on Coles as the price war extended to other dairy products. ADF has however called on consumers to go past the private label products and **pay more** for milk by supporting "branded" milk, butter and cream. Coles says consumers will have the ultimate say, and that its approach has instead been applauded by consumers, drawing in extra shoppers and lifting its house brand milk sales 10 per cent or more since prices were slashed last week.

The peak grocery manufacturing body, AFGC attacked Coles in the media over its aggressive price war with other retailers. AFGC chief executive Kate Carnell said that the retailer was using its market dominance to destabilise the whole food and grocery supply chain by cutting prices on essential daily items. AFGC accused the supermarket giant of using its power to undermine farmers, manufacturers and jobs.

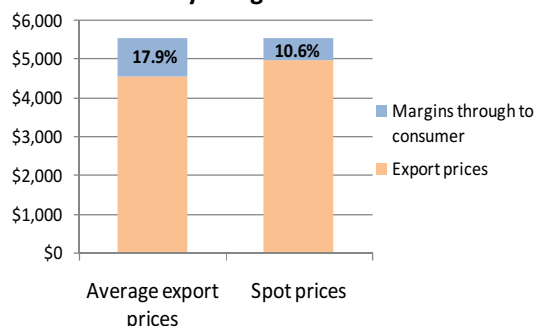
... **Woolworths meanwhile** has played a different card in the games around the price war affecting milk, announcing a support measure for flood-affected dairy farmers by contributing 5 cents a litre on all fresh milk sales for a 2-week period – thereby winning some praise from the dairy farm sector. The donation applies to every brand and variety of fresh white milk bought at any Woolworths store nationally. All monies will go to the Queensland Dairy Farmers Relief Fund and all dairy farmers in the State are eligible to apply for grants. Woolworths continue to carry a higher retail price on its 2 litre Woolworths milk, while "homebrand" line competes with other retailers at \$2/litre.

### Further price cuts affect dairy cabinet

**Coles extends the discounting, leaving no margin for anyone on butter.**

Continuing with its "Down Down" campaign, Coles has cut prices on Coles Brand butter and cream. Coles Brand butter will fall by as much as 41% to \$1.39 for a 250g pack while Coles Brand cream prices have been cut by up to 30%. At these prices, the margins aren't leaving very much beyond the value of bulk butter. The chart at the bottom shows the thin margins left for packing, logistics and retailing the 250g private label products, with the higher spot values making the retail pack unviable for all concerned.

**Skinny margins in Coles' butter**



### MG pays a 2<sup>nd</sup> step-up

**The co-op maintains its full-year forecast.**

Murray Goulburn has stepped-up its farmgate milk price and maintained its full-year price forecast. Murray Goulburn advised an increase of 35c/kg protein and 14c/kg butterfat for milk supplied during the 2010-11 season. He said that it increased the available weighted average farmgate price to about \$5.25 per kilogram of milk solids, which is the claimed weighted average of the expected prices available to suppliers if all incentives were taken across the three MG payment schemes. Mr O'Rourke also advised that the co-operative's forecast final milk price for this season had been maintained at a range of \$5.30 to \$5.50 per kilogram of milk solids.

### Headlines

- **MG steps up**
- **Retailers extend dairy discounting**
- **Auction prices maintain momentum**
- **EU offloads more skim milk powder**
- **German co-ops agree to merge**

Indicators	
Dairy export index	Prices keep index stronger despite rising dollar
World dairy prices	Increases in butter and powder prices
Australian cull cow prices in the US	US weather long strong price run
Grain futures	Sharp lift in US wheat prices

### FNQ dodges a bullet from Yasi

**No fat damage bill from Yasi for FNQ dairy industry.**

Dairy farmers in Far North Queensland escaped the worst affects of Tropical Cyclone Yasi, but face some short-term major challenges due to the effects of the cyclone on infrastructure in the region. The loss of power across the region caused milk losses but other difficulties exist with damage to transport and telecommunications.

### NZ milk output just ahead of 2010

**NZ milk production hurt by dry weather; starts to recover.**

New Zealand milk production for the season from June to November 2010, was 2.3% ahead of last year, according to DCANZ. However, since this time milk production fall sharply in December, but has slowly improved over January, relative to the previous year. Late last week, NZX Agrifax estimated New Zealand milk production was currently 0.75% ahead for the season to date (June 2010 – January 2011).

### Update on share trading plans

**Plans looking good for Fonterra to take the final step.**

Fonterra held around 50 meetings in New Zealand to update shareholders on the implementation of *Trading Among Farmers* as part of its capital structure reforms. Shareholders voted overwhelmingly in June 2010 in favour of changes to the co-op's constitution to allow farmers to buy and sell Fonterra shares from one another through a market, rather than via the co-op. The Trading Among Farmers scheme is dependent on the government determining what changes are required to the Dairy Industry Restructuring Act (DIRA) to provide for it and at least 50% support from the Shareholders' Council. Wellington is expected to release a discussion paper on potential DIRA changes later this month.

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# 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.**

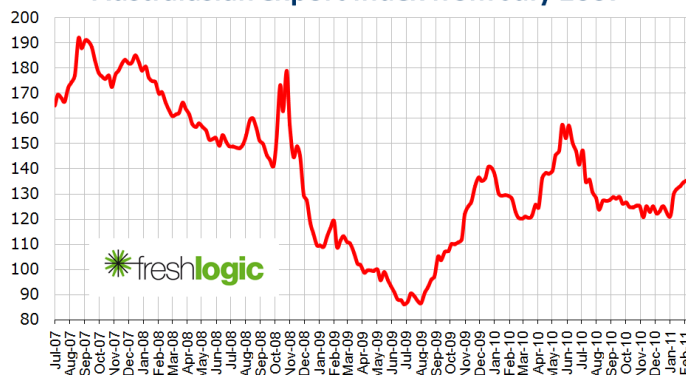
### Dollar trims gains

Spot prices for butter and both milk powders again moved higher again this week, following a stronger lift in the week's GDT auction prices. But the effective gains were kept to a minimum as the \$A gained a couple of cents, to close at \$US1.0135, allowing a small rise in the index to **135.4**.

**Auction result sees firming market.** Anhydrous milk fat (AMF) made the biggest gains at the Fonterra **globalDairyTrade** online auction this week as the weighted average prices improved more than 7%. The average price, of AMF was up 9.2% to US\$6,486/tonne, while skimmed milk powder (SMP) was up 8.5% to \$3 913/t and whole milk powder (WMP) averaged \$3 995/t - a 5.7% increase on the previous auction held in the middle of January.



## 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.

## Feed wheat snapped up by export market

**Traders prefer feed wheat to US corn.**

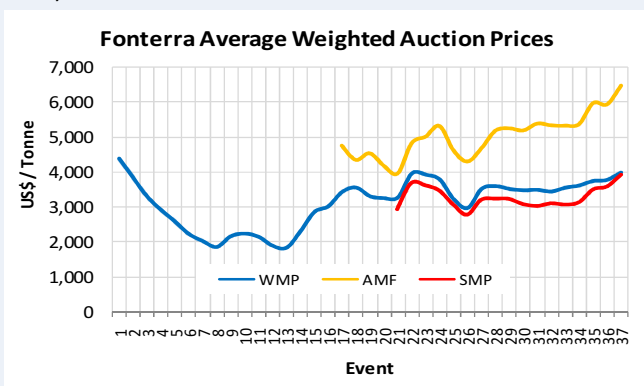
International traders snapped up to 2 million tonnes of feed wheat from Australian farmers on expectations that demand from animal feed makers will surge with rising global prices and shrinking supplies. Supplies of feed wheat from Australia could offset to some extent tight stocks of corn, and give relief to importers in Asia, Middle East and Europe, suffering from rising food inflation.

Australia, which typically produces only 4 million tonnes of feed wheat a year mainly for domestic consumption, is likely to see around half of its 2011 crop of 22-26 million tonnes reduced to poor quality, after widespread rains and floods damaged crops. A spokesman for AWB Ltd, one of Australia's top grain exporters now owned by Canada's Agrium Inc, said there were strong expectations of more feed wheat sales to China which is finding it a cheaper livestock feed source than US corn. The events may take pressure off US prices.

## Snow storms subdue the US cow market

**Harsh cold snap dampens the US cull values.**

The US experienced severe snow storms across the mid-west this week, which created a short-term slowdown in beef as consumers remained housebound. Combined with the adverse weather conditions, reports indicate product offerings from Australia have increased recently, and a growing number of US traders become unwilling to lock into forward orders at current prices. As a result, the US imported manufacturing market eased this week, with the imported 90CL cow beef indicator dropping to 390c/kg. It appears the US market could be fairly volatile if lean manufacturing supplies remain tight leading up to the US summer.



**EU offloads 16,000t of SMP.** The EU lifted its minimum selling price for SMP to €2400/t, and offloaded 16 000 tonnes above this threshold in its latest dairy tender. At a management committee meeting on February 3, member state experts voted in a favour of a Commission decision to raise the minimum selling price from €225 to €240/100kg. This was despite average EU market prices for SMP remaining lower (€2290/t for food purposes, €2248/t for feed). After the sale, 65 800t of SMP is for sale at the next tender due to close on February 15.

## German merger at last

**After several failed attempts, Germans get a big deal across the line.**

Seven years after they first talked about a merger, the members of two German co-ops *Nordmilch* and *Humana* given the go-ahead to create the country's biggest dairy company and the sixth largest in Europe. The combined 11,000 members of Humana and Nordmilch voted 93.3% and 98.5%, respectively, to approve the deal. The new company will be called *DMK Deutsches Milchkontor GmbH*, will commence business operations at the beginning of April, will control one quarter of the German market, will collect 6.7 billion litres of milk annually, and based on 2008 numbers, have a turnover of €4.8bn.

**New Holland's G5000 zero turn radius mower (ZTR)** are commercial grade, petrol powered mowers, designed to handle high volume, high frequency grass cutting for Councils, lawn mowing contractors, profession landscapers and the large acreage property owner. These G5000 mowers offer the choice of two powerful and efficient air cooled engines and cutting decks from 54" to 66". New Holland's G Series out front mowers provide excellent power, manoeuvrability and operating ease for the commercial mowing contractor. The Tier 3 engine, available in two hp sizes, is located at the rear of the chassis, alleviating the need for weights and aiding balance. Sensitrac™ traction management system ensures 4wd is engaged only when slip is detected, for protection against scuffing and marking fine turf. An exceptionally comfortable Operators station allows the operator to work longer, thus productivity is not compromised.

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



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