

DAIRY REPORTER

Weekly Dairy News for Members of DFMC



8 June 2010

MG calls off bid for WCB

MG abandons long-pursuit merger plans for now, without ruling out future merger possibilities.

In a recent letter to its suppliers, Murray Goulburn said it has abandoned plans of a proposed merger with WCB and withdrawn its application for clearance from the Australian Competition and Consumer Commission (ACCC). However, MG will retain its 10% shareholding and has not ruled out the possibilities of a future merger, which, it believes, could still deliver "substantial and sustainable benefits to farmers". MG's decision follows the automatic increase in the limits on individual shareholder ownership in WCB to 15 per cent which applies now until May 2011. In response, WCB has "welcomed" the news and stated that it will continue to build its business as an independent company.

NatFoods loses a chunk of its PL business

NatFoods loses out, as Woolworths' frees itself of single house-brand milk supplier dependency...

NatFoods has lost a part of its 300 million litre house-brand contract to supply private label milk products to Woolworths, which it has held since 2002, following the retailer's decision to award its southern NSW contract to Murray Goulburn and the Queensland and ACT contracts to Parmalat. NatFoods retains supply contracts for Victoria, remainder of NSW, Western Australia, and South Australia, but these new arrangements are for a year only, increasing the uncertainty for the company and suppliers especially in light of new pricing and supply arrangements that apply from 1 July. The private label supply contract changes take effect in September this year, but changes between DFMC and NatFoods remain in place until July 2011.

Woolworths' restructuring of its house-brand milk supply – after months of deliberation – reflects its wish to enhance the competitiveness in the milk industry and lessen its dependency on a single house-brand milk supplier.

The Queensland loss will not reduce the likely demand by NatFoods to meet the private label supply requirements for DFMC "tier 1" milk until July 2011. NatFoods will abide by current AFD volumes with DFMC suppliers and continue to buy the 77 million litres of milk at stake at a "tier 1" price until July 2011, following which farmers would face a change in the demand volume as overall market shares are subject to change in the meantime.

Expert report angers users

The Wentworth group flags a possible outcome

Irrigation use in the Murrumbidgee Valley would be cut by 65% while the Murray Valley would take a 39% cut under a proposal floated in a report by the Wentworth Group of Concerned Scientists, weeks before the Murray-Darling Basin Authority is to hand down its draft plan for management of the waterway, including sustainable diversion limits for rivers in the MD basin. The WGCS says rivers should be restored to 66% of their natural flow, requiring another 4400 GL to be bought for the environment. NFF leader David Crombie called the report a hand-grenade thrown to disrupt the good work being done with the Government.

ADF role vacant again

The role of CEO at the national dairy farmer body is hard to cement.

CEO of Australian Dairy Farmers, Adrian Scott, who has been in the job for a few short months, has announced his retirement effective 2 July 2010. Scott previously had industry stints with the WA Dairy Authority and SADA, and is the 3rd CEO to hold the role in the past year. The ADF Board expects to make a statement shortly about the position.

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Headlines

- MG abandons merger plans with WCB
- GDT auction: WMP slips, AMF rises
- Intervention tenders bring good news
- Sodiaal wins over Entremont?
- Fonterra buys US hard cheese business

Indicators

Dairy export index	An increase by 6 pts with sharp drop in \$A
World dairy prices	Small increase in SMP with others steady
Australian cull cow prices in the US	Market weaker in \$US and in \$A terms
Grain futures	Decreases in US and local futures prices

Share trading goes to a vote



The fate of share trading will soon be in the hands of farmer-shareholders.

Fonterra shareholders will vote at the end of this month on whether to introduce share trading between members. The Fonterra Shareholder Council has agreed that constitutional change needed for the new scheme, the third and final stage of the cooperative's capital restructuring, can be put to the vote at a special shareholder meeting on June 30. It requires at least 70 per cent support from Fonterra's 10,500 farmer-shareholders.

Metcash profit result

Annual profit results infuse optimism in Metcash's 2011 outlook.

Australian grocery wholesaler Metcash has reported an increase in annual net profit of 12.4 per cent, while its revenue at \$11.61 billion, up by 4.9 per cent from last year. Underlying EBITA was up 8.6% and the group reported a slight lift in its earnings margins in the period.

Retailer same store sales year to 31 March 2010



Metcash is confident of more growth in their earnings per share in the 2011 financial year based on stable economic conditions but expects a slowing in sales growth in the food and liquor sectors due to the fading of government stimulus, weak food inflation and the effect of interest rate rises. For the year completed, it reported comparative same store sales up 4.1% but did not reveal the quarterly dissection in this indicator. Over the full year our analysis indicates the Metcash distribution activities grew its underlying sales slower than that of Coles and Woolworths.

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Index of export returns

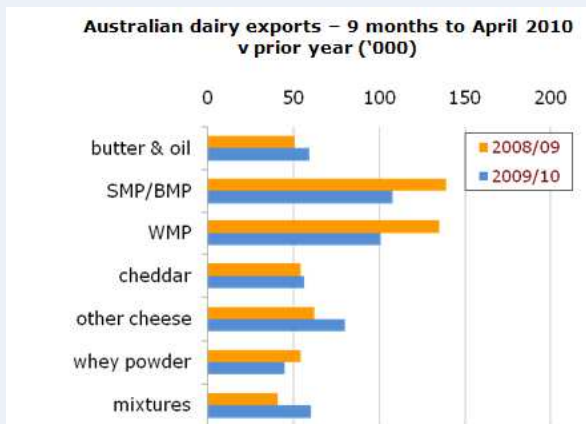
Freshlogic tracks an index of the \$A value of spot returns from dairy exports as an indicator of the future southern milk prices.

Prices stable.

This week, there was only a US\$50/t increase in SMP prices, a recovery from its big drop last week, with all other prices remaining steady. The index gained by 6 pts to **157.29**, as the \$A closed the week well down at **US\$82.3c** after a sharp fall on Friday.

Intervention tenders bring good news... so far.

A total of 11551 tonnes of butter were sold at prices ranging from €3450 to €3851/tonne (at the weekend rates that amounted to a range of US\$4100 to US\$4600/tonne) in the first release of butter stocks into the EU market, since last year's dairy crisis, by the EU dairy management committee. The commission rejected further bids for 60930t of butter along with all bids (of 48999t) for SMP, as the prices offered were deemed too low compared to the present market prices and too far below the market average. Although the dairy prices have stalled since the intervention release announcement for butter and SMP, the commission expects that the prices will rise again before the next tendering period.



GDT auction results reflect market stability.

Last week's globalDairyTrade online auction indicated the market is enjoying a period of relative stability, says Fonterra. Fonterra sold US\$138 million of product, with a trade weighted index covering the basket of products down 3.5 per cent. Whole milk powder average prices were down 3.4 per cent to US\$3790 a tonne, while SMP fell 6.2 per cent to an average price of \$3462/t. In contrast, anhydrous milkfat posted a rise of 5.9 per cent to \$5324/t. Fonterra expected to sell about 530,000 tonnes through the online system during the next 12 months.

New futures platforms operating

Two new futures markets are now open for manufacturers and buyers

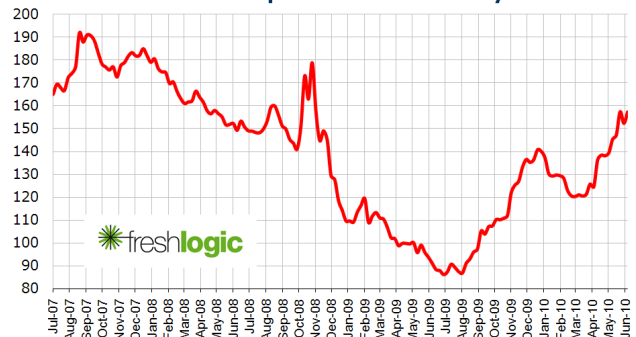
Two new dairy futures trading operations, one based in Chicago operated by the Chicago Exchange, and a second that opened this week based in Frankfurt operated by Eurex, offer trade for the first time in SMP and butter on the world market. Trading is very quiet to date but the step reminds of the major changes in the world market that have been sufficient for owners of the exchanges to offer the products.

Westland's "prudent" 2010/11 NZ payout

Westland Milk Products forecasts \$1 below Fonterra.

After lifting its 2009/20 season's forecast payout by 10 cents to between NZ\$6.20-\$6.40 kilogram per milk solids, Westland Milk Products has announced a "prudent" forecast opening payout of NZ\$5.80-\$6.20 per kilogram of milk solids for the 2010/11 season.

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.

Another large EU merger close to agreed

Sodiaal endures months of work to get close to snaring Entremont.

After 11 months of speculation over the issue, French dairy group Sodiaal announced it and Entremont had signed a "draft agreement" on a takeover. Sodiaal is set to acquire 100% of Entremont Alliance from Unifem, a holding company controlled by Belgian financier Albert Frère. Sodiaal's pursuit of Entremont Alliance has seen everything from threatened government intervention, opposition to a rival bid from Lactalis and tense dealings over the debts that stalled the deal. Should Sodiaal and Entremont seal a deal, the new entity would create Europe's number 4th largest dairy processor, behind Lactalis, Arla and Dutch dairy giant FrieslandCampina.

Fonterra buys US hard cheese business

Fonterra takes on a new role to be the 2nd largest hard cheese player in US

Cementing its position as the second largest player in the US hard Italian cheese market, DairiConcepts – a joint venture between Fonterra and Dairy Farmers of America – has bought the US hard cheese business of Swiss Valley Farms (SVF) from SWF's wholly owned affiliate Rochester Cheese, which produces private label fresh grated hard and dry hard grated Italian cheeses for retail, foodservice, and industrial customers. DairiConcepts will acquire Rochester's Dalbo plant in Minnesota; further, while Rochester would retain the ownership of a second plant at Spring Valley, Minnesota, the plant's Italian cheese production will be moved to Dalbo.

NZX loses on other derivative products

NZX loses a chance to get critical mass behind futures operations.

NZX's marginal loss of potential trading – after the electricity industry chose the Australian exchange operator ASX to run the new electricity derivatives market – has not affected its plans of launching the dairy derivatives. NZX has also stated that it is ready to "meet or beat" what was being offered by ASX; it has termed ASX as an "old, legacy infrastructure" compared to its "best in class" and "brand new" trading platform implemented with software provider CQS. Customers didn't also see it that way.

Stronger dairy prices to boost US exports

USDA's latest forecast spells good news for US dairy market.

Despite stronger global dairy prices and predicted recovery in milk powder sales, the USDA, in its latest trade forecast for the year until September 30, has forecasted a minor increase in the US exports to US\$2.9 billion from \$2.8 billion in 2009. It has also predicted imports to be \$400 million lower than previously predicted at US\$2.5 billion, based on the falling prices of imported cheese, whey, concentrated milk, casein, and milk protein concentrates, which it states would profit importers.

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