

DAIRY REPORTER

Weekly Dairy News for Members of DFMC

8 March 2011

Milk scrap continues

"Absolutely no excuse for processors to squeeze farmgate prices": Coles.

Coles continued to incense dairy farmers and their representatives with statements that processors are the problem in terms of industry margins and that the cuts in milk prices applied by all major grocery chains should not damage the dairy industry. National Foods got into the mix, revealing its profit margin is less than 2 per cent on fresh white milk products. Significant industry attention was soaked up in writing submissions to the Senate Review last week with 90 documents lodged on the review website as of close of business Monday. The review administrators allowed an extension of time after the initial cut-off period a week ago was beyond the capabilities of many. Hearings are now underway over this week.

Submissions to the Senate Review....highlights

Some of the major points made in the wall of paper thrown at the Senate Review to date:

Dairy Farmers Milk Co-op put an estimate of lost income of \$730m. DFMC called for a regulatory framework that includes active monitoring of pricing behaviour and increased transparency in the supply chain, including public reporting of supermarket contract terms and wholesale prices.

National Foods said it was making an EBIT margin of 2% before private label prices were discounted, and outlined the importance of branded sales to underwrite sustainability of its fresh white milk business.

Qld Dairy Farmers Organisation outlined the scope for losses in retail sales at \$842m through losses in grocery and route trade sales of branded lines, and price reductions to help compete with private label lines.

Fonterra said that the changes in pricing have fundamentally altered the dynamics of the fresh milk market and this is something all players in the market will have to grapple with. It went on to say that house-brand milk contracts are a cost recovery exercise for processors rather than a profit making venture and for these contracts to be viable processors must balance them with branded milk contracts so that a reasonable return can be achieved.

CHOICE said that a clear concern was whether the discounting was a sign of healthy competition or of excessive market concentration. CHOICE wants to see a Supermarket Ombudsman to tackle competition and fairness issues across the grocery sector, effectively sitting within the ACCC.

Woolworths restated that it doesn't deal with farmers but believes that the prices could not be sustained and repeated the good things it had done for dairy farmers (despite virtually matching Coles prices) by raising funds for the Qld relief fund.

Aldi Stores said that it doesn't consider the price discounting as anti-competitive and won't change terms for its suppliers.

At the time of publication, no submissions from Coles or Parmalat were lodged on the Review website.

La Nina easing

La Nina will lose strength and damage hopes for a good Autumn break.

The wet La Nina weather system that brought floods to much of eastern Australia is expected to ease during the next three months, and a good autumn break is not looking likely according to the BOM. The latest seasonal outlook for March to May predicts drier than average conditions over southern Victoria and Tasmania and wetter conditions in parts of eastern NSW. Victorian climate meteorologist Harvey Stern said that the outlook for heavy rainfall in late autumn was "not so good".

Headlines

- Private label milk scrap continues
- Submissions to Senate Review
- Search for a new Fonterra chief
- WMP prices up 9.6% in online trading
- Land O'Lakes reports on solid results

Indicators

Dairy export index	Index stronger with weaker dollar
World dairy prices	Strong lift in powders, others steady
Australian cull cow prices in the US	Minor fall in US prices
Grain futures	Rebound in US wheat, local feed grain weaker

Chinese dairy seeks a lot of Aussie hay

China wants local feed for its burgeoning dairy herd.

One of China's major dairy companies is looking to secure oaten hay from Australia to supply the country's expanding dairy industry. The Shanghai Dairy Group is meeting with Australian exporters to secure 200,000 tonnes oaten hay over the next five years. Currently Australia exports 10,000 tonnes to China annually. China has 14 million dairy cows, almost 10 times the size of the Australian dairy herd. And it's only going to get bigger. China imported 80,000 cows last year from overseas, of which 70,000 came from Australia.

Hunt is on for new Fonterra CEO

Fonterra will search globally to fill in Andrew Ferrier's shoes.

Fonterra chief executive, Andrew Ferrier, announced last week that he would step down in the second half of this year. His announcement came a week after a devastating earthquake struck Christchurch with heavy loss of life, and as Fonterra prepares to take the plunge into share-trading and ask Kiwis to buy units in a proposed \$500 million-plus fund. Mr Ferrier, who has held the job for 8 years, said the timing of the announcement was because 250 of Fonterra's executives were in Auckland for a meeting and he could tell them personally. "It's important to the stability of succession that we can talk about these things openly with the key leaders of Fonterra." The board started an external search for his replacement late last year, he said.



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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.

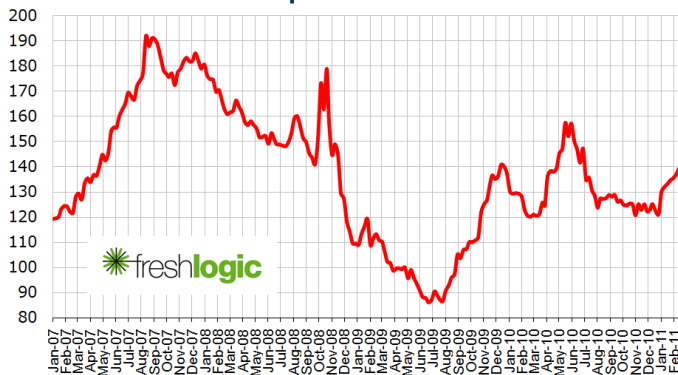
Powder prices keep rolling.

Spot prices for both powders again rose strongly this week after a big showing in last week's gDT auction, while butter and cheddar held their position. The \$A closed slightly weaker at \$US1.014, taking the index up 4 points to 143.3 now at its highest since the first week in July 2010.

Three-year high for milk powder at latest GDT auction. The selling price of milk powder rose to the highest level in three years at last week's gDT. The gDT-TWI price rose 5.9% last week, following a 3.9% jump in the previous auction two weeks ago. Whole milk powder led gains, with prices across all three contracts offered rising an average 9.6%, but the interest lies in the different prices for contract periods with short-term shortages driving spot prices. The earliest contract, for delivery in May, jumped a stunning 15.4 per cent and the July-August, or contract 2 %12.3%. Skim milk powder rose 2.3 per cent and anhydrous milk fat gained 1.1 per cent.



Australasian export index from Jan 2007



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.

US Ag Minister urges farm policy change

Vilsack wants 2011 as the year to address US dairy market volatility.

US dairy policy reform legislation should be considered this year rather than as part of a new farm bill in 2012 because of the urgency of the circumstances of many milk producers, secretary of agriculture Tom Vilsack told the House Agriculture Committee. Vilsack said that 2011 was the time to act as the industry can't afford continued volatility. Vilsack said there was "a good deal of agreement but not unanimous consensus" among members of his advisory panel, but the group has been split on producer groups' demand for a mechanism to prevent excessive milk production.

Glanbia's 2010 profits down on one-offs

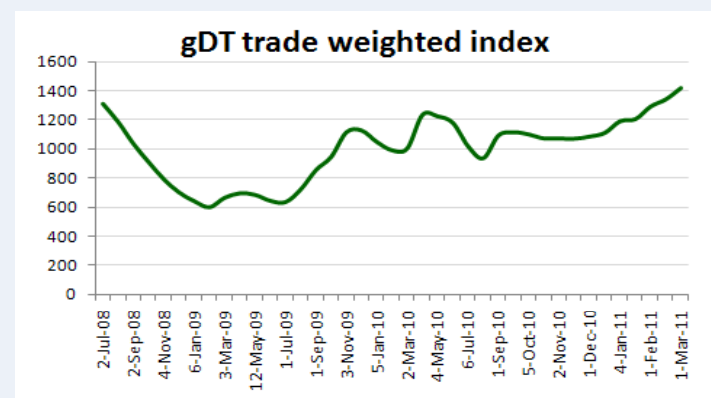
Glanbia's revenue and underlying profits growing strongly.

Irish cheese maker Glanbia posted a small fall in net profit during 2010 with net income for the year €108.6m against €113.1m in the same period of 2009, while revenue was up 18.4% to EUR2.2bn. The company took one-off charges against profits - operating profit before exceptional items was up 22.8% to reach €136m. Group MD John Moloney said that Glanbia had benefited from strong revenue growth in its three nutritional businesses, a return to profitability from its Irish dairy ingredients business and cost reductions in its domestic market.

Land O'Lakes reports on solid results

Co-op beats tough conditions to get 2nd highest sales in 90-year history.

US dairy and agribusiness co-operative Land O'Lakes Inc achieved solid results in 2010, including the second-highest net sales and earnings in its 90-year history, despite challenging economic conditions. Net sales were US\$11.1 billion and net earnings of US\$178 million - both the second-highest in the company's history. The cooperative achieved an 11% reduction in debt, supporting a stronger, more stable balance sheet.



Demand weakens for higher-priced SMP stocks. Interest in intervention skimmed milk powder (SMP) has waned based on the latest EU dairy tender. Offers came in at between €2150/t and €2540/t for just 2,000t of powder at last week's management committee meeting. The EU managed to offload only 300t above the minimum selling price of €2521/t, after 46 300t of SMP stocks were sold in January and February this year, but minimum selling prices have risen sharply since. Just under 50,000t of powder will be available for the next tender on March 17.

Landcorp returns to profit on dairy boom

NZ's biggest farmer smooths rough patch to ride high on dairy boom.

Landcorp Farming, NZ's biggest farmer, booked a first-half trading profit of \$3.2million from last year's loss of \$6.3million as it rode the surge in dairy prices over the latter half of 2010. The company is targeting a full-year operational profit of \$20 million. Milk production was up 8 per cent in mid-December compared to the same point in 2009. Revenue from dairying jumped 32 per cent to \$51.7 million. Landcorp's net profit jumped to \$41.5 million from \$20.6 million a year earlier, mainly reflecting a valuation gain on livestock.

NZ farmers warned about lack of grain

Southland farmers advised to fill up empty silos.

Southland dairy farmers are being urged to build up their grain stocks as an international shortage of stock food looms. DairyNZ Southland productivity developer Steve Lee advised farmers at a seminar in Winton last week to stockpile grain for next year if possible because of an expected shortage. Most grain in New Zealand was grown in the South Island but there was a declining rate of crops planted in the past few years, while internationally the price of grain had climbed because of natural disasters and poor seeding, he said.

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



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