

# DAIRY REPORTER

Weekly Dairy News for Members of DFMC



9 Nov 2010

## Milk sales better but still sluggish

*National milk sales were less than 1% better than the same time last year.*

Milk sales volumes for the first quarter of the 2010/11 year remain slightly ahead of last year's comparative but are patchy in the regions supplied by DFMC members. First quarter packaged milk sales remained in the negative territory for Queensland and Vic up 0.7% each, while NSW performed much better with sales ahead 1.4% compared to last year. It was a different story for September milk sales, however, which shrank 0.4% in NSW and improved by 0.4% in Vic. SA stayed in the positive territory, enjoying an expansion both in its first quarter sales by 2.5% and Sept milk sales by 3.1%.

## WCB: special contracts won't be repeated

*WCB set to end special contracts to ensure transparency in milk supply arrangements.*

Warrnambool CEO David Lord has told the company's AGM that milk suppliers should expect better "transparency" with milk supply arrangements into the future. Lord said the use of confidential milk supply contracts that gave preferential pricing to larger direct suppliers, which were signed at the height of the dairy market, affected WCB's results during the 2009-10 financial year. He promised, however, that the next financial year will be the last year of such arrangements.

## Steve O'Rourke resigns as MG's CEO

*Controversial "support role" payment claims MG's long-serving CEO.*

The controversy over the payment of a large "support" salary to the wife of the CEO that has engulfed Australia's largest cooperative has claimed its CEO, who resigned his job on Friday, after 12 years in the position. A letter to shareholders from the company suggests the Board attempted to dissuade O'Rourke from a departure before reluctantly accepting his resignation. It paid tribute to his leadership of the company and the transformation of MG "from a commodity based business to a more customer focused and value-adding dairy company".

O'Rourke himself also wrote to shareholders, suggesting he has been contemplating retirement for the past 6 months and defending the propriety of the board-approved payments to his wife in respect of her role with the company. O'Rourke won't leave the company immediately, and will finish up on 5 July 2011 to aid with a transition to succession.

## \$A & rain keeps grain prices subdued

*Higher values for grains don't flow into Australian feed prices.*

Futures prices for feed grains have stayed fairly flat in the past month as the higher \$A has stopped the effects of the tighter global feed market from pushing prices higher. Local prices for feed barley and sorghum remain in the vicinity of \$230/t, but there may be plenty of crop availability as the Australian harvest continues to battle in abundant rainfall. The global grains market remains affected by the fear of crop shortages in the US which has sustained wheat prices since late July. The outlook – combining the effects of weather in several key growing countries – suggests that the market will stay like this until well into the 2<sup>nd</sup> quarter of 2011.

## \$A takes the shine off cull-cow values

*The US market isn't in bad shape for Australian imports but the \$A isn't!*

The US market for "manufacturing meat" which generally sets the value for Australian cull cows has weakened for importers to the US market, with export volumes to the US market at their lowest since 1996. There is an increased volume of US cows being culled providing cheaper local meat for US buyers. The high value of the \$A has done more damage to the returns in past weeks after the revival in prices in August.

## Headlines

- MG's CEO quits over wife's pay packet
- Milk sales better but still sluggish
- Fonterra holds NZ payouts
- GDT auction prices steady on average
- EU milk output up almost 4% in Sept

Indicators	
Dairy export index	Index weaker with stronger dollar
World dairy prices	Powders weaker, butter and cheddar prices flat
Australian cull cow prices in the US	Prices down in \$A & prices down for local cows
Grain futures	Strong surge in wheat prices, local grains steady

## Year-on-year food sales for Sept 2010 Qtr



Source: ABS

## Sept quarter food sales show a mixed bag

*Food retail takes a hit as restaurant sales rise.*

Overall retail sales for the month of September improved less than expected as consumer caution about the effect of potential higher interest rates kept a lid on spending; however, the rate of sales growth over the same month in 2009 increased to 4.5%. The rate of growth in food sales picked up as well, with the supermarket channel 3.2% higher than a year before, while the much-reported growth in eating out slowing to 12.7%. The ABS said that specialty food sales continued well below last year, trailing the comparative by 5.1%.

Analysis of the year-on-year retail sales for the first Quarter of the 2010/11 year (as per the chart above) shows Cafes, restaurants and catering services enjoying the biggest surge in sales while things remain tight in supermarket and grocery stores. ABS reckons specialists – butchers, greengrocers and delis are well down on last year.

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## Index of export returns

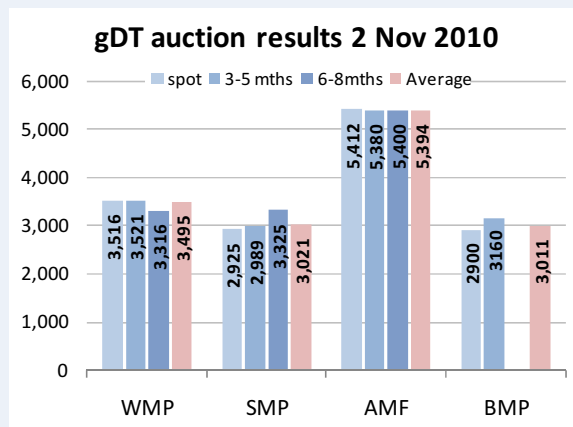
**Freshlogic tracks an index of the \$A value of spot returns from dairy exports as an indicator of the potential impact on southern milk prices.**

### Prices and dollar steady.

The only change in spot prices for dairy products this week saw a weakening in skim milk powder (SMP) prices, but the index of export returns was again pulled lower by 4 and ½ points to **120.8** by the stronger \$A, which broke through the parity barrier in the second half of last week to finish at **US\$1.016**. The \$A gained strength after the Reserve Bank made a call to lift interest rates on the fears of inflationary pressures building in the economy, while the US dollar also lost ground generally after the changing of political tide in the mid-term US elections.

### GDT auction prices steady.

The overall average trade-weighted price achieved in the latest gDT auction was steady after last week's event, with no change in average WMP prices, a slight fall in SMP and a 4.5% lift in Anhydrous milk fat prices. WMP for January delivery however gained 0.9 percent from two weeks earlier, as the average spot price rose to US\$3,516 a ton, and is the highest for the spot contract in 5 weeks, while the 6-9 month delivery contract price fell 6.7% to US\$3,316. The later-term SMP prices provided a welcomed lift jumping a further 2% to be \$400/t higher than the spot price.



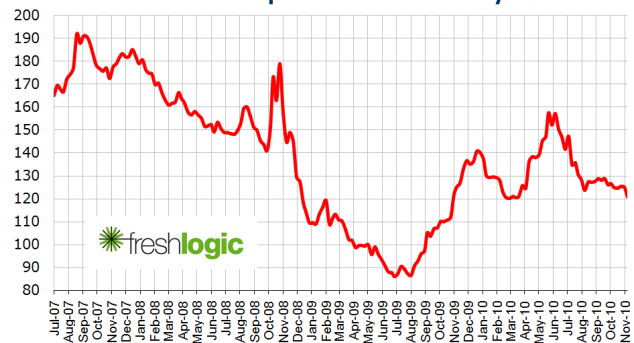
### Slow start for new futures trading.

The first trades have been reported on the NYSE LIFFE futures market for skimmed milk powder. Two lots were traded, for delivery in March 2011 and May 2011 respectively, both at a price of €1,900. NYSE LIFFE reported that each contract is equivalent to 24 tonnes, which means that the quantity traded had a value of over €91,000. SMP futures trading was launched on October 19, after a two-year consultation process.

### New Holland T8000 POWERSHIFT Tractors.

All Models of the T8000 Series meet high standards and continue the tradition of sizing the product for the HP and application demands of the market segment in which they work. With the T8000 New Holland continues to give their customers the most efficient drive line in the market with the Cantilever mounted engine and several front axle choices such as the unique and versatile Super-Steer front axle. All models are approved for B100 biodiesel fuel for those areas that are promoting the alternative fuel markets. Talk to your local New Holland dealer for a brochure and quote on your high horsepower tractor requirements

## 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 holds NZ payout forecast

### Fonterra blames rising NZ dollar for its unchanged payout forecast...

Fonterra has held its forecast farmgate payout for the 2010/11 season at NZ\$6.60/kgMS largely due to the strength of the New Zealand's currency against the US dollar. Chairman Sir Henry van der Heyden said the board had considered raising the co-op's milk price, but decided it was "prudent not to increase the forecast at this time". Chief executive Andrew Ferrier said global dairy prices were now higher than he predicted in May. At the same time, the appreciating NZD/USD exchange rate was putting pressure on Fonterra's export returns in New Zealand dollars, although Fonterra's hedging policies were continuing to shield farmers from the full brunt of the appreciating Kiwi dollar. Fonterra said the average farmer should receive a total of \$6.85-\$6.95/kgMS in cash payments for the 2010/11 season. The forecast distributable profit range for 2011 remains unchanged at 40-50 cents per share.

### ... as it sets a new peak record.

Fonterra has set a new record for the most milk processed in a single day. Commonly known as the peak day, the record was set Wednesday, 27 October, when the co-operative's 26 sites throughout the country processed 76.8 million litres of milk - a jump of three million litres or 4% on last year's record. Trade and operations managing director Gary Romano said it had been a slow start to the season with wet weather in the Waikato and Taranaki, and snow in the South Island. "However, this recent spell of fine weather has seen a sharp increase in production on-farm." It was too early to talk about actual production figures for the year, he said.

## IDF unveils carbon footprint methodology

### New methodology equips global dairy sector to curb its carbon footprints.

International Dairy Federation (IDF) has published a new guide "A Common Carbon Footprint Approach for Dairy - The IDF Guide to Standard Lifecycle Assessment Methodology for the Dairy Sector", as part of the dairy sector's agenda on climate change. The proposed methodology will allow stakeholders in the global dairy sector to produce consistent and comparable data on their carbon footprint and enable effective management and reduction of GHG emissions within the sector.

## EU milk flows well up in Sept

### Strong momentum as milk production delivers positive result.

September milk intake across the EU was up 3.8% compared to the same month in 2009, suggesting the expansion in milk volumes was gaining strength as the EU industry heads into its seasonal trough in production. The EU moved ahead of prior year output in April 2010 and has remained in positive territory since.

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