

DAIRY REPORTER

Weekly Dairy News for Members of DFMC



10 Aug 2010

NatFoods & WCB renew cheese deal

With no public talk of a renewal of plans for a cheese JV, the supply deal is renewed.

Warrnambool Cheese and Butter Factory Co Holdings Ltd and National Foods have extended their long-term cheese supply arrangements by five years. WCB said it would continue to supply to National Foods with about 20,000 tonnes per annum of high quality bulk Cheddar cheese varieties from its Allansford plant and delivered to National Foods' cut and wrap facility on the same site. David Lord, CEO of WCB, said the arrangement would further strengthen the strong relationship between the two companies.

The companies failed to achieve a restructure of their relationship into a joint venture in 2009 after the turbulence caused by the GFC in milk prices hit WCB's earnings.

Fonterra closes with a lift



Fonterra delivers a strong finish to the difficult season of 2009/10.

Fonterra suppliers in Victoria and Tasmania will receive a final step-up of 4c/kg fat and 10c/kg protein for milk supplied in 2009-10. The company said it would be distributing \$8 million to its farmer suppliers in Victoria and Tasmania as a result of the price increase. The company said the latest increase brought Fonterra's average milk price for the 2009-10 season to \$4.50 per kilogram of milk solids (inclusive of incentives, net of volume charge).

Retail sales numbers



Dampening consumer sentiment subdue Australian retail sales.

Retail sales rose 0.2 per cent in June, seasonally adjusted, following a 0.2 per cent increase in May, according to the Australian Bureau of Statistics. Sales for the year to June were up 3.2% in trend terms, according to ABS figures, but most of that came from a 10.6% jump in sales of cafes, coffee shops, takeaways and restaurants. Sales for the June quarter were up 0.8%, seasonally adjusted, which was a bit more than expected.

Victorian farm monitor results

Farmers exude optimism in the face of changing scenario.

The 2009-10 Dairy Industry Farm Monitor report - which surveyed 71 dairy farms across the state's three key dairy regions of south west Victoria, Gippsland and northern Victoria - found that more than 80 per cent of the surveyed farms made positive earnings before interest and tax (EBIT), the same proportion as recorded in the 2008-09 report, despite lower milk price curbing incomes. DPI Farm Business Economist Daniel Gilmour said the average EBIT across all the surveyed farms was \$0.65 per kilogram of milk solids sold or \$507 per hectare. The top 25% of producers on average recorded an EBIT of \$1.61 per kilogram of milk solids, \$1320 per hectare and a return on asset of 5.6%.

Fonterra to review NZ milk price forecast

Fluctuating prices force dairy giant to review forecast.

Fonterra says is to review this season's bumper opening payout forecast of \$6.90-\$7.10/kg milksolids following the gDT result (see over the page) and the continuing strength of the Kiwi dollar. The review by directors is likely to be in the next week and will not necessarily lead to a reduction in payout forecast, the company said. Fonterra's total opening forecast for the season is \$6.90-\$7.10, made up of a \$6.60 milk payment and dividend of 30-50c per share. ANZ National Bank chief economist Cameron Bagrie is now expecting a milk payout "closer to \$6". NZX Agrifax analyst Susan Kilsby said her team last week revised its payout forecast back from \$6.20 to \$6.10.

Headlines

- Cheese deal extended
- Final step-up for Fonterra in Vic/Tas
- Fonterra auction prices fall again
- Opposition would boost farm R&D
- UK retailers slash milk prices

Indicators	
Dairy export index	Index pruned with ongoing lift in \$A
World dairy prices	Powders and butter lose ground again
Australian cull cow prices in the US	Prices steady in \$A as US beef market improves
Grain futures	Strong gains in wheat and barley prices

Opposition gazumps Labor on farm R&D

Labor's plan for food is overshadowed with increased R&D spending in opposition's policy.

The Coalition's new agriculture policy which was announced last week would throw a bit more cash at R&D and came after the narrower scope of the Government's promise of a National Food Plan. Provisions in the Opposition platform include:

- A 25% increase on the current \$ for \$ government contributions for every industry dollar raised for Rural R&D Corporations, amounting to up to \$150 million over three years.
- \$5 million budget for specialised research, mentoring or further study.
- \$50 million in the form of grants up to \$100,000 for farming enterprises, to be spent on water-saving activities, improved grazing practices and renewable-energy powered pumps.
- \$8 million for mapping the carbon footprint of the food industry.
- An unspecified amount would go on a 'Green Tape Audit', to identify the 'green tape' which is unworkable, contradictory or incompatible with other legislation, affects food production or puts Australian lives at risk. The audit will also look at the impact environmental legislation can have on property rights.
- Biosecurity is listed to receive a \$15 million 'Flying Squad' to provide "urgent additional resources when a bio-security risk is identified".

Tony Burke earlier announced the National Food Plan as a major policy, which would commit the Government to consult with key players to come up with - a plan. There is no new money for the plan - it will be reshuffled from Regional Food Producers Innovation and Productivity Program budgets.

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Index of export returns

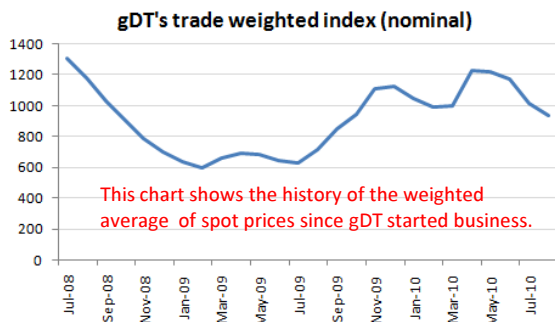
Freshlogic tracks an index of the \$A value of spot returns from dairy exports as an indicator of the potential impact on southern milk prices.

Fall in prices and US\$ weakens index.

Spot prices for butter and both powders were weaker again this week with the biggest cuts in WMP prices, while the \$A gained a cent and a half to yet again cut the value of the export index. The \$A closed before the weekend at **US91.85c**, while the index lost more than 4 pts to **123.8**.

Auction prices slip further.

An 8% weighted average fall in dairy product prices on Fonterra's globaldairytrade last week is a strong sign international markets are focused on the increasing volumes of milk supply expected to be available in the next few months. **Whole milk powder** prices dipped on average 7.7% to \$US2974 a tonne. Prices achieved for later-supply contracts were around US\$250/t better than the spot quotes. Similarly, **skim milk powder** was down 8.9% to \$US2770 and anhydrous milk fat dropped 7.6% to \$US4302. The bands for SMP prices were a little tighter, between US\$150 and \$200 higher for the longer deliveries.



NZ milk supply regulations extended

Govt keeps Fonterra's dominance in check within the NZ dairy market.

The NZ Government is extending rules which assist dairy companies to compete with Fonterra but has promised to address criteria under which Fonterra has to supply milk to its competitors. Fonterra has welcomed the review of its requirement to supply milk to competitors, but was disappointed the DIRA regulations will be extended.

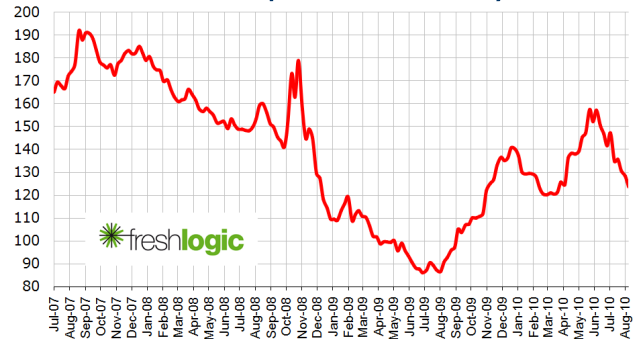
Chief executive Andrew Ferrier said Fonterra supplied milk to 25 companies under DIRA, and while he accepted that role in assisting start-up companies, a significant amount of milk was going to larger companies which have their own milk supply, were increasingly foreign owned and competing with Fonterra in overseas markets. The NZ Government had estimated regulations would in 2013, but has now extended that by increasing the market share competitors must gain from Fonterra to 20%. Previously the South Island trigger was competitors collecting at least 65 million kg of milk solids, with one independent processor collecting 25 million kg/ms.

New Holland Small Rectangular Balers.

New Holland are legendary for haymaking equipment. The current range of small rectangular balers continues the heritage for great balers. Over 700,000 small rectangular balers have been made since New Holland released the first automatic knotting system. The current range offers two models with the standard BC5060 & high capacity BC5070. Both with the *SuperSweep™* pickup and a bale chamber that ensures consistency and uniformity of bale shape & density. Talk to your local New Holland dealer for a brochure and quote on your baler 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.

NZ has big slice of China's WMP imports

China's insatiable dairy appetite quenched with NZ powder.

Chinese demand for skimmed milk powder (SMP) has doubled in value in the first six months of this year, compared to a year ago, according to latest data. Customs data reveals that a record of just under US\$150million of SMP was imported into China from the start of 2010 to the end of June. First-half 2010 sales of whole milk powder were over US\$557m, with New Zealand supplying 92% of imports. The volumes of WMP imported by China at 173,220t were close to double those of the first half of 2009, of which New Zealand supplied 160 710t. Yet the recovery in dairy consumption, which is fuelling ever increasing imports this year may just be beginning, according to Chinese experts who addressed a grains conference last week. They tip current per capita consumption of 30.1/kg for all dairy products will rise by 11% to reach 33.4/kg by 2015.

Private label hurting Dean Foods

Private label brings the rough tide for the major US processor.

Dean Foods, the largest dairy processor in the US reported falling quarterly profits amid continuing pressure on its liquid milk business from private label. The company posted net income of US\$44.8m for the three months to the end of June, compared to \$64.1m a year earlier. Chairman and CEO Gregg Engles said the company was making progress. "Our results in the quarter remain well below year ago levels, but represent a step forward from the difficult start to 2010," Engles said. "While the challenges in the fluid milk category continue to negatively impact results, we remain focused on significantly lowering our cost structure to position us to win over the longer term."

UK retailers slash milk prices

Milk prices cut as retailers go for strong loss-lead approach.

The last fortnight has seen a number of substantial milk price changes on supermarket shelves. Firstly, ASDA announced that it was reducing the price of own label 4-pint (2.27 litres) poly-bottles from £1.53 to £1.25 – a 28p (18.3%) reduction and equivalent to 12ppl. In addition, Tesco reduced the price of own label 1% fat milk from 90p to 50p for 2 litres while Sainsbury's put its 1% fat milk on temporary promotion at £1 for 4 pints – ending on 31/08/10. This permanent change by ASDA is part of a new commitment to invest in reducing the price of 'core essentials' as it publicly announced that it would no longer be selling items such as alcohol at cut prices. ASDA states that the price reduction will not affect the price paid to farmers. At present, Tesco and Sainsbury's have not responded so it will be interesting whether they follow ASDA and also, how any price reduction would be funded.

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