

DAIRY REPORTER



Weekly Dairy News for Members of DFMC

10 May 2011

Senate Committee: too early to tell

Wait-and-watch approach to delay final verdict until October this year

The Senate Economic References Committee has issued a second interim report into milk pricing, detailing much of the information provided to it in submissions and hearings, but says it is too early to make conclusions.

The report concludes "provided farmers have the opportunity to make a reasonable profit and in the absence of substantiated damage to the dairy industry, the interests of consumers must not be overlooked".

The committee wrapped up the report is of the opinion that no final conclusions can be made or recommendations given until it knows (a) the duration of the 'Down Down' campaign (and if it becomes permanent); and (b) the outcome of renegotiated contracts with processors and impact on farmgate prices. It invites **new submissions** regarding these matters and expects a final report in October 2011.

Better than 40c in southern states

Ready reckoner shows good times are booked for southern states

Full year farmgate milk prices for seasonal milk supply are on-track to hit close to 41cpl or \$5.50/kg milk solids according to Freshlogic's ready reckoner on export returns. The analysis shown in the matrix below is based on the average FOB selling prices in US dollars achieved for the 8 months to February 2011, and the average US dollar spot rate for the same period. Product prices will probably average better than that over the full year due to the lagged effect of sales, but, of course, the \$A has strengthened as well. Companies offering incentives for flatter production will offer better than this over the full year.

| | | Variation from assumed spot prices | | | | |
|-----------------------|-----------|------------------------------------|------|------|------|------|
| | | -10% | -5% | 0% | 5% | 10% |
| Variation in currency | USD Price | | | | | |
| | \$ 0.90 | 38.3 | 41.4 | 44.5 | 47.6 | 50.6 |
| | \$ 0.92 | 37.3 | 40.3 | 43.3 | 46.3 | 49.4 |
| | \$ 0.94 | 36.3 | 39.2 | 42.2 | 45.1 | 48.1 |
| | \$ 0.96 | 35.2 | 38.1 | 41.0 | 43.9 | 46.8 |
| | \$ 0.98 | 34.2 | 37.0 | 39.8 | 42.7 | 45.5 |
| | \$ 1.00 | 33.1 | 35.9 | 38.7 | 41.5 | 44.3 |

Retail sales were sluggish for March...

Retail sales reflect the dent in consumer confidence

Retail sales data released by the Australian Bureau of Statistics showed total retail spending was slightly up on March 2010 but not enough to bring the retail sector back to good health. The ABS data on food sales indicates growth has slowed in year-on-year terms. It reported that the growth in money spent on eating out in cafes and restaurants stayed below that of retailing (mostly grocery) for the past quarter. Growth rate numbers for the eating out sector are looking more realistic at present compared to the wild ride the sector experienced in 2009 and most of 2010. ABS also reckons specialist retailers (including delis, greengrocers etc) have come back into positive growth territory again since 2011 got underway.

... yet Domino's lifts sales and profits

Pizza group gets best sales lift in 8 years for innovative thinking

New product offerings have helped Domino's Pizza boost same-store sales by 11% for the first half of financial year 2011, its best sales result in eight years. Results across the Australian, New Zealand, and Europe franchises show a net profit after tax for the first half of 2011 up 16% to \$10.2 million. The company has also managed to slash net debt to \$2.6 million, increase its free cash flow by almost 99% to \$9.6 million, and add 10 new stores in Europe.

Headlines

- Too early, say Senators
- Retail sales was slower in March
- Prices steady at Fonterra auction
- Fonterra's share trading not until 2012
- Danone invests in baby formula plant

| Indicators | |
|--------------------|--|
| Dairy export index | Index climbs as dollar dips |
| World dairy prices | Prices steady |
| Grain futures | Rise in US wheat futures, fall in local grains |

Research on cholesterol-lowering milk

New research underway to discover milk with added benefits

Victorian Minister for Agriculture and Food Security Peter Walsh said the search for cholesterol-fighting milk was the focus of collaborative research underway at the Department of Primary Industries' (DPI) dairy research centre at Ellinbank. The study – which has never been done on this scale – aims to show whether different components of a cow's diet can enhance natural levels of phytosterols in the milk it produces." The research is supported by DPI, Dairy Australia, the Gardiner Foundation, Victoria University and the National Measurement Institute (NMI).

NAB: Price war cuts confidence

Dairy confidence in negative territory as milk war weighs on minds

Latest National Australia Bank's (NAB) agribusiness quarterly survey for March 2011 reveals that the impact of supermarket milk price has eroded agribusiness confidence in dairy. Confidence in dairy in March has plunged sharply from +18 points to -17 points in the quarter. While this could have been driven by the floods, NAB states that concerns surrounding price discounting were also raised in a number of responses.

2012 the target for share trading proposal

Fonterra's share trading pushed to the background as NZ Parliament has too much on its plate this year

NZ Agriculture Minister David Carter has ruled out Fonterra's chances of getting enabling legislation for share trading among farmers through Parliament before the election, citing the amount of work still required on the proposal and the "massive" list of bills Parliament still has to consider this year. Carter also acknowledged a possible Commerce Commission inquiry into milk pricing in New Zealand could affect the proposal. Fonterra in February advised its 10,500 shareholders, who have voted in support of share trading, that there were three possible windows for its launch - October-November this year, April-May next year, and October-December next year - windows which fit with Fonterra's interim and annual results. Fonterra would now work with the Government to ensure it was ready for an April-May introduction, Sir Henry said.

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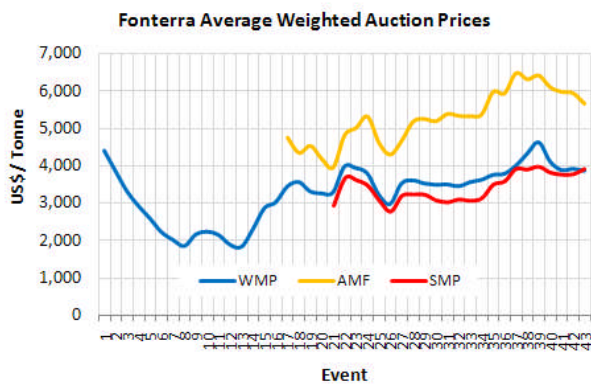
Index of export returns

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.

Market steady.

The index of Australia export returns improved this week as the \$A lost value against the US dollar. Spot prices were generally steady, with a small rise in cheddar offsetting a fall in WMP, but the \$A lost value against the US dollar, closing at \$US1.069. The index of export was up more than three points to 128.7.

Prices hold steady at Fonterra auction Dairy prices were stable at Fonterra's online auction on May 3, with the *globalDairyTrade*-trade weighted index down just 0.1% from the previous event on April 19, with an average selling price of \$4 367/tonne (€2 930/t). Whole milk powder (WMP) prices fell 1.7% to an average of \$3 859/t while skimmed milk powder prices crept up 2.8% to \$3 909/t. Anhydrous milk fat (AMF) saw the steepest drop, down 4.6% to an average \$5 670/t. At the next on auction on May 17, Fonterra will expand its offerings to include milk protein concentrate and rennet.



NZX tips NZ production rise of 3%

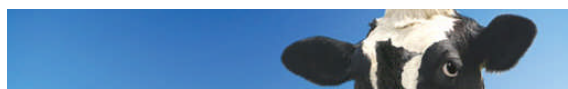
Promising pasture conditions double milk flows in NZ farms

New Zealand daily milk intakes are reported to be well above average. In much of the North Island daily collection levels are more than double what they were a year ago, but production in the previous season was restricted by drought. The strong finish to the season means Agrifax now estimates the total milk collected in the 2010/11 season will be around 3% ahead of the previous season. The NZX Pasture Growth Index clearly shows that climatic conditions are currently favourable for pasture production. 2011 delivered much more promising conditions for pasture growth and as a consequence milk production has picked up in recent months.

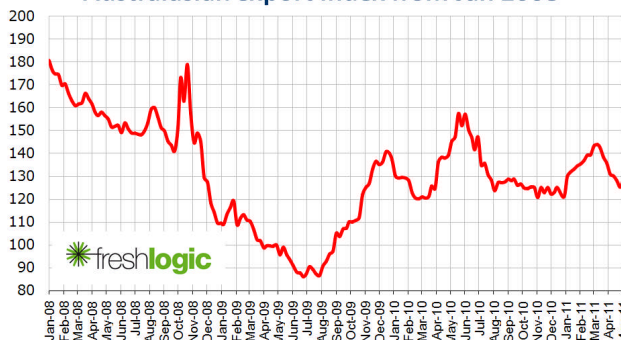
Danone invests in baby formula plant

Processor ploughs millions into plant to treble output and strengthen market position

French dairy group Danone will expand its baby nutrition production facility in Macroom, Ireland. Danone will invest €50 million in the facility, which produces formula milk for infants and toddlers - this is the single largest investment the group has made in its baby nutrition globally. Once completed, the Macroom plant will be the largest and most technologically advanced manufacturing centre in Danone baby nutrition's global network. The expansion will result in a tripling of its capacity to 100,000 tonnes annually, thanks to the creation of a new drying line at the plant.



Australasian export index from Jan 2008



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.

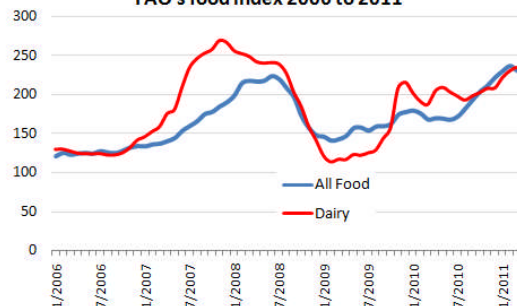
FAO: April food prices steady

Unstable weather could put pressure on future grain prices

The FAO global food price index which measures monthly price changes for a basket of cereals, oilseeds, dairy, meat and sugar, averaged 232.1 points in April, two per cent off record highs in February. The FAO index stood at 231.0 points in March when it fell from record highs following eight months of successive rises, according to FAO's updated data. Longer-term stability depended on new crops as worries linger over US grains, although Russia and Ukraine are set to recover from drought, the UN's food agency said. Rising food prices have become hugely sensitive around the world after fuelling protests that toppled the rulers of Tunisia and Egypt earlier this year, with unrest spreading across North Africa and the Middle East.

The FAO expects world wheat output to rise 3.5 per cent in 2011 and total cereals output to recover this year after farmers increased plantings encouraged by high prices, but weather remains crucial, especially in the main producing countries. Russia and Ukraine where harvests were hit by severe drought in 2010, will play a part in the recovery as they experience a huge recovery in grain crops this year.

FAO's food index 2006 to 2011



Dean Foods' settlement with dairy farmers

US dairy farmers pocket \$30 million from anti-trust lawsuit settlement

Dean Foods, the biggest US milk processor, won approval from a federal judge for a \$30 million settlement with about 10,000 dairy farmers. US District Judge Christina Reiss approved the accord resolving an antitrust lawsuit, according to papers filed yesterday in federal court in Burlington, Vermont. Under the settlement, Dean Foods agreed to pay \$30 million in damages and buy milk from producers in the US Northeast. Dean Foods and the Dairy Farmers of America cooperative were sued in 2009 by a rival group of farmers and accused of operating a monopoly in the Northeast. Farmers received lower prices because Dean bought milk exclusively from the cooperative and its affiliates, according to the complaint.

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