

DAIRY REPORTER

Weekly Dairy News for Members of DFMC



11 Jan 2011

Flood impact on Qld industry

Milk flows curbed as heavy downpour paralyses dairy industry.

Dairy operations have been caught in the massive floods in Queensland. Of the 330 dairy farms in the affected area (prior to the Toowoomba and Mary Valley floods), the QDO reckons 40-50 were inundated or cut off by flood waters. This will probably have worsened significantly with the flooding that hit several regions around Toowoomba and Gympie. Milk collections had been affected in the Central Qld and Burnett regions, and undoubtedly there will be further disruptions this week...and heavy rain is still falling in the South East. Relief funds have been set up by the QDO and State Government to get emergency cash to affected dairy families.

Warakirri and Cowbank part ways

Management issues drives major corporate group split.

The managers of one of the largest corporate dairy farming groups, Warakirri Dairy Trusts, have parted company. Warakirri Asset Management (WAM) which is the trustee and manager of WDT, and CowBank, have agreed that CowBank will cease its role as a provider of management, advisory and other services from 1 January 2011. A short, joint announcement by the companies said that the separation has been agreed to simplify the management of the Trusts and to free CowBank to pursue other activities in the dairy industry. WDT operates 11 dairy farms in Victoria and South Australia in which 7,500 cows have been budgeted to produce around 64 million litres of milk in the financial year ending 30 June 2011.

Optimism over Tasmanian growth

An ambitious plan in store to expand Tasmanian dairy production.

A plan to boost Tasmania's northwest milk production has been launched, with the Circular Head Progress Group aiming to create 30 200ha dairy farms, similar to Victoria's soldier-settlement blocks, to be added to the existing Togari dairy settlement. The land, which includes the Montagu Swamp between Togari and Roger River West, is owned by the Tasmanian Government, by sponsors of the scheme say the best chance of developing it would lie with individual investors, superannuation companies and private enterprise. The plans have been accompanied by the usual calls for another processor to be lured to the region to "improve competition for suppliers".

Big wet won't change MDB timing

Big wet the best time for reform, says PM Gillard.

The surge of water that is expected to fill and flush the Murray-Darling Basin in its wettest year on record in 2010 won't sway the Gillard government from pressing ahead with plans to overhaul the way water is used in the river system. The National Farmers Federation argues that six months of good rains and now extensive flooding in Queensland means Labor should "sit back and make sure they get this right".

Prime Minister Gillard said that the big wet meant now was actually the best time for reform, not delay. The prime minister said reform was necessary to ensure the country had a healthy river, viable communities "as well as food production along the Murray". But the timeline for resolution of the outlook for irrigation rights, which is constraining the investment decisions for many dairy operators located in the MDB, isn't getting any closer and 2011 isn't likely to be a year that provides significantly more clarity. Labor has distanced itself from the Basin plan guide put out by the MDB Authority and now says it will implement a plan it (the Government) puts to parliament. An additional authority study into the social and economic effects of restoring water flows is scheduled to be completed by mid-March. A House of Representatives inquiry is due to report by the end of April while a further Senate inquiry won't report to parliament until the end of November.

Headlines

- Dairy farms affected in Qld floods
- No change in water approach after wet
- Auction results point to firming market
- Rains help NZ production recover
- Kraft takes on French

Indicators	
Dairy export index	Index stronger with weaker dollar
World dairy prices	Prices lift with strongest gains in powders
Australian cull cow prices in the US	Prices firm on fears of shortages
Grain futures	Sharp lift in US wheat and local feed prices

Draft laws on farm carbon plan

Fed draft plan puts a price on carbon to tackle issues of climate change.

The federal government is urging farmers and landholders to provide feedback on its draft carbon farming legislation. The carbon farming initiative, which Labor unveiled before the election, would allow farmers to claim credits for activities such as reforestation or a reduction in emissions from livestock, fertiliser, waste management and rice cultivation.

Climate Change Minister Combet released the draft legislation, calling for responses by January 21 to help identify any unintended consequences or gaps in the proposed bill. The government plans to pursue legislation in the first half of the year so the scheme can start from July, making it a test of its ability to secure support for climate measures in the Parliament. While there may be a degree of bipartisan support for the carbon farming initiative, environmentalists have warned that demand for the credits will remain low until the introduction of a carbon price forces companies to offset their emissions.

Update on NZ weather and production

Rains after Christmas ups production in major NZ dairying regions.

Milk production in the major dairying regions has recovered following rain just before Christmas. Fonterra milk collection figures for the lower South Island show milk production is 5% down on the 2009/10 season for the month to date but just 0.92% behind on a daily basis. The numbers are similar for Waikato but daily production is 2% ahead of last season. Increasing cow numbers in Canterbury are behind increased production figures. That region is 3.27% for the season to date and 1.76% ahead on a daily basis compared to last season.

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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 jump, dollar weaker.

All spot prices were higher this week as the New Year sentiment favoured the view of a tighter market in 2011. Strongest gains were in powders after a strong result in the latest Fonterra online auction. But the dollar helped as well, falling back below parity at the end of the week to close at \$US0.996. The index hiked 9 points to **129.9**.

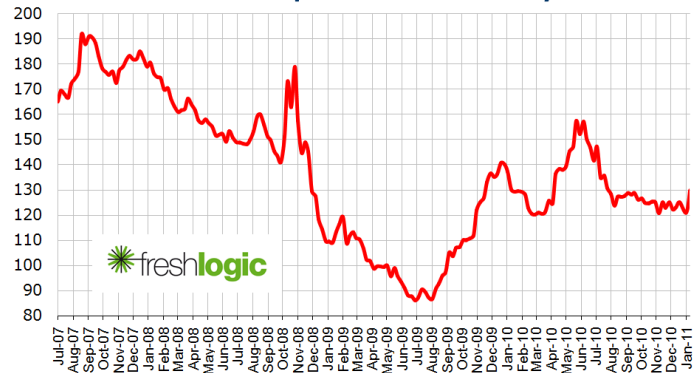
Drought threat keeps auction prices keen.

Prices have continued to rise on Fonterra's GlobalDairyTrade online auction, with skimmed milk powder (SMP) and anhydrous milk fat (AMF) both just over 10% up on last month. There was an even higher rise, in the January 4 event, for butter milk powder (BMP): up 20.6% on last month's auction price to US\$3 390/tonne, for delivery by March 11.

Whole milk powder (WMP) had a solid, but less spectacular rise by an average 3.8% to \$3 750/t. Like SMP, WMP attracted higher bids for contract periods extending to September. The average SMP price was \$3 492/t, but offers for later in the year reached \$3 690. Later-delivery WMP prices averaged \$3 936/t. This suggests the expectation of a tighter market as 2011 unfolds and has been attributed to drought effects on NZ output.



Australasian export index from July 2007



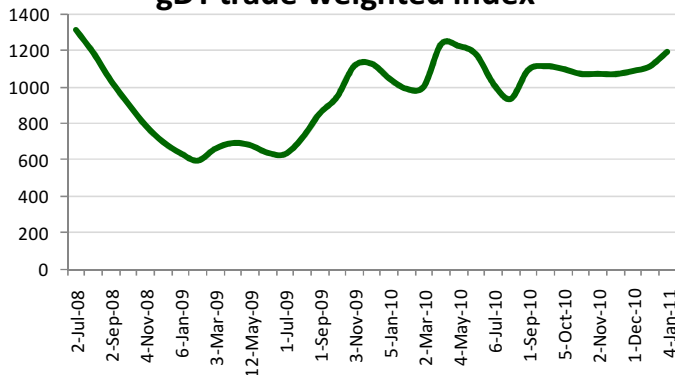
Take note: The index is an indicator of spot trends in gross export returns to the industry based on quoted Australasian export prices, movements in currency and the total milk usage in exports by the Australian industry. It was set at 100 on 1 January 2004.

FAO sees record commodity price index

FAO index at record high shows extreme price volatility in agricultural market.

The FAO's food price index, a formula based on the wholesale price of 55 products including rice, meat, wheat, milk and cheese, reached a record high of 214.7 in December. The price of wheat has jumped about 17% in the past month while corn is up 11%. Both are now close to two-year highs, and there is a knock-on effect on northern hemisphere feedlots where livestock are fed grain. Other food staples have been soaring as well, including canola, up 43% last year, and sugar, which hit 30-year highs after rising 96% since June 2008 to trade in London at \$US752.70 (\$NZ994)/tonne.

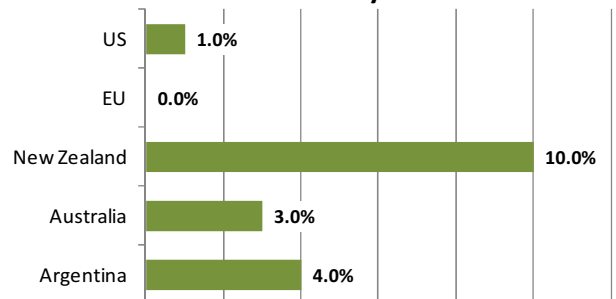
gDT trade weighted index



Rising futures prices on NZX market.

A steady upwards trend in whole milk powder pricing is also evident in the NZX dairy futures quotes. At the close of business yesterday the settlement price for the NZX global whole milk powder (WMP) futures contract for January 2011 was US\$3675, with prices tracking upward to US\$3845 for the June 2011 contract. Regular NZ WMP for March 2011 delivery achieved US\$3,620 per tonne, while deliveries for April – June 2011 were priced at US\$3825 per tonne, and US\$3930 per tonne was paid for Regular NZ WMP to be supplied in July to September 2011.

USDA's view on milk production growth in 2011 calendar year



Kraft takes on French

Kraft's cream cheese finally on shelves of one of its toughest market yet.

Kraft is testing one of the toughest markets in the work, in a move denounced by French purists as an assault on the national identity. Philadelphia cream cheese has been put on sale in supermarkets in west and southern France in a trial by Kraft Foods, to see whether the French can be weaned off their ancient from ages. Although some supermarkets anecdotally report that consumers are lapping up Philly, others report slow sales. The French industry has left the door open for new products after a long decline in France's unpasteurised cheese industry, for which the French dairy producers are mainly responsible. In an attempt to offload surplus milk supplies, dairy companies have multiplied the number of pasteurised cheeses on sale, and now unpasteurised products account only for 10 per cent of cheese eaten by the average French person every year. Last year sales of camembert fell by 2.6 per cent and industrial cream cheese rose by 3 per cent.

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