

# DAIRY REPORTER

Weekly Dairy News for Members of DFMC



11 May 2010

## Stronger opening milk prices

*Competition steps up with speculations of stronger opening milk prices*

Milk prices in 2010/11 are by now looking like posting increases of up to \$1/kgms on full year terms but the competitive posturing remains in full flight after a round-up of "views" in the local media. While we've seen most of the action in this year's numbers with the 2009/10 rubber virtually dead, southern companies are publicly reckoning they will open anywhere from \$4.30 to \$4.70/kgms and apply the conventional step-up approach close the 2010/11 year north of \$5.20. Expect a little more skin in the game from the smaller players looking to fill new shiny facilities. MG says it intends to open "as usual" and WCB says it is "certainly looking at reasonable prices for the next six months". Fonterra has not made any announcements revealing its opening price yet.

## WA drought reform trial

*At the 11<sup>th</sup> hour, the Burke regime finally does something small and on trial with drought reform after almost a full term of "gonna do"!*

Federal Agriculture Minister Tony Burke is reforming the Government's drought assistance policy to deal with the drought problems in WA. As per the reform plan, a \$23 million dollar pilot program will be trialled in WA over the next 12 months to test the scheme with three main objectives: preparing farm businesses for drought, helping families experiencing hardship, and building more resilient rural communities.

This test will enable about 6,000 farmers to participate. Besides a \$170,000 exit grant to leave their farms in case of financial hardship, farmers will also be eligible for grants of \$60,000 to prepare their properties for drought. Local community groups will also be granted \$300,000 to manage the bad times in agriculture. Pastoralists and Graziers Association and National Farmers Federation have welcomed this reform.

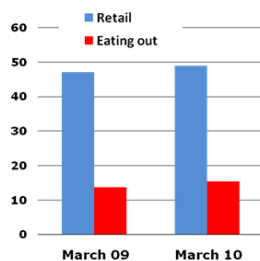
## ABS retail figures

*ABS reflects food retailing still in a downward slump.*

Compared to a fall in the sales by 1.2 per cent in February, the latest ABS retail trade figures have revealed a rise in the sales by 0.3 per cent in March. Cafes, Restaurants & Takeaway Food Services have grown more than 13% over the past 6 months compared with the period to March 2009, while Food Retailing (which includes supermarkets) is growing at less than a third of that pace. volume growth.



Australian retail sales in \$bn (6 months to March 2010)



## A2 merger talks suspended

*No merger, in favour of more preferable outcomes.*

A2 has announced the suspension of a full merger with Australia's Freedom Nutritional Products. A recently released joint statement by the two companies states that they "believe that there may be an outcome preferable to a full merger, and, as such, discussions about a full merger have been suspended. The ongoing discussions involve a potential merger of FNP's interests in the Australian joint venture A2 Dairy Products Australia with A2C, in exchange for shares in A2C." Earlier the companies had been in talks for a merged company worth \$62 million.

## Headlines

- Strong opening milk prices tipped
- Farmers warned of a volatile world
- Threat of EU-US trade dispute
- Glanbia gets only 35% poll support
- UK competition regulator backs off

### Indicators

Dairy export index	Another boost with steady prices and sharp fall in \$A
World dairy prices	Rise in butter with others remaining steady
Australian cull cow prices in the US	Prices decreased from last week
Grain futures	Slight increases in US and local futures prices

## Farmers warned of a volatile world

*Farmers urged to advance management skills to face volatile world.*

The global outlook for dairy demand is strong but NZ dairy farmers must shore up their businesses against likely future volatility in returns, says Fonterra Chairman Sir Henry van der Heyden. Speaking at A DairyNZ forum last week, Sir Henry said "Our ability to grow grass and turn it into milk more efficiently than anyone else is our point of difference. We simply cannot afford to lose our edge or the control of our productive resources."

He described two key threats to NZ dairy farmers: "One is other people being able to grow grass and produce milk more cheaply than we can. The other risk is if we get too far down the path of adopting farming practices that make us uncompetitive." He said supplements and imported feeds had a place on NZ farms, but their use had to be matched with a precise understanding of the impact they have on the bottom line. Alongside the focus on low-cost, skilled pasture management, Sir Henry said farmers were already putting greater disciplines around their farming businesses.

## Fonterra faces compensation claim

*Melamine memory returns as Fonterra gets sued for compensation.*

Fonterra's Chinese operation is being sued by four mainland Chinese parents in Hong Kong; the parents claim that their children were poisoned by melamine-tainted dairy products of the company, which was a major shareholder of the now-defunct Sanlu Group. Frustrated in their efforts to get compensation through a Chinese government scheme, they are demanding up to 84,000 Hong Kong dollars or US\$10,770.

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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 future southern milk prices.**

**Prices remain steady.**

A small increase in butter spot price quotes with all other prices remaining steady gave the index a further boost this week, but only due to the fall in the value of the \$A after Thursday's famous "fat finger" event which caused panic selling on share markets. The index jumped to **145.32**, as the \$A ended the week down at **US\$88.8c**. This currency will probably recover much of that lost ground this week as the fear of a global meltdown abates.

**GDT auction posts small fall**

The average price for WMP slipped 1.2% below a month earlier to US\$3,932 per tonne in online trading last week, according to the globalDairyTrade. The price for the first two contracts for WMP declined, the third contract, which covers November to January delivery, gained 3.5% to US\$3,908, as buyers looked to secure their supply in anticipation of continued demand. The average price for anhydrous milk fat gained 4.4% to US\$5,020 per tonne, while the average price for skim milk powder slipped 1.6% to US\$3,612. The trade-weighted globalDairyTrade index, a measure of the average price across all products, has edged down 0.8%.

New Zealand exports of milk powder, butter and cheese surged 19% to \$969 million in March from the same month a year earlier, though casein and caseinates slumped 37% to \$61 million over the same period.

## Threat of EU-US trade dispute

**EU's rule change sparks US anger.**

EU's decision to change the rules related to the somatic cell count in the US milk products exported to the EU has angered US dairy exporters. US believes that this change will be extremely disruptive to trade and potentially jeopardise up to \$60 million in annual exports of milk and dairy exports to the EU.

Under the new law, any US dairy processor exporting to the EU will have to certify that each individual farm that supplies for those exports has complied with the EU's maximum somatic cell count (SCC) limit of 400,000 per ml of cow's milk.

## Delay in trade halt by China

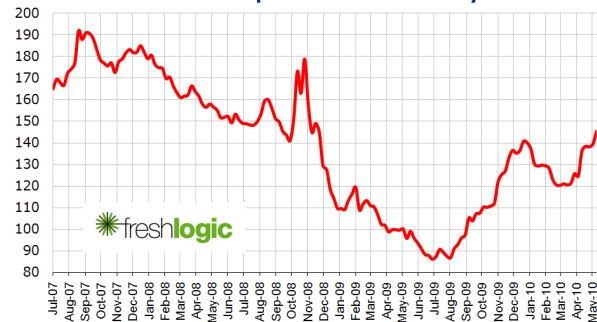
**China recognises trade importance, delays halt.**

China has agreed to delay a trade halt with the US for 30 days. The ban, due to China's insistence on US adopting a new health certificate for food grade dairy imports, was to take effect from 1 May. This delay would enable the US governments to negotiate an acceptable certification within the given 30-day period.

The US Dairy Export Council (USDEC), International Dairy Foods Association (IDFA) and National Milk Producers' Federation (NMPF) have praised the Chinese government for its recognition of the need to continue trade during negotiations and credited the US Department of Agriculture (USDA), US Trade Representative (USTR) and US Food and Drug Administration (FDA) for obtaining the delay.

**New Holland staff have attended a number of the recent round of DFMC Supplier meetings across the country. The feedback has been very positive & New Holland would like to thank all those responsible for allowing our inclusion. Additionally, New Holland look forward to partnering with DFMC in the development of programs for young farmers. Suppliers are reminded to check the DFMC website for details on the rebates available on the range of New Holland equipment.**

**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 launches price index

**GDT events serve as the launching pad for Fonterra's price index.**

Fonterra has announced that it will be launching a dairy price index based on the GDT events. The new trade weighted index will cater to the need for a constant "headline" number, which tracks the market for these products, as per Fonterra. Fonterra has also added that the index will show the percentage change in the average price of a basket of product, including whole milk powder, skim milk powder, and anhydrous milk fat, which are currently being traded on the globalDairyTrade. Instead of describing the prices, Fonterra will be showing an index of 1000 points on the basis of the prices paid in March 2010.

## Free trade push with India?

**Australia plans to liberalise trade with India, to stop overreliance on China.**

Australia and India will be entering into talks about negotiating a free trade agreement that will help Canberra to balance its increasing reliance on trade with China. Minister for trade, Simon Crean, will be discussing trade with India's minister of commerce and industry, Anand Sharma; both ministers have accepted a feasibility study on a free trade agreement between the two nations.

According to the free trade feasibility study, this agreement to liberalise trade could add a total of US\$32 billion to Australia's and US\$34 billion to India's GDP over the next 20 years or more than 1 percentage point each of GDP. Although the natural sources of Australia and the information technology services from India would be an important source of growth, Mr Crean states that Australia wants to also increase the supply of services and technology in its areas of competitive advantage, including mining, education, and infrastructure. In terms of the sectors proposed to be covered in this FTA, no mention could be found of agriculture...

## Glanbia gets only 35% poll support

**Inadequate farmers' support disappoints Glanbia.**

In a recent poll conducted regarding the prospects of the Glanbia sell-down of its business to its Irish dairy farmer owners, only 35 per cent of the Irish farmers stood ready to support the Glanbia deal. While 38 per cent admitted that they had not made up their minds, 27 per cent have stated that their decision to vote against the plan. The results are disappointing to Glanbia cooperative and Glanbia plc. However, the cooperative is confident that it will secure the support it requires and currently is focussing on a series of farmer meetings. According to the co-op, those attending the meetings have indicated by an eight to one majority that they will be supporting the deal.

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