

DAIRY REPORTER



Weekly Dairy News for Members of DFMC

12 April 2011

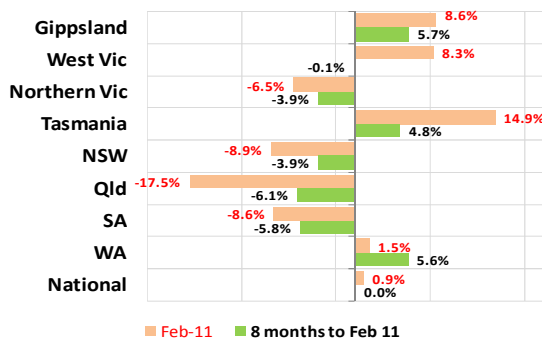
Milk production update

Patchy results across industry keeps overall growth in check

Dairy Australia has reported that milk production for February 2011 was up by 0.9% on same month last year, which brought year-to-date production into line with the same 8 months of the prior year. Overall, the production numbers were patchy, and the chart of changes in production by major region is the most diverse seen in many years with large swings caused by a mix of flood impacts and good conditions. Queensland again posted the largest decline due to the effects of flood, while Tasmania posted a 15% gain for the month, Gippsland was 8.6% up while Western Victoria was 8.3% higher.

Queensland output is tracking closely to the forecast produced by the QDO after the January floods – the QDO then tipped February to be 18% down and expected March to be 15% off the 2010 level. Southern Australian regions produced 0.7% more milk in the 8 months of the 2010/11 season to date output. The impact of the January floods and ongoing weather fluctuations has put northern output 4.8% down compared with the same period in the prior year.

Australian milk output - Feb 2011 v YTD



Bede Foods listed for sale

Bede Foods sale could draw bids from Australia's top dairy players

Privately owned Bede Foods, a manufacturer of yoghurts and other dairy products, has appointed Deloitte Corporate Finance to explore strategic options that may result in a sale. Bede reported a 29 per cent lift in net revenue in the financial year to June 2010, and 153 per cent growth in EBITDA, and expects to post double-digit growth in net revenue in the 2011 year, according to the sale promotion flyer. Bids for the group were reported to be due last week, with four parties thought to have thrown their hat in the ring, including Parmalat, Goodman Fielder and Warrnambool Cheese & Butter Factory. Bids are understood according to reports in the Fin Review to be in the range of \$45 million to \$55 million.

QDO wants tighter control

QDO's proposed measures spell more regulation of the dairy industry

The recommendations sought from the Senate Review into the retail pricing of milk products by the QDO call for a number of measures that would effectively attempt to re-regulate the way the milk supply chain operates. The QDO has called for a mandatory code of conduct backed with penalties to apply a sustainability test "at any point in the supply chain". QDO wants an ACCC investigation of retailers for predatory pricing and the use of loss leaders, and wants to implement ongoing price monitoring – and for good measure, an independent review of the economic impact of private label pricing of milk.



Headlines

- Milk production update
- Bede Foods may grab majors' interest
- Prices slide further at GDT
- Fonterra and Soprole call off merger
- EU reform proposals still in debate

Indicators	
Dairy export index	Surging dollar weakens index further
World dairy prices	Prices fall after GDT auction
Australian cull cow prices in the US	Market firm but \$A weakens returns
Grain futures	Sharp rise in wheat prices on poor crop quality

Fonterra and Soprole call off merger

Unhappy Chilean farmers quash multi-national tie-up.

Fonterra abandoned plans for a Chilean joint venture with multi-national food producer Nestle after local farmers complained the group would have too much market power. The planned merger of Fonterra subsidiary Soprole and Nestle's Chilean liquid and chilled dairy business now won't go ahead due to objections, "primarily from local dairy farmer organisations (who) were concerned that this could lead to a concentration of milk purchasing, giving them less options on who they could sell their milk to," Fonterra said in an emailed statement. Fonterra and Nestle said they have no plans to put in a new bid to Chile's authorities, and the antitrust regulator had already flagged it opposed the deal. Fonterra owns almost all of Soprole, which is Chile's biggest consumer dairy business with about one-third of the market.

China to put the pressure on feed markets

China's burgeoning demand likely to keep grain prices high

China will continue to put pressure on global feed grain markets and may import significantly more corn than expected as corn futures reached all-time highs on fears on dwindling supplies. China, which has tried to be self-sufficient in grain production, may buy as much as 3 million tons of corn in the 2010-11 marketing year to 31 August. Grains Council says Chinese reserves were much less than previously thought. The potential for increased demand from China threatens to tighten global corn supplies already at a precariously low level. The US body would like China to be more transparent about the size of its grain stockpiles and harvests to send clear signals to global farmers about how much to grow. Futures markets entice farmers to increase plantings with high prices, yet signals from China have been unclear due to limited information about its output and reserve supplies.

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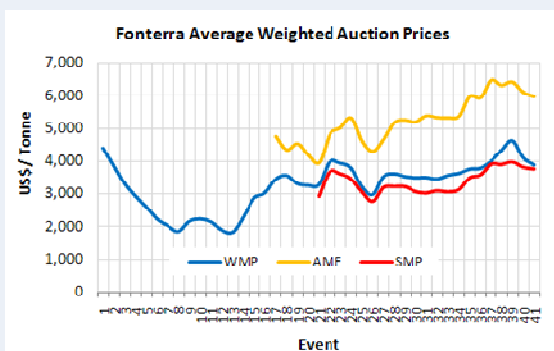
Index of export returns

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.

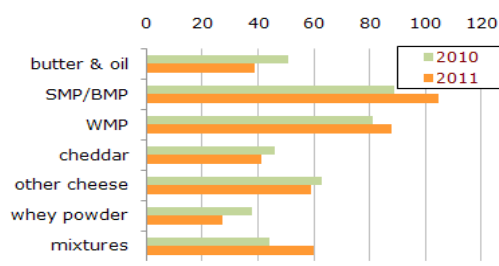
\$A flies past US\$1.05.

Spot prices for WMP, butter and cheddar were lower this week, with WMP taking the biggest cut after the falls booked in the gDT auction. The \$A powered past US105 cents to pull the benchmark for export returns down almost 5 points to **131.0**. The \$A closed at **\$US1.056**.

Prices decline further at GDT - Milk powder prices slid further last week at Fonterra's online auction, with bidders driving down the average price for whole milk powder (WMP) by an average -5.6%. The new average price, of US\$3 878/tonne (€2 730), follows an 11.5% drop at the last auction two weeks ago. The steepest decline of 9.2% took the price for deliveries from July to September to \$3,916/t. There was a slight lift in average skimmed milk powder (SMP) price by 1.5% to \$3,763/t, with short-term prices rising and longer-term contracts falling. The anhydrous milk fat (AMF) average price slipped -1.7% to \$5 985.



Australian dairy exports - YTD Feb 2011 v same period last year ('000)



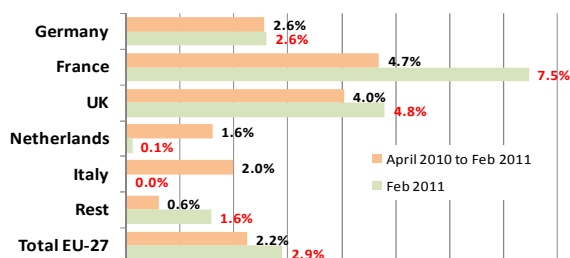
Source: Dairy Australia

EU milk output

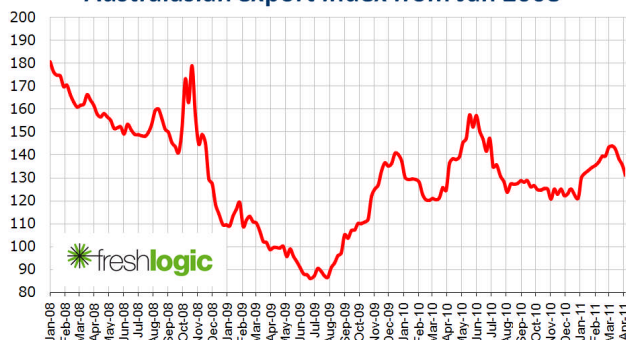
EU milk flows sluggish despite milk output delivering positive results

EU milk output in February 2011 failed to reach the expected growth after a strong month in January. Total EU output was up 2.9%, with French producers bucking the steady trend, while for the 10 months the EU was ahead 2.2%.

Changes in EU milk - April to Feb 2011



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.

EU reform proposals still in debate

Months of discussions still cannot get member states on the same page

EU Member states remain in debate over a number of aspects of the Commission's milk package proposals, over how to ensure market stability for the sector. The Commission tabled proposals in December which gave producers greater scope to collectively negotiate prices with processors, in an exception to EU competition rules. The plans would allow milk producer organisations to engage in collective price negotiations provided that the total volume of raw milk under negotiation does not exceed 3.5% of total EU production, nor equate to more than 33% of the total national production in the member state concerned. The main stumbling block for member state representatives is said to have been on whether minimum contract lengths are needed to give farmers stable market conditions.

UK farmgate prices on the move

Rewards for UK farmers as processors step-up farmgate prices

The average UK farmgate milk price rose to 26.08p/litre in February 2011, up 0.36p/litre from the previous month and almost 2p/litre ahead of last year, according to tracking by analysts at DairyCo. Retailer Tesco is on top of the milk price league table, and in April farmers supplying Tesco's sustainable dairy group will receive an extra 1.28p/litre, bringing its average to 29.78p/litre.

Glanbia to pay a "futures" price for milk

Glanbia offers index-linked milk price scheme to help suppliers plan ahead

Glanbia Dairy Ingredients Ireland, a division of Glanbia plc, is offering Irish suppliers the chance to sell their milk forward. Glanbia are offering to pay a fixed price between January 2011 and January 2014 which is index-linked to input costs. Suppliers who sign up to the scheme will be able to sell a percentage of their manufacturing milk supply at a fixed minimum price of 28cpl, although indexed to input costs and adjusted on an annual basis. Suppliers are required to commit to supplying a minimum of 10% of their milk quota in order to enter the scheme, and will only be allowed to pull out of the contract in exceptional circumstances.

Tainted milk outbreak claims lives

Tighter controls still inadequate to curb latest milk fatalities

Three children have died and 36 others have fallen seriously sick in an intentional food poisoning outbreak in north-west China, believed to have been caused by milk tainted with nitrite, a chemical used in the curing of meat and making dyes. Of the 35 who have become sick as a result of drinking the tainted milk, most are children under 14. Chinese authorities have sealed off the two offending farms and the senior managers are under investigations.

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