

DAIRY REPORTER



Weekly Dairy News for Members of DFMC

12 July 2011

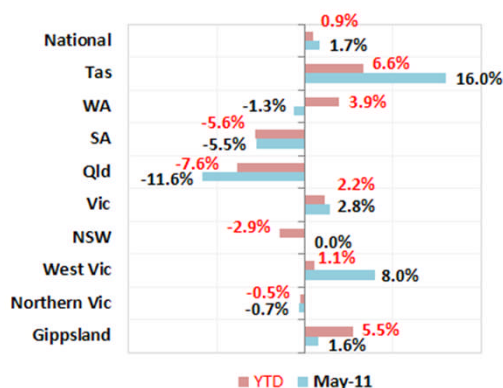
Milk flows – up slightly in May

Expansion continues in Tasmania, as Qld posts largest decline

Dairy Australia has reported that milk production in May 2011 was up by 1.7% on the same month last year, which brought year-to-date production 0.9% ahead of the same period last year. The expansion in Tasmania continued, as the state surged 6.6% ahead of its prior year comparative, while output in WA and Victoria rose by 3.9% and 2.2% respectively, compared to the previous season.

In contrast, YTD milk production in all other states dipped, with Qld posting the largest decline for the season, down 7.6% as it continued to recover from the effects of the floods.

Australian milk output - May 2011 v YTD



Final step-ups by processors

MG and Burra Foods announce final step-ups for 2010/11 season

Murray Goulburn has announced a further price step-up of 12 cents/kg fat and 30 cents/kg protein, which takes MG's final available weighted average farmgate price for the year to \$5.65/kg milk solids. This price increase will be paid to its suppliers on July 15.

Burra Foods has also announced its final price-step of 15 cents/kg fat and 37 cents/kg protein, an increase of a further 25 cents/kg of milk solids which brings the weighted average final closing price to \$5.70/kg milk solids for the 2010/11 season.

Fonterra issues Australian bonds

Fonterra raises A\$300 through first issue of Australian corporate bonds

Fonterra has raised \$300 million through its first issue of corporate bonds in Australia. The bonds issued by an Australian subsidiary, and guaranteed by Fonterra Co-operative Group Limited, are for a five-year term, maturing in July 2016, and have been priced at a spread of 100bp over swap. The company said it expects them to be rated A+ by Standard & Poor's and AA- by Fitch, consistent with the agencies' current ratings for Fonterra Co-operative Group Limited. General Manager Treasury Stephan Deschamps said that the bond proceeds would be used to refinance bank debt in Australia.

Longwarry opens for 2011/12 season

A bold opening price for Longwarry supplies for 2011/12 season

Longwarry Food Park has announced an opening price of \$4.92/kg milk solids for the 2011/12 year for its 120 Gippsland suppliers, up 7 cents/litre on its opening price for last year. In addition, the processor announced a fifth and final step-up for the 2010/11 season of 10 cents/kg fat and 25 cents/kg protein. Longwarry forecasts a strong trading year ahead as it expands its domestic operations with a new UHT milk product.

Headlines

- Milk flows up slightly in May
- Final step-ups by processors
- Longwarry opens for 2011/12 season
- Prices fall at GDT auction
- Lactalis wins 83.3% stake in Parmalat

Indicators

Dairy export index	Dollar and index fall
World dairy prices	Butter price steady
Grain futures	Sharp lift in US wheat; local grain prices softer

Fonterra's Cobden upgrade

Another million-dollar capital investment at Western Victorian site

Fonterra will be investing \$3.9 million at its Cobden site, in a bid to upgrade cream treatment equipment and reduce water use at the site. The site produces 65,000 tonnes of dairy products annually and employs about 200 people.

Bega Cheese listing delayed

Still a while to go before Bega goes on ASX listing

Bega Cheese's listing on the Australian Securities Exchange could be delayed to next month, with the listing process behind schedule and the prospectus only a few weeks away. A majority of Bega Cheese's 150 shareholders had voted in April to approve the float.

Aussies among the most cautious

Australia bags the third spot among most cautious countries worldwide

According to a new consumer sentiment survey conducted by global management firm Boston Consulting Group, Australia is among the top three most cautious nations with at least 48% of consumers intending to cut back on discretionary spending in the next 12 months, not far behind Greece (53%) and Britain (50%).

Fonterra to treble production at NZ site

Fonterra injects millions to create the largest dryer in the country

Fonterra has announced plans to invest \$250 million (US\$206.70 million) in a new dryer to treble the milk powder production at its Darfield site in Canterbury. The dryer, which is competing to be the largest in the country, will create 30 tonnes of powder an hour, producing an estimated 7.5 million litres a day. The majority of the processed whole milk powder will be delivered to the growth market of Asia, primarily China and Southeast Asia.

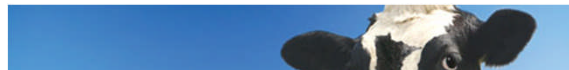


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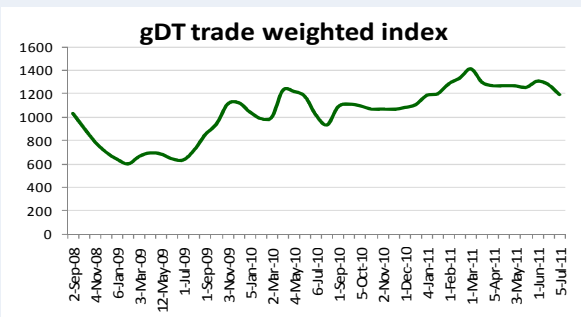


Index of export returns

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 slightly softer. Spot prices for powders and cheddar slid this week, while butter stayed unchanged. The index of Australian export returns tumbled further this week, despite the \$A losing strength against the \$US. The \$A closed the week at **\$US1.0712** and the index of spot returns was down by a point to **125.4**.

Dairy products fall at GDT auction. Average dairy product prices posted their biggest decline since March at Fonterra's online auction on July 5, signalling that commodity prices are weakening from record highs as global growth slows. The *globalDairyTrade*-trade weighted index fell 6.7% to \$4,017/t compared to the previous auction held a fortnight ago on June 15. The biggest movement came in SMP, which led the decline for the second consecutive time, where the average (of \$3,704/t) was 7.2% lower than the last event two weeks ago. WMP fell 6.8% to \$3,638/t, AMF by 1.4% to \$5,278/t, and MPC by 3.6% to \$6,174/t. In contrast, rennet casein edged up by 1% to \$10,161/t. Butter milk powder made a return to the online auction, with the average winning price of \$3,335/t.



Australian export sales. May data from Dairy Australia shows that YTD SMP exports were up by 24.5% to 145,277 tonnes from 116,650 tonnes in the previous season. Similarly, YTD WMP exports were up 8.5% to 117,782 tonnes from 108,574 tonnes in the same period last year.

EU-South Korea trade deal in force. The EU-South Korea Free Trade Agreement - which was launched in 2007, signed in 2010, and was finally enforced on July 1 - will enable 98% of EU's agricultural exports to gain duty-free access to the South Korean market within the next five years and is expected to have major trade ramifications for both sides.

According to an impact study for the European Commission, EU dairy exports to South Korea are estimated to rise by 1,114%, while meat and animal products are also projected to increase by over 300%.

Brazil milk products seized

Police seize milk products, as safety issues loom

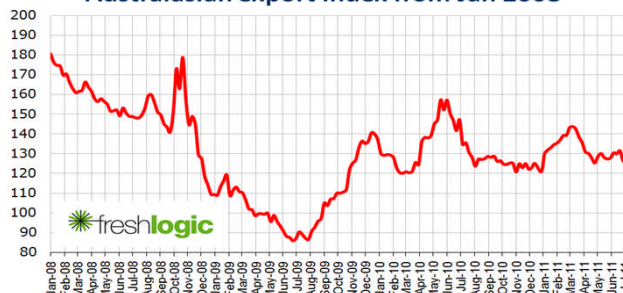
Police in Minas Gerais, Brazil, have uncovered an alleged milk tampering operation following the initial analysis of two samples collected which indicated that the UHT whole milk products could contain added water, sugar, and salt to increase milk output. The police have requested a court mandate to go to the dairies and collect additional samples for testing. The two processors involved include *Cooperativa dos Produtores de Leite de Leopoldina*, which produces the LAC milk brand, and *Novamix Industrial e Comercial de Alimentos*, which produces *Fazenda Mineira*.

Lactalis secures majority stake in Parmalat

One of the last hurdles cleared for creating world's biggest dairy company

Lactalis has secured a majority stake (83.3%) of Italian rival Parmalat, after buying 54.3% of the company in the \$3.6 million buyout last week. Lactalis had first acquired an 11% stake in Parmalat in March this year and soon after, increased it to 29%. In late April, it launched its takeover bid and in late June, secured nine out of the 11 seats on the Parmalat board.

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.

Milk cheques on the hold

Mounting superlevy fears force processors to withhold Irish milk cheques

Irish processors are withholding milk cheques from farmers due to the high probability of milk output exceeding quota levels this season. This time last year the country was 3% under quota; however currently almost every dairy processor is heading over quota, with major processors such as Glanbia and Dairygold already 7.6% and 9% over-quota for the first three months of this year. Glanbia has issued letters warning farmers that fines of 20c/l will be imposed from the end of next month on any over-quota supplier that has supplied more than 350,000 litres since April, the start of the quota year. Most processors are now deducting a super-levy from individual farmers that have filled their quotas, though some have set the trigger for fines at 110%.

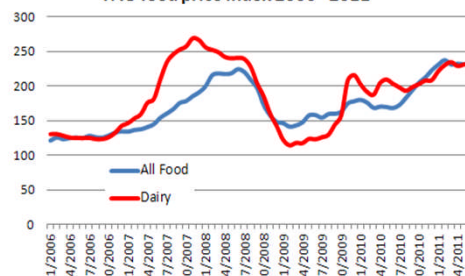
Dairy price index stable in June

FAO's dairy index escapes fluctuations seen in the rising global food index

The FAO global food index - which measures monthly price changes for a basket of cereals, oilseeds, dairy, meat, and sugar - averaged 234 points in June, up 1.3% from last month and up 39% compared to June 2010, after a steep increase in the international sugar prices. The FAO monthly dairy index averaged 232 points in June 2011, virtually unchanged from 231 points in May, and up 14% from 203 points in June 2010. This was the result of diverging price movements, with prices of SMP and casein up by 5%, WMP down by 3%, while prices of butter and cheese remained stable.

The FAO expects food to remain costly in the next few years and price volatility to occur "for a long time", as stocks and reserves are limited. The FAO has raised its forecast for world cereal output in 2011/12 to an estimated 2,313 million tonnes in 2011/12, up 3.3% from last year and 11 million tonnes above its last forecast on 22 June. It has also raised its forecast for global wheat output to an estimated 676 million tonnes, up 4.7% from previous forecast, mostly due to better crops expected in the Commonwealth of Independent States and India. Production of coarse grains, including corn and barley, is forecast to increase to an estimated 1.16 billion tonnes, up 5.9% from the FAO's June outlook.

FAO food price index 2006 - 2011



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