

DAIRY REPORTER

Weekly Dairy News for Members of DFMC



13 July 2010

FNQ supply terms can't be agreed

Tit for tat exchange over the role of Tableland milk in Woolies cartons.

An exchange of blame between National Foods and Parmalat has followed their failure to come to an agreement over the supply of Parmalat's obligations under the newly-won contract to supply Woolworths private label milk requirements in North Queensland. The volume amounts to 11 million litres which is significant in terms of the way NatFoods suppliers will be paid under new arrangements in the 2011-12 year.

Local farmers were convinced that the expense of carting milk from central and southern Queensland (with higher farmgate prices) would ensure that the companies would find a way to source the milk locally. National Foods said a deal could not be struck because Parmalat wanted to buy the milk at a price below under the cost of production. National Foods spokesman Geoff Lynch said the company hoped talks would resume but it could not sell milk at a loss and it would instead focus on the buy local campaign in a bid to drive up sales of NatFoods branded product.

Longwarry posts \$4.85/kg milk price

The niche manufacturer posts a strong opening price.

Longwarry Food Park has announced that the opening milk price in the new season for its suppliers will be \$4.85/kg of milk solids, which will equate to a bit over 36 cents per litre on a weighted average of its intake. The company has increased its milk intake in the current year.

La Nina developing

Desirable weather phenomenon La Nina building in the tropical Pacific.

Conditions triggering a "La Nina" event – which brings increased rain to most parts of Australia in winter, spring and occasionally summer – will continue to build over the next few months, according to both the World Meteorological Organisation, (a part of the United Nations), and the BOM. Although the weather experts remain uncertain about the timing and strength of La Nina, it holds that the redevelopment of El Nino, the opposite weather pattern, is highly unlikely.

Renewal of climate change policy expected

Some of the uncertainty around climate change policy may be resolved.

As the calling of a federal election looms, new PM Gillard is preparing to fix another of the failings of her predecessor by announcing some form of climate change policy that woos the swinging green-centric voters back to support of her party. Business leaders have urged the PM not to make too much haste in a pre-election deck-clearing.

Luscombe looks for food security kudos

The biggest retailer takes the high ground.

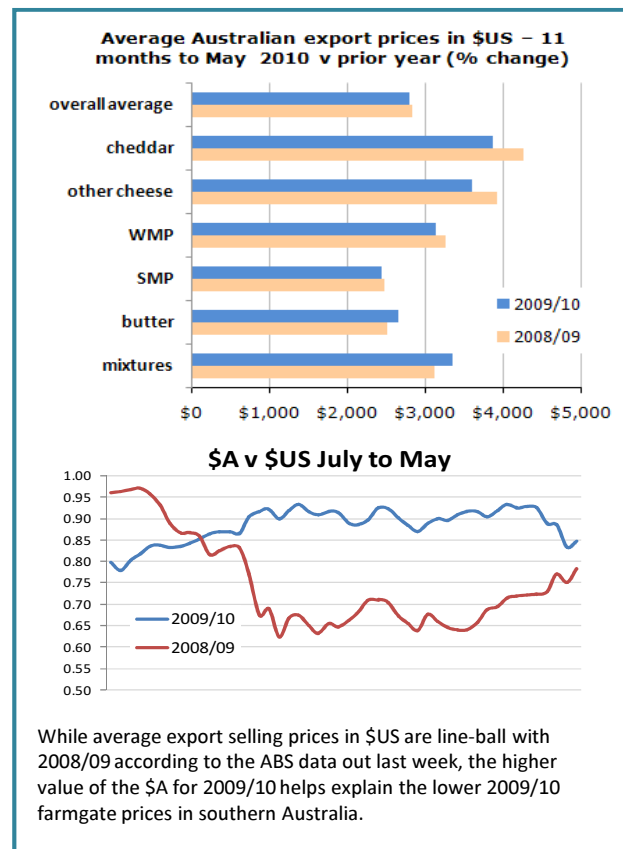
CEO of Woolworths, Michael Luscombe, has become the self-proclaimed champion of food security, warning that Australia needs wide-ranging action to ensure the long-term security of its food supply. The Woolworths boss added that Australia needed to face its share of a global challenge of increasing agricultural production without further degrading the environment, as well as introducing technologies to allow us to compete with countries having low cost labour and government subsidies.

Queensland Dairyfarmers Organisation said in their weekly newsletter late last week that it supports the call but would be pleased if Mr Luscombe led by example in ensuring sustainable prices were delivered back to farmgate for packaged milk products in northern regions.

Headlines

- NatFoods & Parmalat can't solve FNQ
- Fonterra July auction prices dip sharply
- No solutions in WTO talks
- Global economic growth improving
- CWT to remove 34,000 cows

Indicators	
Dairy export index	12pt decrease with a strong lift in \$A
World dairy prices	Powder, cheddar lose ground, butter remains strong
Australian cull cow prices in the US	Prices decrease, reversing last week's sharp rise
Grain futures	Increases in US wheat and local grains futures



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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.

Index hammered.

Spot prices for powder took a beating this week; cheddar also lost ground but butter bucked that trend. The strong lift in the \$A combined to ensure a heavy loss in the index of export returns, which fell more than 12 points to **135.8**, as the \$A closed the week at **US\$7.8c**.

Fonterra's July auction results.

Dairy commodity prices posted their 3rd consecutive monthly fall in the GlobalDairyTrade auction, showing that a "softening" has become "a slide". The average price for a tonne of whole milk powder slid 14.8% in last week's July GDT auction event to US\$3224, while skim milk powder was down 11.8% to US\$3067. The average price for anhydrous milk fat slipped by 14.1% to US\$4,620/t. WMP prices were again weaker further out – the first quarter 2011 delivery contract averaged just \$US3,100 with the near-term average \$US3,435. There was not a lot of width in the SMP quotes averaging between short-term \$US3,030 and January-March 2011 at \$US3,099, with the fall in the short-term price the heaviest. After last week's end of year price forecast, Rabobank senior analyst Hayley Moynihan said some price easing had been expected in this quarter given more milk supplies, but the auction price fall had been "sooner and sharper" than predicted. Fonterra auction manager Paul Grave said the results reflected increasing global supply in response to very strong price signals in recent months.

Smidge of product sold at latest EU tender.

The EU's garage sale of butter stocks didn't draw a big crowd before the weekend. Under the third round of tenders for the sale of intervention stocks held last week, only 210t of butter were released at a rate of €3,610/tonne, or about US\$4,560/tonne, which remains well above spot quotes from the southern hemisphere, but a little below the spot prices quoted in Eurex tenders. Total butter stocks offloaded under the three tenders to date amount to 23 645t. Bids for SMP have been now been rejected at all three of the tenders.

No solution in sight for WTO talks

Solution still far away, as political play puts countries at loggerheads.

Political impasse continues to thwart attempts to make any tangible progress in the WTO Doha talks on agricultural trade, after a meeting on the controversial "special safeguard mechanism" for developing countries. The recent unproductive meeting was in-line with a broader political deadlock over Doha, after the lukewarm endorsement of the trade talks at the recent G20 summit in Toronto, despite a beat-up prior to the meeting by Australia's trade minister. The US has repeatedly argued that larger developing countries such as Brazil, China and India need to provide more access to their markets if a Doha deal is to be reached. However, these countries have resisted lowering tariffs and providing other commitments in the absence of further concessions from the US.

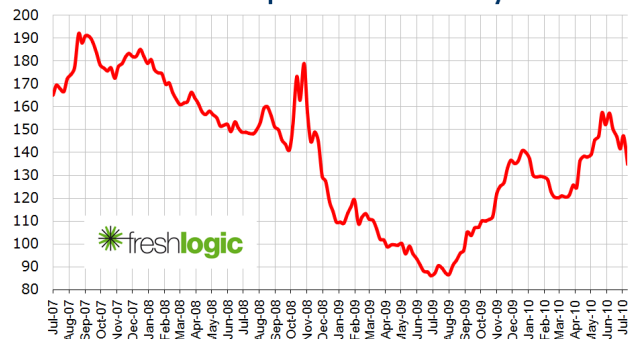
Milk dump protest had no impact

Milk dumping protest evokes sympathy, but fails to cause impact.

An attempt to gain public sympathy for the cost-price squeeze on dairy farmers through a national milk dumping campaign over the Independence Day holiday weekend failed to attract media attention beyond the local news media near the home of the movement's organisers in upstate New York. Although organiser Robin Fitch claimed that dairy farmers dumped milk in "15 to 20 states," several Internet searches failed to uncover significant news coverage other than that near Syracuse, New York, and a Pennsylvania newspaper report that farmers in its area sympathised but declined to dump their own milk.



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.

IMF: Global economy improving

Global economy sturdier, but on tenterhooks of renewed financial market turmoil.

World economic growth is on the rise, says the International Monetary Fund in its latest update. World growth will climb to 4.50% this year, says the IMF, and taper to 4.25% expected for 2011. The fund is however conscious of concerns in Europe in relation to sovereign debt, and the potential flow-on risks to the world economy. While the projections at a global level appear encouraging, outlooks are patchy from country-to-country. The U.S. economy is forecast to grow by 3.25% this year, while for Europe only 1% of growth is anticipated. Emerging and developing economies are set to gain the most, with the average of those countries expected to be in the vicinity of 6.75%.

CWT to remove 34,000 cows

Another farmer-funded removal of cows, but small in the scheme of things.

More than 34 400 dairy cows will be retired in the US under Cooperatives Working Together (CWT)'s latest buyout programme in a bid to add weight to a milk price recovery. CWT's three herd retirements last year were a contributor to the decline in US cow numbers, but cow numbers had levelled off since the end of the year, according to Jerry Kozak, chief executive of the National Milk Producers Federation (NMPF) which administers CWT. Between the time of the mid-year announcement of a culling round in 2008 and March 2010, CWT has funded the withdrawal of 7.5% of dairy culls in the US. CWT has lifted the average rate of culls, but only by a touch – by our reckoning the programme has lifted the % of US cows culled (culls as a % of the US herd) by about 0.3% in the past 2 years.

UK Dairy boss highlights "intense" rivalry

Strong competition blocking growth in margins in the UK milk market.

Alan Wiseman, about to bow out as head of UK milk processor Robert Wiseman Dairies, highlighted "intense competition" in parts of the UK milk market as he forecast a sales slowdown. Wiseman said that the UK group would not maintain first quarter volume growth of almost 12% for the rest of its financial year. While sales would get a boost in August, when the company starts delivery of an additional 30m litres of milk a year to Co-operative supermarkets, comparisons were becoming more difficult with last year, when Robert Wiseman received a one-off boost from the collapse of co-op Dairy Farmers of Britain. Furthermore, the company faced "intense" competition in the route market, in the main convenience stores, where its focus was on defending its existing trade, which accounts for some 30-35% of group sales volumes. He added that the group was also facing higher pressure from higher plastic and fuel costs, which were raising packaging and distribution bills.

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