

DAIRY REPORTER



Weekly Dairy News for Members of DFMC

13 September 2011

Bega wins Coles' cheese contract

Coles' cheese contract win – a "landmark achievement" for Bega.

Bega Cheese has won a five-year contract to supply the entire range of private label cheese products for supermarket Coles. Under the deal, Bega will manufacture and package natural and processed Cheddar and mozzarella for Coles, with initial expected annual volumes of 19,000 tonnes. The new arrangements are expected to increase Bega's bulk cheese manufacturing by an additional 7,000 tonnes, for which it will need an additional 70 million litres of milk under the new deal, which it expects to source from suppliers in NSW and Victoria.

MG now a key investor in Tassie business

Tassie co-investment strategic to tap into a growing milk pool.

Murray Goulburn has announced plans to increase its involvement in the growth of dairying in Tasmania by co-investing in Tasmanian Dairy Products' proposed multi-million dollar milk processing factory in Smithton.

The joint venture is expected to offer MG access to an expanding milk supply region and ingredients via TDP to meet growing demands from key customers and to capitalise on synergies with existing parts of its business. Further, MG will hold a majority stake in the venture and market all products from the new factory on behalf of TDP, which will help it reduce marketing costs for the venture. The plant expected to be completed in a year's time will process raw milk into powders for export to Asia and Middle East.

QDO: catastrophic milk discount impacts

QDO's report: Cut-throat milk pricing will strangle the fresh milk industry.

The Queensland Dairyfarmers Organisation (QDO) lodged a supplementary submission to the current Senate Inquiry into milk prices, claiming the national retail milk value chain has been devalued by \$77 million in 2010/11 compared to the previous year, with dairy farmers directly impacted by the Coles-led \$1 per litre milk discounting. The new submission details the "catastrophic impact" of the milk war with detailed information, showing that processors and branded milk sales have been hit by the milk discounting. It also includes specific and detailed examples of the impact on-farm, which it says contrasts with Coles' ongoing claims that "there would be no impact on farmers".

The submission notes that in the long term, farmgate prices could decrease anywhere between 4%-20%, relying on scenarios that – at the top end – include losses in brand values if processors are forced to lower selling prices to combat the loss of volume sales to private label lines. It says farmers supplying fresh drinking milk, like in Queensland, to be hardest hit. While a group of Qld farmers supplying Parmalat had collectively lost about \$768,000 to the end of July due to the discount milk war, another group supplying Lion had a slight increase in farmgate price but the increase of 1%-2% was below inflation, and followed a price cut of 15%-20% last year.

Production stalled by the wet

National milk flows takes a hit, as wet conditions curb output.

Dairy Australia reported that national milk production in July was down 1.1% on the same month last year. Queensland again posted the largest decline, followed by Western Australia, while Tasmania booked the largest gain in milk flows, with dairies boosting milk supplies by 12.3% for the month. Victoria slipped back into negative territory this month, as the wet conditions in Gippsland and Western Districts pressured output.



Headlines

- Bega bags Coles cheese contract
- Dairy farmers detail the milk war effect
- Fonterra announces UK-joint venture
- Dairy prices dip at latest online auction
- EU dairies tipped to reach record high

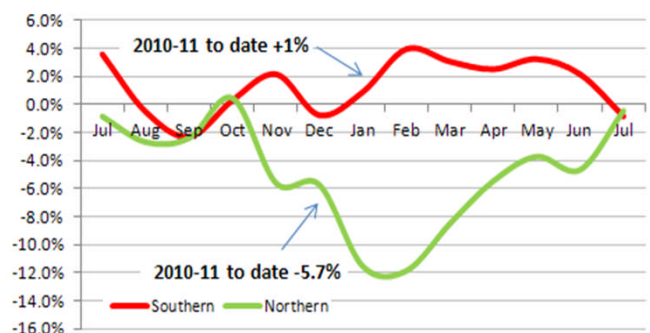
Indicators	
Dairy export index	Index lifts as dollar falls
World dairy prices	WMP loses but SMP gains
US cull cow prices	Prices hold
Grain futures	Wheat futures slide; local grains steady

Dairy 2011 Situation & Outlook – September Update

Dairy Australia released a September update to its Situation & Outlook series. The highlights include:

- Dairy Australia forecasts a **1.5% increase in 2011/12 milk production** to 9.25b litres. It says the "subdued production outlook" will maintain pressure on companies in southern exporting regions, as they compete for suppliers.
- DA's **forecast range for full year southern farmgate prices remains at \$5.10-\$5.50/kg milk solids** (39c-42c per litre), but says with the softening in commodity prices and the higher \$A since the forecast in May, best bets are at the lower end of the range. This suggests there will be limited step-up for the rest of the season.
- The August supplementary farmer survey results showed 60% of respondents described seasonal conditions being experienced on farm as 'about what they would like it to be'. **35% said it is wetter than preferred** (mainly in southern Vic), while 5% said it is too dry (mainly in Qld).

Australian milk production - changes in southern v northern output in 2010-11 to date



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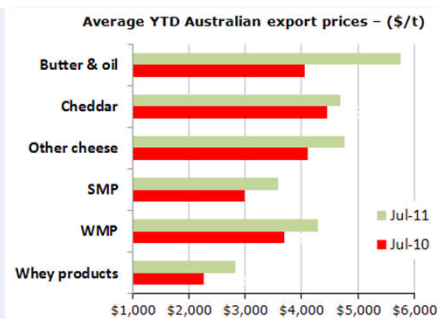
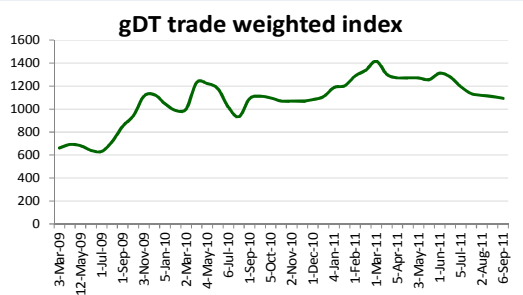
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Index of export returns

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.

Dollar weakens to push up index. The index of Australia export returns rose this week, as the \$A lost strength against the \$US. Spot prices for powders moved in opposite directions, as SMP gained and WMP lost by US\$50/t each, and others stayed firm this week. The \$A closed the week weaker against the US dollar at **\$US1.0441**, while the index of spot returns rose by 2 points to **122.07**.

Prices slide at the latest GDT auction. Average dairy product prices fell for the sixth consecutive sales, reaching their lowest level, at the latest online auction. The latest *GlobalDairyTrade* weighted index fell 1.4%, compared to the previous auction held earlier on August 16. The biggest movement was recorded again in BMP, which led the decline at an average of US\$2,988/t, down 12% compared to the previous auction. It was followed by WMP, which fell again at the auction by 1.6% to an average of US\$3,314/t. In contrast, SMP rose 0.3% to US\$3,444/t, AMF by 2% to US\$4,353/t, and MPC by 4.9% to US\$6,236/t.



NZ milk flow up 12% in first six months

High confidence and good weather lifted milk flows on NZ dairy farms.

According to data from DCANZ, NZ milk production rose sharply by a third in the month of June 2011, the lowest month of the production year. While the % change sounds frightening to watchers of the fragile dairy supply and demand balance, it only amounts to a 31 million litre increase compared to the same month last year. NZ milk production rose 12% in the first six months of 2011 compared to the same period last year, driven by the rebound in weather and confidence in sustained high milking margins in NZ systems

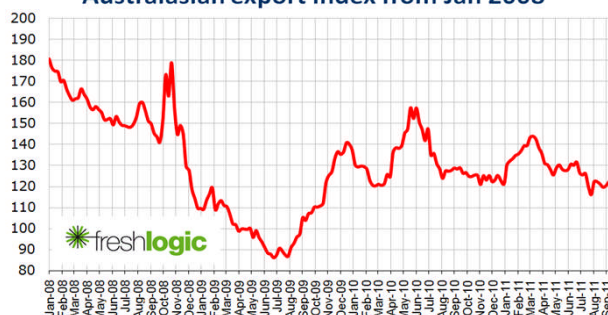
Fonterra in UK-based joint venture

Co-op makes its first move into Europe by forming strategic joint venture.

Fonterra announced a strategic joint venture with UK's largest farmer-owned company First Milk that will help it to locally source premium whey proteins (and avoid import duties) from the First Milk's Lake District plant in Cumbria and meet the growing demands for its food ingredients business in Europe. The two companies will pool their intellectual property and industry expertise that will add value to whey by-product at First Milk's plant and potentially enhance returns for its members.



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.

Dairy UK paper promotes cred of industry

White Paper takes an in-depth look at status of the UK dairy industry.

In its 2011 White Paper – “an authoritative and in-depth look at the status of the UK dairy industry” – Dairy UK has concluded that the UK dairy industry needs to take responsibility for its own development in order to increase its profitability and prosperity instead of relying on the government to make changes to the industry. Dairy UK director general Jim Begg says the paper sets out the key areas for the industry to focus in the coming years, stating that government could help by providing evidence-based advice to the industry and support changes in production practices.

According to Begg, innovation, consolidation, and efficiency were the key drivers in the industry's future growth, while strong supply chain cooperation would enable dairy farmers to exploit the opportunities available. In addition, although the price volatility in the world milk markets is likely to continue for the foreseeable future, the reform of the EU CAP and possibilities of the EU's proposed dairy package is also expected to bring new possibilities.

EU milk flow tipped to reach record high

France, Germany, and Ireland –the key contributors to high EU milk flows.

Deliveries to European dairy plants was 2.8% higher in the month of July 2011 over the same month in 2010 due to favourable conditions for production, with cool, rainy weather making a welcome break from the harsh heat earlier in the European summer. The biggest gains came from France, Germany and Ireland, the latter of which continues to surge on the strength of new found zeal in the future of their industry.

The 2011 year is expected however to see record deliveries of milk in the EU. Output for the first seven months was up 2.3% or 1.9 billion litres, adding to the higher product availability in world markets alongside higher exports from NZ and US, contributing to a weaker market sentiment. The old EU-15 has in 2011 to date produced 2.5% more while newcomers to the EU struggle to achieve par.

NMPF: Foundation could benefit everyone

Foundation designed to shield farmers from the ill-effects of low margins.

According to National Milk Producers Federation (NMPF), all US dairy farmers will benefit from the risk management opportunities featured in the Foundation for the Future (FTF) dairy policy program. The release states that under the Dairy Margin Protection Program (DMPP), farmers can insure up to 90% of their milk production against catastrophically low margins, due either to low milk prices, high feed costs, or a combination of both factors. As the financial stability of dairy operations increasingly depends on margins, rather than milk prices, farmers will be able to protect their operation's equity when margins are tight.

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