

DAIRY REPORTER

Weekly Dairy News for Members of DFMC

Dairy
Farmers
Milk Co-operative

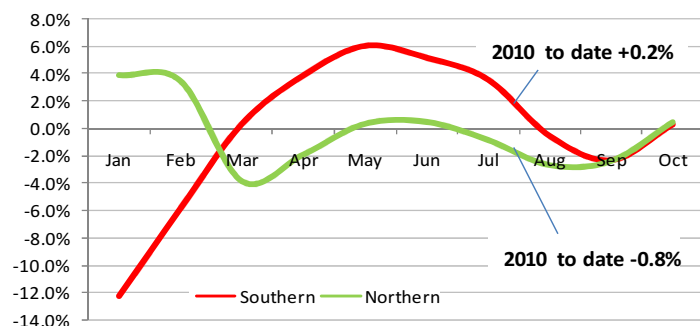
14 Dec 2010

October milk output holds up in wet

Sluggish flow in south limits the national milk output.

October milk production for Australia rose 0.6% over the same month last year, taking the season-to-date total to just 0.2% higher. The output for southern export regions of Victoria, Tasmania and South Australia is line-ball with last season's progressive total, but inched ahead for the calendar year to date as per the chart on this page. Queensland milk production dipped below the same month last year and is behind the pace of 2009/10 as well, but SA has shown the deepest cuts in output, off 4.3% on last year.

Australian milk production - changes in southern v northern output in 2010



MG raises stake in WCB

MG buys more shares to restore its stake in takeover target WCB.

Murray Goulburn Co-op has lifted its stake in its quarry Warrnambool Cheese & Butter after WCB's \$48 million capital raising. MG outlaid almost \$5 million buying shares on-market and taking up its rights in Warrnambool's 1-for-6 entitlement offer, to lift its stake to 11.4 per cent stake in Warrnambool, up from 9.9 per cent last month, although its interest is likely to be diluted to around 10 per cent when shares issued under the rights offer are allocated. MG hasn't indicated whether it will lift its stake to the allowable 15% under WCB's share ownership rules.

The fully underwritten rights issue expects to raise \$19.2 million, and new shares were issued at \$2.50. WCB's rights issue document says that this will take its balance sheet debt to equity ratio down from 99% to 41% post-issue. Warrnambool was reported to be in negotiations with investors who had taken up all their rights in the offer and were interested in participating in a top-up facility. A spokesman said that the rights issue had gone well and take-up by existing shareholders was higher than initially expected.

Wet weakens grain quality

Wet conditions cut domestic bumper grain harvest to feed grade.

Despite the big wet, Australia will be reaping a bumper harvest this year. ABARES said that wheat production this crop year will rise to 26.8 million metric tons, up 6.8% from a September forecast and jumping 22% from a revised estimate for production in the last crop year ended March 31, 2010, of 21.9 million tons. However, Tom Puddy, head of marketing with cooperative CBH Grain, said that Eastern Australia's production, excluding Southern Australia, will likely be around 16 million-18 million tons, of which at least 8 million tons will be of feed grade, including 2 million-3 million tons of badly-damaged grain that may be totally abandoned.



Headlines

- MG sticks with WCB interest
- Wet brings lower feed grain costs
- Milk production flat in southern states
- Fonterra ups NZ payout; drought looms
- Release of EU dairy reforms

Indicators	
Dairy export index	Index stronger with weaker dollar
World dairy prices	Prices steady
Australian cull cow prices in the US	Recovery continues as US supply falls
Grain futures	Sharp lift in US wheat and local feed prices

Harvey, Fonterra take up WA supply

Surplus milk finds buyers as ex-Challenge suppliers sign new contracts.

WA's Harvey Fresh and Fonterra have moved to take up extra milk, after farmers supplying the Challenge Dairy Co-operative had to find new purchasers for their product. Harvey Fresh moved quickly to offer contracts to a number of Challenge suppliers, and Fonterra has now advised that it will offer contracts to all remaining dairy farmers that have yet to sign new contracts with Harvey Fresh or National Foods.

Fonterra increases NZ milk payout

Strong global prices help boost Fonterra's milk payout ahead of NZ weather woes.



Fonterra announced an increase in its forecast Milk Price for the 2010/11 season from \$6.60 to \$6.90 per kilogram of milksolids (kgMS). The forecast Distributable Profit range for the 2011 financial year is unchanged at 40-50 cents per share, as is the target dividend range of 25-35 cents per share. As a consequence, Fonterra now forecasts that a 100 per cent share backed farmer will earn, on average, the equivalent of \$7.30-\$7.40 before retentions, comprising Milk Price (per kgMS production) plus Distributable Profit (per share held). Fonterra has held its forecast Distributable Profit range for the financial year ended 31 July 2011 at \$550-\$690 million, which would equate to 40-50 cents per share. The forecast target dividend range is unchanged, at 25-35 cents per share.

Fonterra's Board of Directors also announced that the estimated **Fair Value Share price** for the next season in 2011/12 is \$4.52, which is the same as the current season's price. CEO Andrew Ferrier said that Fonterra was reviewing the potential impact of the recent dry conditions around New Zealand on anticipated production levels, and would update the Board in due course.

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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.

Prices steady.

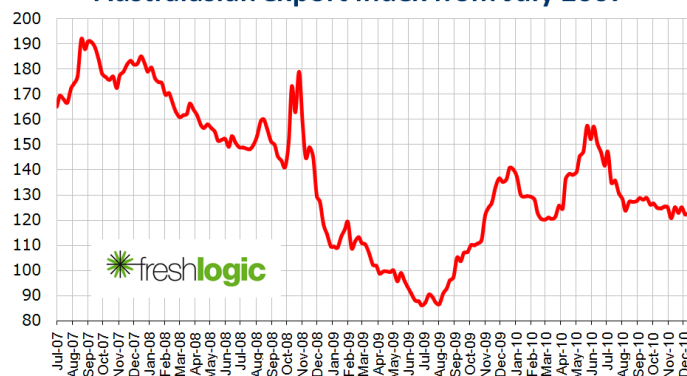
All spot prices were steady this week ahead of another round of Fonterra's on-line auction. The index of export returns was lifted by a weaker \$A this week, with the dollar down to US98.5c. The index climbed back to **123.1**.

US export potential grows as butter prices crash

US dairy export interest has improved on sharply plummeted butter prices which crashed last week, according to the USDA. It says some manufacturers are looking at increasing butter and butterfat exports, particularly during the year-end holiday season. Export volumes from the US are already well up on the past year – for the YTD end of October, cheese is ahead 64%, butter ahead 77% and SMP is up 32%. Butter makers report further interest from various locations worldwide seeking butter/butterfat supplies, given the shortages from other exporters. Last week butter prices fell to below US\$3,600/tonne after a slowing in domestic orders. Cheese prices fell harder and are closer to \$3,050/tonne on CME trades which will be spooking local exporters.



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.

NZ drought fears

NZ milk supply will be affected by another drought on the North Island.

Agriculture Minister David Carter has declared all areas north of the Auckland Harbour bridge a medium-level drought zone, triggering relief measures for farmers, including funding for Rural Support Trusts, welfare support and farm management advice. "The situation in Northland is serious," Carter said. "Farmers are still recovering from last summer's drought and they're now facing it all over again, weeks earlier than expected."

A wet summer would not change the severity of the situation as Northland had experienced its driest spring on record, he said. Carter urged those farmers who were finding the situation tough to seek advice. "Across the country, it's shaping up to be a long summer and there is every likelihood other areas will soon find themselves in the same situation as Northland." It is widely expected that other parts of the North Island including the dairy-intensive Waikato would be declared soon. The feared slowing in milk supply could start to show up in commodity prices as soon as this week.

Release of EU dairy reforms

EU Commission outlines reforms to rebalance power in the dairy industry.

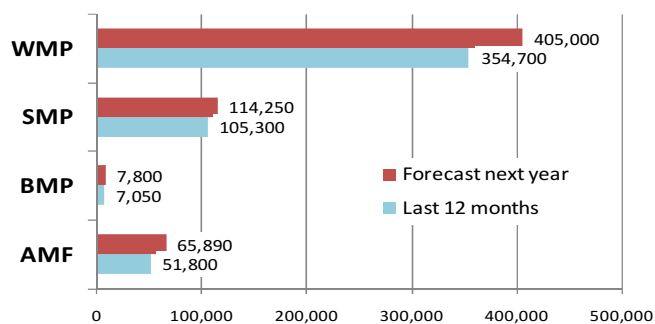
The European Commission has formally released its well-leaked package of reforms which have the main feature of **giving milk producers more scope to work together on price negotiations**, but as expected has stopped short of proposing an obligatory framework for EU milk contracts. The dairy reform paper was agreed by the college of Commissioners on December 9, culminating the work of the High Level Group (HLG) and Council.

The dairy reform package is also geared towards preparing EU dairy farmers for the phase-out of production quotas. These measures would only apply until June 2020. The plans adopted by the Commission are almost unchanged from the leaked versions seen in October.

Collective bargaining is permitted in cases where producers individually or collectively account for no more than 1.5% of EU milk production, or 33% of national production (these numbers were 3.5% and 75% in drafts). The proposals leave the door open for member states to make contract frameworks compulsory at national level if they wish to. These contracts should be drawn up in advance for deliveries of raw milk by a farmer to a dairy, and should include key aspects of price, timing, delivery volumes, and duration of the agreement, the report stipulates.

Simultaneously, the Commission launched a paper which floats the concept of **compensating dairy farmers for voluntarily reducing their milk deliveries** in times of oversupply. The "disturbance clause" would be used to avert crises arising from the removal of quotas in 2015.

GDT on-line auction volumes



Trade deal boost for US-Korea trade

Long-awaited trade deal finally culminates in success.

The United States and South Korea have agreed on changes in a long-pending Free Trade Agreement (FTA) that would phase out Korea's tariffs on US products, increasing sales by up to US\$380 million a year. The FTA would be "the most significant" for the industry since the agreement with Mexico, said *National Milk Producers Federation NMPF* president Jerry Kozak. The agreement would end tariffs on feed-grade whey and 16 000 tonnes of cheese, milk powder, food-grade whey and other milk products, said the IDFA. The *US Dairy Export Council* (USDEC) has urged the government to move quickly for fear that US export opportunities would be eroded through Korean FTA talks with the European Union, New Zealand and Australia.

New Holland BOOMER T1000 Compact Tractors - If your "little piece of heaven" comes with a long to-do list, a Boomer 1000 is for you. The Boomer 1020, 1025 and 1030 handle chores that ordinary lawn and garden tractors can't! You get two power take-off's (PTO) and linkage as standard equipment. The 2,200 RPM mid mount PTO powers the 60 inch mid mount, side discharge mower deck. The rear 540 RPM PTO and the 715Kg 3 point hitch capacity allows you use implements like slashers and rotary hoes. With separate steering and hydraulic pumps, there is plenty of hydraulic power to allow the fitment of a level lift loader to move materials such as gravel, and dirt, without compromising safety and productivity. The 1025 and 1030 models come with the Sensitrac™ option that allows four wheel drive automatically when extra traction is needed.

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