

DAIRY REPORTER

Weekly Dairy News for Members of DFMC



14 June 2011

NatFoods loses its NSW PL sales

Woolworths wants more milk from Parmalat and less from NatFoods.

Woolworths has announced the outcome of its Private Label drinking milk tender process. Parmalat and Murray Goulburn are winners from this process in terms of expanded contract volumes. Parmalat which has won the rights to supply NSW stores of the retailer, while MG has won business in Northern Victoria.

The key results of the tender were:

National Foods will continue to supply Woolworths Private Label milk in Victoria, South Australia, Western Australia, and the Northern Territory.

Parmalat will now supply stores in NSW, formerly supplied by NatFoods.

Murray Goulburn will supply stores in northern Victoria together with its existing stores in southern New South Wales.

Parmalat will continue to supply Queensland stores under a supply agreement that was entered into last year. Woolworths added that the price paid is fixed for the duration of the contract and the length of each contract differs between suppliers. The new arrangements reflect the continuation of last year's approach taken by Woolworths to broaden its Private Label milk supply base from one national supplier.

Milk flows up slightly in April

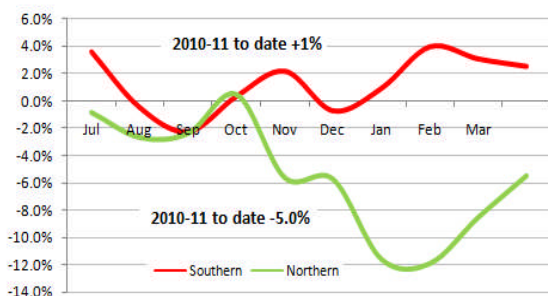
YTD national milk flows edge higher on stronger output in the south.

Australian milk production in April and for the 10 months in the production season to date was 0.8% higher than the prior year. The expansion in Tasmania continues – the state surged 11% ahead of the prior year comparative, while Western Districts in Victoria was almost 8% up on the comparative.

Victoria as a state was ahead 2.2% in the month, held back by a 4% decline in the north of the state. Queensland continued to slowly recover from the effects of flood, down 11% on the same month last year, but is in line with predictions of QDO as to the speed of recovery.

For the full year, southern export regions are ahead just 1% over last year while northern fresh milk states trail 5% due to the flood impacts.

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



Bega-Tatura milk prices announced

Opening milk price of co-ops in line with forecast of DA's S&O report.

Bega and Tatura have announced an opening milk price for their Victorian suppliers in 2011/12 equivalent to an average of \$4.82/kg milk solids for the 2010/11 year. The company has forecast a full year final price range of \$5.10 to \$5.50/kg milk solids – in line with the Situation & Outlook range announced by Dairy Australia earlier this month. Bega has also announced a central region (Bega Valley) milk price of \$6.18/kg milk solids which equated to about 45cpl gross price (protein and butterfat equivalent).

Headlines

- NatFoods loses Woolies NSW PL sales
- Bega-Tatura milk prices announced
- Large FNQ farm pulls the pin
- EU milk output stalls in drought
- Tesco lifts prices 20% after UK milk war

Indicators	
Dairy export index	Index lifts as dollar falls
World dairy prices	Butter prices stronger
Australian cull cow prices in the US	Market weaker with higher local cow supply
Grain futures	Fall in US wheat; local grain prices steady

Large FNQ farm to exit

Grim outlook in FNQ as its largest dairy farm shuts down.

One of the biggest dairy farms in Queensland is closing down, sure to tighten milk supply in the North Qld region back to local fresh milk requirement. The Springs Dairy at Innot Hot Springs was one of the biggest dairies in the state, until in recent weeks the dairy, run by partners Terry Tranter and Nicholas Reynolds, started selling off its 1000-strong herd, which it will clear by the end of the year. Tranter said his operation was geared to produce 7 million litres of milk but in the past 24 months, the allocation had been slashed to 4.4 million litres for the higher value tier one milk with a further 7.2 per cent reduction next year.

Metcash grows earnings

Grocer books improved profit in a challenging retail climate.

Independent grocery distributor and retailer Metcash delivered a 6.1 per cent rise in full-year net profit after tax to \$241.4 million, while EBITDA was up 9%. Metcash grocery distribution business reported sales of \$7.56 billion with earnings before interest, tax and amortisation increased by 4.4 per cent to \$361.8m. Metcash claimed sales on a comparable store basis rose 4.5%. Margins in that business stalled however as the group came under stronger price pressure from its larger competitors. Metcash warned that the outlook for the grocery market remained tough - consumer sentiment is weak and customers have become more cost and value-conscious.

MAF "still looking"

A clean slate in setting milk prices still pending for Fonterra.

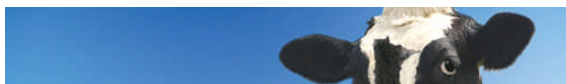
The Ministry of Agriculture and Forestry told a parliamentary inquiry that it has found no evidence of anti-competitive behaviour by Fonterra but is still examining the way the dairy giant sets milk prices. MPs on Parliament's commerce select committee are still considering whether to launch an inquiry into milk prices.

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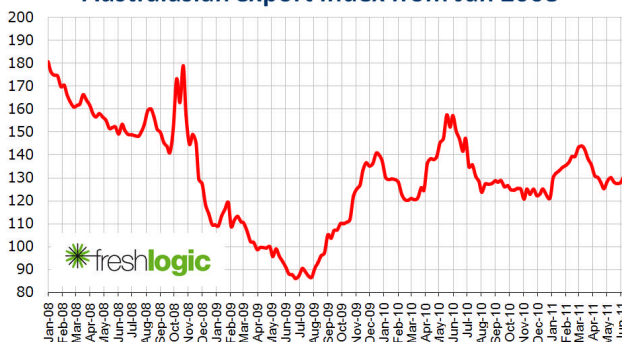


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Australasian export index from Jan 2008



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.

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.

Butter positive, dollar slumps. Spot prices were steady this week with the exception of butter which moved up in NZ quotes for the first time since February this year. The \$A fell sharply at the end of the week, losing almost US2cents over last week's close, to finish at **\$US1.053**. The index of export returns improved to **130.55**.

Russia's import hunger grows quickly. Russia imported 176,000 tonnes of dairy products in the 4 months to April 2011, up 21% over the same period in 2010. Cheese imports are the big driver – lifting 24% to 103,000 tonnes while butter imports jumped 68% to 34,000t.

Brazil's net imports are growing rapidly. While milk production growth has stalled in Brazil (it booked a fall in April of 2% compared with the same time last year), rising domestic demand is quickly increasing the country's dependence on imports. The milk equivalent imports for the first 4 months of the year was 405 million litres, well on the way to exceeding the net imports for all of 2010 which reached almost 500 million litres. Local analysts tip Brazil's import requirement is likely to hit a billion litres in 2011.

FAO's outlook for 2011

Brighter outlook in 2011 as milk flows set to surge in developing nations.

FAO sees global milk output rising by almost 14 million tonnes this year to 723.8mt, with developing countries accounting for much of the increase, in particular Argentina, Brazil, China and India.

Asia, which accounts for 36% of the world's output, is expected to produce 265 billion litres of milk, up 3.4% year-on-year. Indian milk flows are set to increase by 5mt to 119.4bl while neighbouring Pakistan will expand by just 400 million litres to 32bl, a partial recovery from the heavy losses stemming from the 2010 floods. FAO says China will expand of 5% from the 2010 level. FAO anticipates a second year of below-average output in drought-affected Russia, with production falling 2% to 31bl.

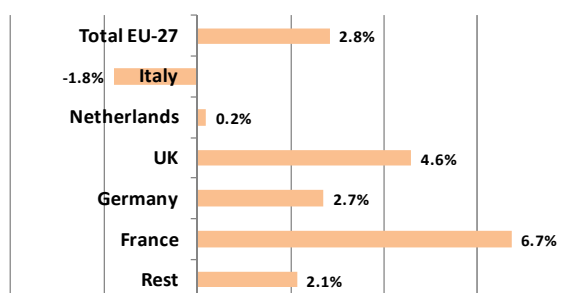
EU milk output stalls in drought

Slowing expansion in milk output for drought-stricken EU dairy industry.

EU milk production for the first 4 months of 2011 was estimated to be 2.8% higher than the same period in 2010, prior to the effects of drought on pastures and bought-in feed supplies.

France had one of the fastest growing milk production totals up to the end of April but growth is reported to have slowed dramatically and may go into reverse in June, with the 2011 production peak occurring 3 weeks earlier. The UK posted growth in May of 0.2% with mainland production lower than the prior year, after the UK posted 4.6% growth in the first 4 months. Germany's weekly production is now reported to tracking about 2.3% below last year.

Changes in EU milk output in 2011



USDA sees output down over rest of 2011

Strong demand to push prices ahead for agricultural commodities.

The USDA has again nudged its 2011 milk production forecasts higher, reflecting increasing cow numbers, offset somewhat by slower growth in milk per cow. Total 2011 production was increased slightly to push the latest estimate to 1.4% above 2010 output; suggesting production will decline in the rest of the year given the strong start so far.

Feed costs will be a limiting factor. While the US corn harvest is still expected to be a record high 13.2 billion bushels, strong global demand will further tighten available supplies, pushing prices higher. The projected 2011/12 U.S. season-average farm price for corn is a record \$6.00-\$7.00/bushel, up 50¢ on both ends of the range.

USDA forecasts for the US industry

The latest USDA outlook for the US in 2011 and 2012:

	2011	v 2010	2012
Milk production (bn litres)	88.9	+1.4%	90.2
Average milk price (US cpl)	43.7	+21.8%	40.1
W'sale cheddar price (\$/t)	\$3905	+16.6%	\$3760

Tesco lifts milk prices by nearly 20%

Tesco gives suppliers a sliver of a retail price rise post price-war.

UK supermarket Tesco has signalled an easing in the milk price wars in the UK and raised the price of its four-pint (2.27 litres) own-brand milk by 19% to £1.49 on May 31, from £1.25. Tesco said that it was "proud to pay dairy farmers the highest price since the launch of the Tesco Sustainable Dairy Group four years ago". Dedicated producers received a small portion of the increase - an extra 1.6ppl (of 24ppl), bringing the current price to 29.78ppl. Tesco's milk is still cheaper than the price a year ago.

UK co-op Milk Link does better

Profits soar for 1,600 farmer members as co-op defies tough conditions.

UK farmer-owned company Milk Link reported profit before tax of £15.1 million, 42% higher than the previous 12 month period, on a turnover of £586 million, which represented growth of 6.5% (£36 million). The annual volume of milk handled by the company grew to over 1.5 billion litres from 1.44 billion litres in the 2009/10 financial year.



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