

DAIRY REPORTER

Weekly Dairy News for Members of DFMC



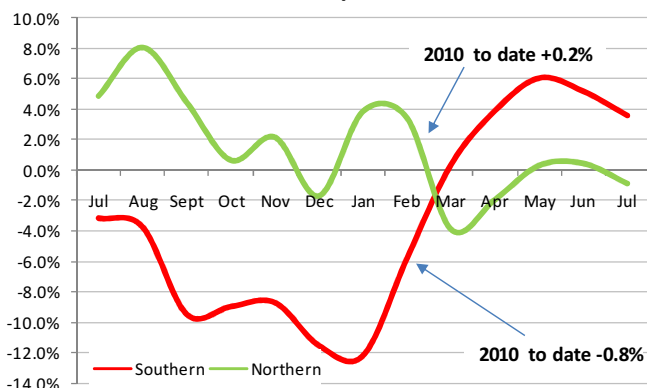
14 Sept 2010

Milk output up 3.2% in July

Milk flow slows in the south, as NSW dips.

July data from Dairy Australia showed national milk production was up by 3.2% in July, but milk supply expansion compared with the prior year has slowed. Growth in southern regions was ahead 3.6% on July 2009, while Qld and NSW supply shrank almost 1% in total, with NSW down 2.1% and Qld up 1.5%. All three Victorian regions were up on July 2009.

Australian milk production - changes in southern v northern output in 2009/10



Highlights: DA's Sept S&O update

DA sticks with price and production forecasts.

Dairy Australia's S&O update reports that national milk production is tipped to increase 1 to 2% in 2010/11, with the final result dependent on movements in milk and grain prices. Dairy Australia's forecast for the full year farmgate price for southern Australia remains in the range \$5.00 to \$5.40 per kg MS. Nevertheless, ongoing economic concerns continue to cause uncertainty in both dairy and currency markets which will affect the final return to dairy farmers.

Farmer confidence - surveyed in August - was higher than in February, reflecting improvements in price and seasonal conditions in southern Australia. However, significant regional differences have emerged in response to more negative price signals in NSW, Queensland and Western Australia.

Fonterra pushes ahead in Tasmania

Fonterra puts greater faith into Tassie.

Fonterra's \$127 million three-year capital works programme in Australia has rolled forward another stage with a big increase in production capacity for cheese and dairy ingredients in Tasmania. The New Zealand dairy giant says it has finished \$14.6m four-stage project at its manufacturing sites at Spreyton and Wynard, which would result in a significant lift in exports from Tasmania.

The projects included expanding cheese production capacity and building a co-generation plant at Wynard and expanding lactose powder production capacity at Spreyton. The co-generation plant would enable the Wynard site to use natural gas to generate its own electricity, helping the plant become more self-sufficient and taking the pressure off Tasmania's electricity distribution infrastructure. Other stages of the big capital works programme include a water saving project at Fonterra's Dennington plant in Victoria, changes to the Victoria Echuca yoghurt plant.

Headlines

- Southern milk growth slows
- Fonterra adds capacity in Tasmania
- Damage, minimal milk loss in NZ quake
- EU milk output just ahead in 2010
- Small volume of SMP into intervention

Indicators	
Dairy export index	Index pruned with a small lift in \$A
World dairy prices	Powder spot prices on the rise yet again
Australian cull cow prices in the US	Prices lower in \$A with rise in the \$A's value
Grain futures	Decrease in wheat prices, local grains up

Woolworths pushes out 2015 format

Woolworths goes for a facelift to woo fresh food consumers.

Woolworths pushes out the 2015 format that is aimed at countering the initial success of Coles' "refresh" stores. The new stores illustrate the huge effort supermarkets put into designing shops that subtly encourage customers to spend more money. The "2015" format replaces Woolworths' "2010" format and will be gradually rolled out in more than 500 new and existing stores over the next four or five years. The format is aimed at countering the early success of Coles' refurbishment program and reinforcing Woolworths' positioning as the "fresh food" people.

Babidge to run A2 Corp

A2 to ride on Babidge's experience as it eyes inroads into new markets.

The producer of A2 dairy products in New Zealand and Australia, has appointed a long-time dairy executive Geoffrey Babidge as managing director, effective September 1. Babidge will remain an executive director of Freedom Nutritional Products Limited on a transitional part-time basis. A2's CEO, Scott Parnell, accepted a redundancy offer and is leaving the business to pursue other opportunities in the Australian FMCG sector. Parnell said he is prepared to stay to assist Babidge to settle into his new role.



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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.

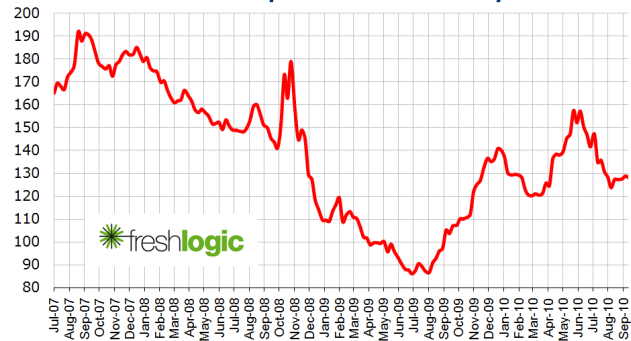
Powder prices remain firm

spot prices for both milk powders rose again by \$US50/t this week, but the gains were offset in \$A terms. The \$A was 1 cent stronger over the week to **US92.64c**. The index lost half a point to be **128.2**.

Small volume of SMP into intervention

The EU has shifted the first volumes of skim milk powder out of intervention since large quantities were bought into EU intervention stores last year, moving just 1,700 tonnes at €2110/t. The September 9 EU dairy management committee again rejected all bids for butter, which were well below market prices. The EU prevailing market price for SMP for food was seen to be at €2240/t, while the feed variety is selling at €2098/t. Some 78,000t of SMP meanwhile remains in EU stores, and will be auctioned along with the remaining butter at the next tender, set for September 23.

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.

Damage but minimal losses from Quake

Quake rocks the cities, but milk flows still keep dairy farms busy.

Up to 400 farms in the Canterbury region of New Zealand were affected by a massive earthquake registering 7.1 on the Richter scale centred near Christchurch on September 4, with 100-150 of them severely damaged in some way, according to NZ's MAF estimates. Meanwhile, *Federated Farmers* has identified upwards of 30 dairy farms with major damage, being a combination of milking, farm infrastructure as well as pastures.

The quake created a 22km fault line through the countryside, pushing up the land by three metres in some spots and leaving huge cracks making paddocks unsuitable for continued grazing. There were also reports of extensive damage to groundwater and irrigation systems.

Canterbury, which accounts for around 12% of New Zealand's milk production, has been one of the fastest-growing dairying regions in the country in recent years but there was no immediate assessment of the impact, if any, on milk production. Although the quake produced extensive power cuts in the region, all dairy farms were reported to have resumed milking by Sunday evening.

Lower US exports ahead, says USDA

Stiff competition and price fluctuation to prune US exports in future.

USDA's Economic Research Service (ERS) expects fiscal 2011 dairy exports (for the year starting 1 October 2010) to fall by US\$200 million, to US\$2.9 billion, due to increased competition from New Zealand and Australia and an expected decline in global dairy prices. ERS is forecasting that the value of US cheese imports in fiscal 2011 will decline US\$100m to US\$900 million. Under these forecasts, the US will run a dairy trade surplus of \$700m in the year to 30 September 2010 and \$500m in the 2011 fiscal year.

New Holland T8000 POWERSHIFT Tractors.

All Models of the T8000 Series meet high standards and continue the tradition of sizing the product for the HP and application demands of the market segment in which they work. With the T8000 New Holland continues to give their customers the most efficient drive line in the market with the Cantilever mounted engine and several front axle choices such as the unique and versatile Super-Steer front axle. All models are approved for B100 biodiesel fuel for those areas that are promoting the alternative fuel markets. Talk to your local New Holland dealer for a brochure and quote on your high horsepower tractor requirements.

Green light for Sodiaal-Entremont merger

Sodiaal's pursuit of Entremont finally culminates in success.

France's competition authority has approved the acquisition of Entremont Alliance by the dairy group Sodiaal. Following the deal, Sodiaal will become the second biggest milk processor in France after Lactalis. The authority said that overlap in the activities of two groups would be limited. The only segment where the new entity will have significant market share is that of raclette cheese sold under distributor brands. Sodiaal must now seek approval from the Belgian and Italian competition authorities due to its presence in these markets. The merged company could record a turnover of €4 billion and collect 4 billion litres of milk a year.

Arla picks new London site

Simple yet effective logistics solutions colour Arla's choice of world's biggest dairy site.

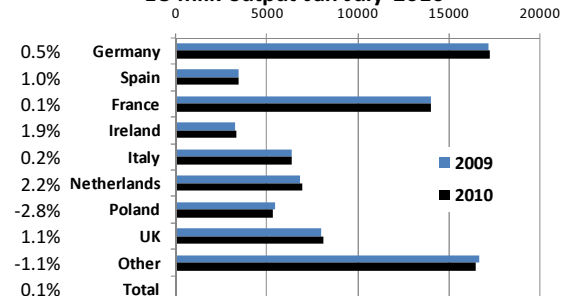
Arla Foods UK has nominated a site about 60km north-west of the centre of London at Aylesbury for what it claims will be the world's largest fresh milk dairy, a site giving the best overall logistics solution considering both raw milk collections from farms and the delivery of finished products to retailers. Arla says the one billion litre liquid milk plant will also be the world's first zero carbon milk processing facility.

EU milk output just ahead in 2010

A bag of assorted results for EU-27 countries.

Milk output for the EU-27 countries in the 7 months to July 2010 was marginally ahead of the volume for the same period in the prior year, but a mixed bag on a country-by-country. Big western producers Germany, France, UK and Netherlands were all ahead to varying extents, but the Polish and other smaller producers trailed.

EU milk output Jan-July 2010



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