

DAIRY REPORTER

Weekly Dairy News for Members of DFMC



15 February 2010

NatFoods books strong boost in profits

Full year results for Kirin have disclosed the performance of National Foods in the first full year after the Dairy Farmers merger.

Financial results reported by Kirin Holdings showed a vastly larger contribution from its Australian operations for the year ended 31 December 2009. NatFoods reported EBIT of \$165m on revenues of \$3.5bn (effectively an EBIT margin of 4.7%). After one-off costs and write-downs associated with the purchase of Dairy Farmers at the end of 2008, the profit shrank to \$75m. While the switch in financial year-ends meant there was no comparative figure for the results, NatFoods said that the group's return on invested capital was up from 1.9% to 4.3%.

Kirin Holdings, the Japan-based diversified food and drink group meanwhile booked a 39% fall in 2009 profits and warned that it would have another decline in earnings in 2010 - albeit less pronounced than that of 2009.

Fonterra steps up again

The latest bout in the "duelling step-ups" war as the NZ co-op pays southern suppliers another healthy increase

Fonterra has announced another step-up for its Victorian and Tasmanian suppliers - a price rise equating to 12c/kg butterfat and 30c/kg of protein. Fonterra's national milk services manager, Heather Stacy, said the price rise reflected global commodity markets, "where despite some recent softening in demand, prices continue to be above the US\$3000 per tonne mark". Stacy said Fonterra's average annual price was now \$4.26 per kg of milk solids, up by around 18 per cent since the start of the season.

Murray Goulburn will revise its WCB bid

MG confirms it will bid again for Warrnambool Cheese

Last week it was mulling, this week there is a little more definition. Murray Goulburn has confirmed it will make another offer to take control of rival Warrnambool Cheese and Butter. MG chairman Grant Davies said the co-operative's bid would be made "in the near future".

S&O update paints cautiously optimistic picture

The February update of the Dairy Australia outlook has been released

Dairy Australia's Situation and Outlook 2010 February Update was released Friday, suggesting a more positive outlook for the industry as milk prices improve, water allocations look their best for 4 years, and lower grain costs help to lift milking margins. While international fertilizer prices are firming, locally there are few limitations on feed supply, with good access to fodder of variable quality, and grain supply, offering flexibility for farmers.

The report paints a good big picture around the industry, with a recovering world economy, growing demand for product, some limits on global milk supply from export competitors, and an exchange rate that seems to be holding within a band. DA also suggests a full year milk price for Victorian manufacturers at around \$4.40/kg milk solids.

The report is available on the Dairy Australia website at :

<http://proddairyaus.nextdigital.com/Our-Dairy-Industry/Dairy-Situation-and-Outlook.aspx>

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Headlines

- NatFoods profit reported by Kirin
- MG will refresh its WCB bid
- Fonterra steps up again
- China: largest grocery market by 2014
- Fonterra: more \$\$ into South Island

Indicators

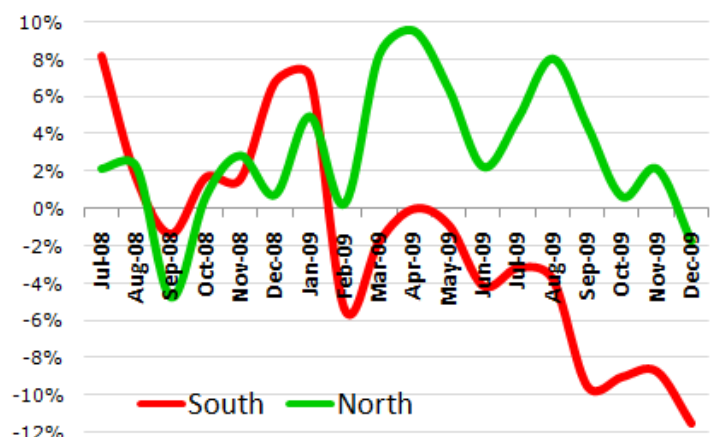
Dairy export index	Down 5 points this week as the \$A rose and spot prices fell
World dairy prices	Further declines across the board of US\$50-100 per tonne
Grain futures	US wheat up 3%: Australian feed steady
US prices for Australian cull cows	Sharp improvement due to US shortages

Australian milk output down 6% in first half of the production year

Australian milk production for the half year to the end of December was more than 6% down on the same time the year before, with southern Australian export production regions down 8.2% for the 6 months. The hot summer conditions took their toll on production in the 2 northern states as well for the month of December, with Queensland up less than 1% and NSW down almost 3%.

Northern Victoria was more than 19% down on the same month in 2008, while the decline in the Gippsland worsened. WA pulled level with the prior year's first half after a strong rebound in the month.

Total southern state and northern state milk production in 2008 and 2009 compared with prior year



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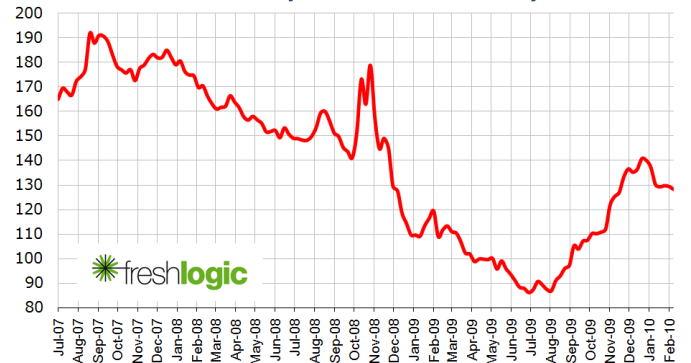


Index down 5 points

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.

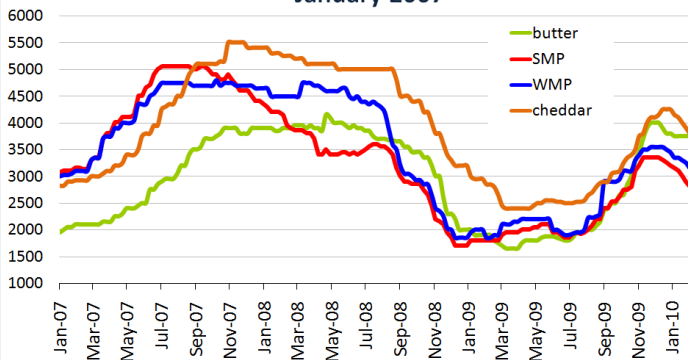
There was a further softening of spot prices by US\$50-100/tonne across the board according last week's quotes. After butter had held its ground for a month, it finally gave up US\$50/tonne, while SMP has now been on the skids for the past 2 months. Better jobs data with the unemployment rate dipping to 5.3% gave the \$A a boost. The \$A finished up 2c at **US88.77c**, slicing 5 points off the index to **122.9**.

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 export quotes in \$US/tonne - weekly since January 2007



Another South Island plant to cater for NZ's future growth

Fonterra looks to deal with the ongoing expansion in NZ's South Island

Fonterra is contemplating building another processing plant in the South Island where milk production has grown by 6-7% annually for the last decade and is projected to keep growing by about 5% a year. Operations boss Gary Romano said the co-operative would most likely be looking for a new South Island site to cope with the extra milk in a few years' time.

Melamine latest: 100t of missing product

Chinese officials are understood to be hunting for nearly 100 tonnes of contaminated milk powder that should have been destroyed in the aftermath of the melamine scandal, but which is still in circulation. Police in Ningxia, northern China, found that a company outside the region gave a local dairy firm around 170t of tainted milk powder left over from the 2008 scandal as debt payment in July last year. Only 72t of powder have been recovered and authorities are tracking down the remainder.

US Government tries to solve long-running spat over "what is organic"

The USDA issues a new rule to cater for large feedlots claiming to be organic

A USDA regulation that clarifies requirements for grazing on organic dairy farms was cleared by the White House after vigorous lobbying by the divided US organic dairy industry. The rule would require that cows get at least 30% of feed intake from pasture, known as "dry matter intake," or DMI, and be allowed outside for pasture during the growing season, which it defines as either 120 days or between the last killing frost of one winter to the first of the next. USDA said its action would increase the cost of production for producers who currently did not pasture their animals and those producers who do not manage their pastures at a sufficient level to provide cows at least 30% of DMI from pasture and over time could increase consumer prices.

China will be the biggest grocery market by 2014

Rapid GDP growth and resistance to the GFC will ensure China catches the US quicker than expected

UK retail consultants IGD predict that China will overtake the US as the world's largest grocery market for the first time by 2014, according to their latest research. According to market research firm IGD, the Chinese grocery market will grow to a value of €761bn, outstripping the US that is set to be worth €745bn in four years' time. The impact of the GFC was far less in the Chinese market than the US – expected to take years to recover its former unit sales values in food retail with the deep adoption of private label offerings of the major grocers. China will also benefit by faster population growth and an economy that will grow at least 3 times faster than the US.

Other BRIC (which includes China as well as Brazil, Russia and India) markets will grow in size with India becoming the 3rd largest food and grocery market in four years' time, while Russia and Brazil rank fifth and sixth respectively. IGD predicts that Indonesia will enter the top ten list for the first time.



Interesting UK contract approach

As contract renewals loom on the horizon, here is something to think about from the UK industry

UK dairy processor Dairy Crest is set to launch its innovative new milk&more fixed price milk contract to suppliers on March 1 following what it deemed a pretty favourable response from suppliers who were earlier asked to register their interest in the approach. The contract is for a two-year fixed term, during which the offer price will be tracked against an agreed 'market price' basket.

A change to the offer price will only be triggered if the 'market price' moves by more than +/- 2 pence per litre. If this is the case, the offer price will be adjusted by the difference above +2ppl or below -2ppl. The offer price for milk&more will deliver a premium of 0.25ppl above the standard liquid price.

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