

DAIRY REPORTER

Weekly Dairy News for Members of DFMC

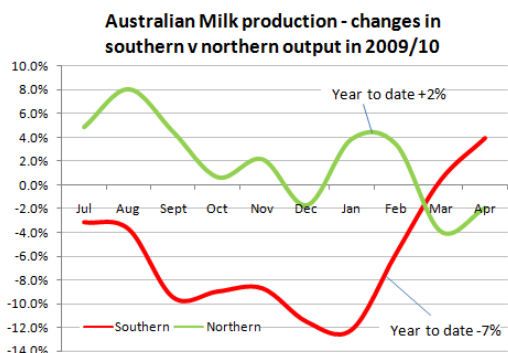


15 June 2010

Milk output builds

Milk flow surges in optimistic South, as a cautious North sustains a dip.

National milk production was up 2.7% in April 2010 but year to date output for the 10 months of the 2009/10 season remained 5.2% down on the prior year, as the southern region continued to bask in good conditions and producers in northern areas of the industry steadied their milk output. Strong increases in Gippsland and Western Victoria showed the effect of a good seasonal break, low bought-in feed and optimism about next season milk prices, but the north of Victoria was still deep in reverse due to early season losses of cow numbers. The message about the cost of over-production seems to be getting across in Qld and NSW which each recorded lower milk output than the same period in 2009. Milk production in NSW for the 10 months to April is now just 1.1% ahead of the same time in 2008/09.



Burra Foods open strongly

Burra makes a strong opening as it looks to bolster milk flows needed for its expansion requirements.

Gippsland manufacturer and exporter Burra Foods has announced an opening milk price of \$4.75/kg milk solids, 30% up on the company's opening price for 2009/10. The payment is comprised of \$2.52/kg fat and \$6.31/kg protein plus incentives. The price announcement coincides with the commissioning of the significant expansion to its Korumburra milk processing plant in June, which includes a new milk powder-drying facility. Burra is on the hunt for new suppliers to fill its expanded capacity.

Consumer sentiment goes downhill...

Consumer sentiment unsettled by global and political issues...

The Westpac-Melbourne Institute index of consumer sentiment has fallen for the second consecutive month by 5.7 per cent to 101.9, recording the largest fall for any two-month period since March 2008. Westpac Banking Corporation senior economist Matthew Hassan attributes this sharp fall in the index to the uncertainty of consumers about the resources tax and the looming EU's debt crisis.

...though retail sales enjoy a different fate

... as retail sales show weakness.

After reflecting a meagre growth of just 0.1 per cent in the March quarter, the retail sector has exhibited a slightly stronger sales growth of 0.6 per cent in April. Access Economics predicts (boldly) that Australia would not be affected by the EU's economic crisis and will enjoy a growth in retail sales by 3.2 per cent over the next financial year. Food retail sales again dipped below the line compared to the same time last year, reflecting the intensity of price competition in the supermarket sector.

Headlines

- Southern milk output 4% up in April
- Burra Foods opens at \$4.75/kgms
- Fonterra auction to run twice monthly
- FAO: global milk output to rise 2%
- US industry pushes for reform

Indicators	
Dairy export index	6pt decrease with a sharp climb in the \$A
World dairy prices	Weakening in powder prices
Australian cull cow prices in the US	Prices fall as US buyers fears weak demand
Grain futures	US wheat futures rise, local prices steadied

Fonterra puts share trading to a June vote

A much-awaited vote on share trading will be held this month.



Fonterra has mailed shareholders voting papers and supporting information on proposals to enable share trading in the cooperative. The proposal includes the following features and thresholds:

- individual shareholdings would be limited to up to 200% of milk production (currently one share per one kg of milk solids), and the number of dry shares an individual could hold is limited to 5 per cent of total shares on issue.
- a 25 per cent threshold would apply to the total number of dry shares not backed by milk production
- creation of a shareholders' fund, through which farmers can access cash to free up invested capital without losing ownership of the shares; the cap on the number of an individual's shares accessing the fund is likely to be 33 per cent (but will be set by the Fonterra Board);
- the number of shares that could be subject to contracts with the shareholders' fund would be limited to 25 per cent of total shares on issue

The public will be able to buy dividend-earning units in the shareholders fund, but would have no voting rights and nor own shares in Fonterra.

Aldi will be first with a footprint label

Despite the carbon emissions issue going off the radar for Government, there's retailer interest in moving the agenda onto the product label.

International supermarket group Aldi, which has entered into an agreement with environmental organisation Planet Ark, will be the first Australian retailer to feature carbon reduction labels on its private label products from late 2010 – olive oil being the first category. This follows the research findings of Planet Art that revealed more than 60 per cent of Australians would prefer to buy a product featuring the carbon reduction label.

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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, powders pull index south.

Powder prices weakened US\$100/tonne while butter was slightly stronger this week. The currency movements however helped pull the index of export returns lower. The index lost more than 6 points to **150.55**, as the \$A closed the week up 2 cents stronger at **US\$85.02c** after an improvement in the outlook for the economy and better news on Chinese economic indicators.

Fonterra's auction to run twice-monthly...

Fonterra will add a second online milk powder auction each month and add new items to the sale, including buttermilk powder. The second monthly sale will start in September. The cooperative will add buttermilk powder starting on August 3 and will offer two new specifications of existing products - high heat/heat stable skim milk powder and anhydrous milk fat in 1,000 kilogram bulk packs, it said.

Since its inception, some 500,000 metric tonnes of product worth US\$ 1.5 billion has been sold on the globalDairyTrade platform. There are now 280 qualified bidders from 56 countries, up from 107 when the auction was set up. Between 100 and 140 active bidders participate in each event, with about 65 per cent of them going on to win product. Wickham said Fonterra expects to sell 530,000 metric tonnes of product through the auction over the next 12 months, or approximately 24 per cent of Fonterra's New Zealand production.

... as it appeals to competitors.

Fonterra says it is making good progress toward having other dairy manufacturers selling on its internet auctions. "We're having some active discussions and have selected a shortlist of who we want to approach," Fonterra global trade managing director Kelvin Wickham said. But he did not expect the rival companies to start selling at the auctions until 2011 or later, because there would need to be a lot of work done on the rules and processes involved.

Saputo's clarifies local interest *Saputo*

Canadian dairy giant cruises on profits, keeps Australia on its radar.

Strong cheese prices and operational efficiencies have helped Saputo boost profits for fiscal year 2010. In its annual results, Saputo has reported net earnings at \$C383 million, up by 37.2 per cent from last year, with EBITDA up 26% on steady consolidated revenues at \$C5.8 billion. The Canadian dairy group sees 2011 to be a "challenging year" and remains determined to attain further growth by acquisitions. Saputo said it remains ready for another acquisition, with the Australia market still of interest.

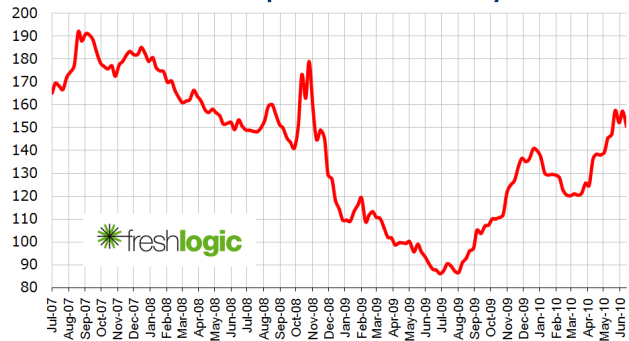
CEO Lino Saputo clarified the fields of interest for the company outside its home market of Canada, limiting interest to cheese. Australia remains on the radar because of the direct influence of the world market on prices, yet he said Argentina is off plan due to the level of government intervention and the unstable mechanisms for milk pricing.

Dairy crest spins off a unit to suppliers

The UK processor continues a trend to flick commodity business to its milk suppliers.

As we foreshadowed recently, Wexford Milk Producers (WMP) co-op will acquire a majority stake of its Irish creamery from Dairy Crest at €9 million, following the approval of this deal by 89 per cent of its 350 farmer members. This acquisition will increase the co-op's shareholding to 70 per cent and enable the co-op to gain a stronger control of the milk processing supply chain, while allowing Dairy Crest to sell Wexford branded cheese in the UK.

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.

China's sustained import demand

Chinese dairy import doubles to meet its insatiable powder demand.

Latest trade data shows that in the first four months of the year, China has sustained its high imports of skimmed milk powder and WMP from established as well as new suppliers. While the volume of its SMP imports almost doubled to more than 35,000t for the period, WMP imports increased from 68130t to 111530t, up by 63 per cent from last year.

FAO: global milk output up by 2% in 2010

Asia's boom to awash world with increased milk flow.

The UN's Food and Agriculture Organisation (FAO) – in its latest Food Outlook report – has forecast that global milk output will rise by almost 2 per cent to 712 million tonnes in 2010. According to the organisation, the Asian milk output could rise to 262mt in 2010, a 4 per cent climb from 2009, with India expected to expand production by about 6 per cent. Chinese milk production could also get a boost by 6 per cent, based on the strengthening consumer confidence and recovery in supply chain integrity from the melamine crisis.

However, FAO predicts stagnation in output for developed countries in the EU and Oceania. It expects drought conditions in Oceania to limit milk output slightly less than the 26mt in 2009/10 marketing year.

US industry pressure for reform

Both major sectors of the industry want change...but does the government have the will

The US dairy industry has been calling for a change in the way the industry is regulated (and supported through sharp cycles in prices) but little progress has been made since the current Government took up the issue. There were calls for major changes in dairy policy this week by key players in the industry, as the pressure for reform to the archaic existing policies and programs builds. NMPF announced that its board of directors has adopted a multi-faceted proposal – referred to as the "Foundation for the Future" plan. The plan would change from the existing safety nets of support prices into a Dairy Producer Margin Protection Program to guard against periods of severe financial pressures and would establish a Dairy Market Stabilization Program to help address periodic imbalances in production and demand and reform the market order program.

The processor lobby International Dairy Foods Association (IDFA) supported the call for a margin insurance program but did not back the Dairy Market Stabilization Program. IDFA argues that the supply management requirement of that proposed approach would decrease demand for dairy products and dairy ingredients, and drive low-cost non-dairy substitutions in foods and food service use across the country.

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