

DAIRY REPORTER

Weekly Dairy News for Members of DFMC



16 March 2010

MG lifts its stake above 8% in WCB, as WCB says “no,” yet again

Murray Goulburn continues the trend of buying WCB shares, as WCB continues rejection.

According to a filing with the Australian stock exchange on 11 March, MG, which had two takeover approaches rejected by the WCB board, has grown its stake in the group from 7% to 8.37% of shares. It has bought 546,722 WCB shares on-market between 3 March and 11 March for A\$4.50 a share. The price is 15 cents higher than the value of Murray Goulburn's second offer, which WCB rebuffed on 19 February.

WCB has claimed that the latest offer does not reflect the company's value due to its “unique geographic location” and “strategic position in the Australian dairy industry.” It further continues to reject repeated takeover offers by MG. Justifying its actions, the company said, “We believe the interests of WCB's suppliers and shareholders are absolutely aligned: the key to the long term health of WCB is milk supply and it is therefore in the interest of all shareholders that WCB has a good relationship with its suppliers.” It further added it is in a very strong position to grow in the future, and had historically outperformed MG across a range of financial metrics.



MG: bigger is better

Expanding Devondale is the key to MG's competitiveness, says its CEO.

MG believes that it needs to expand in order to be competitive. Devondale, its retail brand has played a significant role in the dairy giant's \$700 million domestic retail and food services business, and according to MG's managing director Stephen O'Rourke, it provides the co-operative with an immediate opportunity to improve its return, by expanding the brand internationally and offering a larger range of products.

Energy savings for milk producers

Farmers can make big savings and benchmark their energy use.

The Department of Environment and Climate Change has offered up to \$5000 in 50 per cent subsidies for upgrading energy equipment on farms, helping producers to reduce their energy use by up to 75pc. Until now, more than 70 farms between Gloucester and the Hastings region have undergone energy audits, with consultants working on properties between Port Macquarie and the Queensland border.

Dairy consultant Nick Bullock and Associates and spokesman Chris Harding said that this intended to make farmers focus on their energy use and the tariffs they were charged with.

Funding is available to farms with an energy use of up to \$20,000 for projects with a payback period of greater than two years. The offer lasts until June next year and farmers have to register with DECC to have the audit completed.

Grain stocks in US at a 22-year high

Reports indicate a grim story for US grain.

The US Department of Agriculture reports that America's wheat stocks will end the 2009-10 crop year at 1.001bn bushels, adding 20m bushels to its forecast for the first time since the 1980s. “High flour extraction rates for a second straight year are reducing the amount of grain needed to produce flour,” the department said in its monthly global crop supply and demand report, a key feature of the commodities calendar.

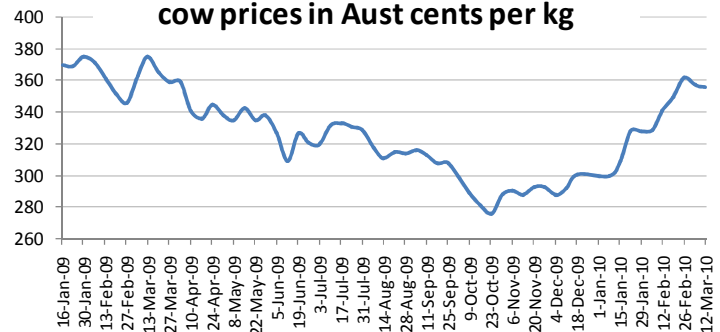
Headlines

- WCB justifies its “no” to MG
- Is this the autumn break?
- Fonterra's intake up by 2% in NZ
- Glanbia sells business to its farmers
- NZX to start derivatives trade

Indicators

Dairy export index	Up about half a point this week
World dairy prices	Small increases for powders, butter
Australian cull cow prices in the US	Prices remaining firm due to shortages in US product
Grain futures	US and Australian futures prices remaining steady

Recovery in prices starts 2010 - US 90CL cow prices in Aust cents per kg



An early autumn break

Farmers rejoice, while experts warn.

According to various farm leaders, recent rains provided the earliest autumn break in decades across Southeast Australia. The heavy rain that fell in almost every part of Victoria and the Riverina at the weekend has surged the confidence in livestock markets, helping to push cattle prices up to an 18-month high. However, the Bureau of Meteorology forecaster Blake said the break was “not a certainty whatsoever” and “to say it's the autumn break is a bit ambitious.” Similarly, National Climate Centre climatologist Blair Trewin stated that although the February rain had ended the short-term drought, far more was needed to reverse the trend of the past 13 years. “Rainfall in the past year has generally been normal which has prevented the long term deficit from getting any worse,” he said.

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Index better as prices rise

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 slowly going up, but so does the dollar.

Again there were small improvements in spot prices – this time for butter and skim milk powders – as the market continued to show stability. But again the \$A value of the apparent export return was weakened by the ongoing firmness in the \$A, which this week was again stronger at **US91.6c**, lowering the export index to **120.5**.

NZX to start a derivatives trade.

The New Zealand Stock Exchange (NZX) has announced it will begin trading in whole milk powder (WMP) futures in June, followed by skim milk powder (SMP) and anhydrous milkfat futures in September. In addition, it plans to launch a dairy futures options next year and with the Fonterra co-op believes trading in dairy derivatives as its hottest property and likely to attract investors to trade in other NZX derivative products.

In a briefing on March 9, the head of traded products Fiona Mackenzie outlined a new NZX strategy under which the company expects 50% of its future revenues to come from fees on clearing and settlement services and high margins obtainable from derivatives trading. She said that it would be a “fundamental change” to NZX business, which is currently rooted in its traditional equities trade and lower-value data revenues and added that derivatives were “high margin products” which “drive connectivity decisions thus increasing value of NZX products.”

Fonterra milk up 2%

Fonterra will grow ... thanks to the South Island.

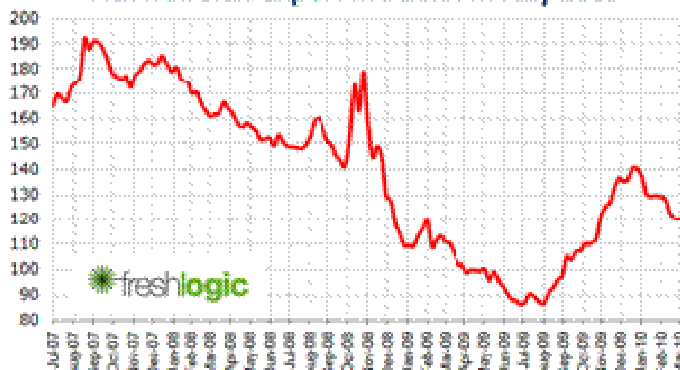
Fonterra stated that with the end of the 2009-10 season drawing close, South Island milk production was 9 per cent up on last season, while the North Island was 1 per cent behind. According to Fonterra general manager, milk supply, Tim Deane, “Fonterra suppliers' national milk production is currently around 2 per cent ahead of last year's 1.3 billion litres.” He further added that although in Fonterra's biggest milk catchment area, Taupo to south Auckland including Waikato, milk production reduced due to lack of rain and is currently half a per cent behind the same time last year, its production in South Island boomed as land use conversions in Canterbury and Southland kicked into serious production, and new conversions started milking.

Rabobank: let's see how strong the rally is

A word of caution from Rabobank about the upcoming spring test

Fonterra has warned about an “element of uncertainty” in dairy markets after prices for far-ahead milk powder futures fell below those of near-term lots and the US Department of Agriculture has cut its forecast for domestic milk prices by roughly 4% to \$15.55-16.15 per hundredweight, noting “weaker than-expected international demand” till date this year for many dairy products. In response, Rabobank has cautioned that the mettle of the global dairy rally is about to be put to the test, as the northern hemisphere spring brings a jump in milk production.

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.

Farmer-owned companies in the world...

Glanbia considers selling Irish operations to its farmers....

Glanbia announced its intentions of selling off its Dairy Ireland operations and other businesses to its majority shareholder, the farmer-owned Glanbia Co-operative Society Ltd. It stated that the Society is interested in acquiring Glanbia Dairy Ireland including all its dairy ingredients, consumer products, and agribusiness operations and a deal include Glanbia's property business, its business services unit and related Irish joint ventures.

Expanding on the discussions and potential benefits, Glanbia said, “The discussions are underpinned by a clear strategic rationale and represent a unique opportunity to transform Glanbia.” It further added, “For Glanbia, it would, in particular, increase the Group's focus on international nutritional ingredients and cheese, significantly improve financial flexibility and enhances development of its successful growth strategy.”

...meanwhile Arla rules out outside investors .

Following a re-think by the cooperative's management after an 18-month long analysis into the option, Arla Foods has decided to rule out external investors based on an unanimous support for the status quo from a shareholders' meeting; a decision which means co-op and its Danish and Swedish dairy farmer owners must come up with an additional Dkr600 million (€80.6m) or so annually to keep the parent company profitable. Arla chief executive Ove Møberg said, “The more we confined the possibilities for forming a public limited company, the clearer it became that there would be a serious conflict between the two groups of owners [i.e. the farmers' cooperative and the foreign investors].”

Brazil places sanctions on US

US rethinks trade policy as Brazil curfews its dairy products.

Brazil announced the imposition of its trade sanctions on US dairy products, as retaliation for the US's failure to eliminate billions in illegal cotton subsidies. The Tariff hikes include a near doubling of duties (to 48%) on milk and cream (in solid forms) and a similar increase for whey, and comes after the World Trade Organisation authorized Brazil last year to impose a massive US\$829.3 million in annual penalties against the US economic interests for years of anti-competitive subsidies paid to American cotton growers. Sources reveal the tariff retaliation could spur the US to rethink its trade policy as well as to prioritise conclusion of the WTO's Doha Round.

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