

DAIRY REPORTER



Weekly Dairy News for Members of DFMC

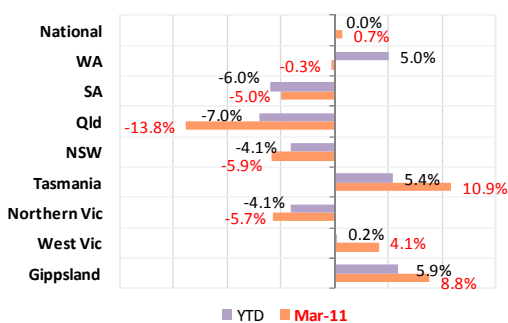
17 May 2011

Milk production update

National YTD milk production on par with previous season's output

Dairy Australia has reported that milk production in March 2011 was up by 0.7% on the same month last year, which brought year-to-date production into line with the same 9 months of the prior year. While Queensland again posted the largest decline due to flood impacts at 13.8%, Tasmania posted the largest gain at 10.9% for the month. In Victoria, Gippsland and Western Victoria lifted their milk production at 8.8% and 4.1% respectively, while Northern Victoria's output fell by 5.7%.

Australian milk output - March 2011 v YTD



Milk discounting hits NatFoods

Price war slashed fresh milk returns to wipe off profits of NatFoods

Kirin reported that National Foods had a revenue loss of 11% to \$788.3 million for the quarter ended 31 December 2010. Fresh milk sales were down 11%. Chief executive Rob Murray said that rising interest rates and power costs, increased savings and ongoing economic uncertainty had reduced consumer spending in Australia and New Zealand. The business's margins were also pressurised by the deep discounting by supermarkets on private-label fresh milk reducing returns across the supply chain, Murray revealed.

Dairy farmers need floor price: Senator

Senator breaks ranks with fellow committee members to suggest a radical overhaul of years of agricultural policy

While the Senate Committee's adopted a wait-and-see approach and recommended that it would not draw any formal conclusions until it had further evidence, a series of non-government senators have made their own recommendations which suggests overturning years of agricultural policy. South Australian Independent senator Nick Xenophon – backed by the Greens' Christine Milne, the Nationals' John Williams and the Liberal Party's Bill Heffernan - dissented with fellow committee members examining the supermarket milk war and called for a minimum farmgate price to be introduced immediately, which he claims will protect farmers "given the disparity of the bargaining powers between the dairy farmers and processors on the one hand, and the major supermarket chains on the other". Xenophon also slammed the competition regulator ACCC for not doing more to help farmers.

His approach has made headlines and drawn much attention for the Senator, as intended. It is *not* backed by Labor senators, and also drew criticism from participating Liberal senator Scott Ryan who stated that the "competition policy wasn't designed to protect certain players at the expense of consumers and to do so would be a retrograde step". WA dairy farmers, among others, are also wary over calls for regulated milk prices, as it could distort a free market, and have instead urged the Federal Government to act over supermarkets' "abuse" of market power

Headlines

- Senators bids controls on milk
- Dairy S&O 2011 highlights
- Fonterra offers higher opening price
- US milk wants place in online auction
- EMB sends tractors to Brussels

Indicators

Dairy export index	Index climbs as dollar weakens
World dairy prices	Powder prices fall, cheddar strengthens
Australian cull cow prices in the US	Market weaker
Grain futures	Sharp rise in wheat prices on strong demand

Dairy S&O 2011 highlights

Dairy Situation & Outlook shows a brighter 2011/12 for dairy producers

Some key points covered in this year's analysis include:

- The international market outlook remains fairly positive with strong demand
- The forecast opening farmgate price for southern regions is \$4.60 to \$4.90 per kg MS up from \$4.30 to \$4.60 per kg MS in 2010. This implies a full year average price range between \$5.10 and \$5.40 per kg MS, which is similar to the current season.
- In contrast, increasing pressure on domestic profit margins and reduced requirements for milk from some processors could reduce new contract prices for farmers in northern New South Wales, Queensland, and Western Australia.
- Milk production is forecast to increase by 1-2% in 2011/12, based on herd growth intentions, the likely positive margins for southern producers over feed costs, and generally favourable seasonal conditions
- Southern regions should post the strongest growth, while some contraction can be expected in the northern regions in response to differential milk prices available

Fonterra offers higher opening price

3rd highest opening price books good times for southern states

Fonterra has announced its opening 2011/12 milk prices in Victoria and Tasmania at \$4.65 per kilogram (kg) of milk solids, marking the third highest opening price it has ever delivered. Fonterra will implement a further milk price increase to eligible suppliers for milk supplied in the 2010/11 season of 8 cents per kg of fat and 20 cents per kg of protein. Fonterra's average annual price is now around \$5.45 per kg of milk solids.

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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.

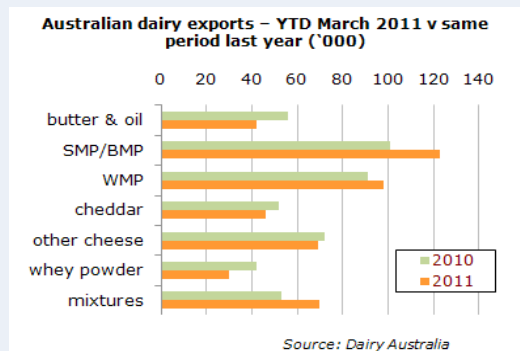
Cheddar stronger, dollar weaker.

The index of Australia export returns posted another gain this week as the \$A lost value against the \$US. Spot prices for cheddar lifted and butter stayed firm, while powders fell this week. The \$A closed at **\$US1.056**. The index of exports hiked 2 points to **130.2**.

NZX Dairy Futures at record levels. NZX reports that record volumes were traded on the NZX Dairy Futures market in last week's auction at 115 lots out of the total 638 lots traded since the market was launched last year. WMP still has the majority of trades, while interest in SMP and AMF continues to build.

Record WMP volumes at online auction. A new record of 7,000t of WMP is set to go on offer at the upcoming Fonterra's globalDairyTrade this month, with prices starting at NZ\$3,315/t for regular WMP, \$3,365/t for instant, and \$3390/t for UHT powder. The quoted prices are for deliveries between August and October. The next auction will also enable buyers to bid for 300t each of milk protein concentrate (MPC) and rennet casein for the first time. Cheddar deals will go online from July 19, 2011.

US milk may sell at GDT auction. California Dairies says it intends to sell skim milk powder online through gDT auction by September. It produces about 9% of milk in the United States. The *agrimoney.com* website says California Dairies wants to use Fonterra's platform to become a major dairy exporter. Fonterra says no other companies have yet signed to join to the auction system and it expects it to be some months before they do.



Fonterra headed for record milk output

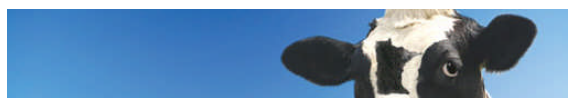
A lift of 3% expected for the current full year

Fonterra is headed for a new production record high of more than 1.3 billion kilograms of milksolids. The volume of daily milk collections is more than twice that being taken off farms at the same time last year, when drought conditions existed in many areas. Fonterra chairman Henry van der Heyden stated that the rise in production by the end of the season on May 31 could be in the region of 3%, which will take it well over the 2009/10 season's record 1.286bn kg of milksolids.

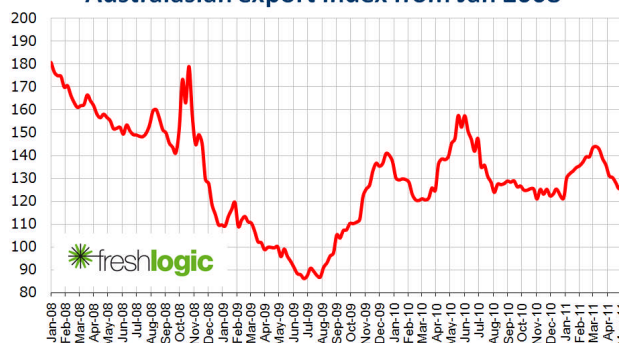
Banks predict payout drop

Surging \$NZ could cost dairy farmers dearly in the next season

Fonterra may cut next season's farmer payout by about 13 per cent as New Zealand's currency strengthens, ASB Bank and BNZ have said. The company may pay its 10,500 farmer shareholders \$7 per kg of milk solids in the year ending May 31, 2012, according to ASB rural economist, James Shortall. In a separate interview, BNZ market economist Doug Steel forecasts that it may as low as \$6 per kg. "The potential of the New Zealand dollar trading around 80c and even going higher later on this year, we think that's going to impact on payout," Shortall said. "On currency effects alone, you would expect the best part of \$1 to be lopped off," Steel said.



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.

EMB sends tractors to Brussels

Drama in Brussels as EU dairy farmers voice their demands on streets

Ahead of an important vote later this month on how to regulate the milk market in a post-quota world, the European Milk Board organised a demonstration which saw farmers across Europe on the streets of Brussels, to highlight the "pressing problems" in the dairy sector. EMB milk producers have stated that the current draft of the report on contractual relations - rapporteur James Nicholson's report, which comments on the European Commission's proposed legislation for the milk market - contains "clear weaknesses" and will not strengthen the position of producers in the milk market. The European Parliament's Agricultural Committee will decide on the report later this month on 24-25 May.

US profitability took the bullet in April

US profitability takes a plunge as feed prices sustain pressure

According to the profitability ratio published by the US Department of Agriculture, despite higher milk prices, dairy profitability is still not good. The preliminary milk-feed ratio for April was 1.84, significantly lower than March when the ratio was 2.14 and April 2010 when it was 2.19. The ratio has not been this low since August 2009 when it stood at 1.80. Higher feed prices have continued to keep the pressure on margins and dragged down profitability.

Fonterra plans pilot dairy farm in Brazil

New farm platforms important to Fonterra's global expansion strategy

Fonterra says the first milk from its latest foray into international farming, a major dairy operation planned for Brazil, will be sold to its joint venture with food giant Nestle, Dairy Partners America. It has announced plans to buy 850 hectares of land in the Goias State for the large-scale dairy operation. Two milking operations using up to 3300 cows and New Zealand dairy genetics will be producing high quality milk by late 2014. Brazil is Latin America's largest economy, with 200 million people.

National research to help US farms

Centres marry capabilities to enhance economic viability of US dairy farms

Representatives of the US dairy industry have joined forces with a national energy research laboratory in order to advance the science and best management practices of renewable energy, environmental stewardship and life cycle analysis of dairy systems and processes. The Innovation Center for U.S. Dairy™, the Dairy Research Institute™ and Idaho's Center for Advanced Energy Studies (CAES) are working to develop a national research program focused on enhancing the economic viability of dairy farms and rural communities.

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