

DAIRY REPORTER

Weekly Dairy News for Members of DFMC



18 Jan 2011

Widespread flood impacts

Wild weather continues to create havoc across more dairying regions.

There have been varying impacts of flooding on the dairy industry across eastern Australia in the past two weeks, with the dramas continuing this week as northern Victoria felt the effects of the same weather system that battered Queensland. In southern Queensland and Northern NSW, there have been as many as 100 farms inundated or cut-off, more widespread disruptions to milk collections and deliveries to retail outlets and the flooding of Pauls' plant in South Brisbane.

Floodwaters have quickly receded in those regions, but the full impact on dairying operations won't be known for some time as the massive clean-up gets under way, especially for those farms that lost pastures and feed reserves. The effects in central and northern Victoria were continuing to unfold as rains late last week flooded several river systems including the Campaspe and Loddon. Murray Goulburn's Rochester plant was flooded and milk has been diverted to other plants in the region.

The effects of the shortages in supply were immediately seen in retail outlets as milk supplies in southern Queensland quickly ran out, aided by panic buying as the floodwaters approached Brisbane early last week. Many supermarket fridges remained bare on the weekend, with effects felt in other southern cities as shelf supplies were reduced to alleviate the northern shortages.

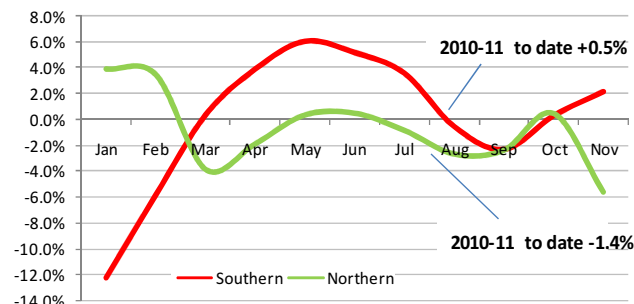
Milk production update

National milk flows dampen as regions deliver mixed results.

Dairy Australia released production figures for November 2010. While national production edged ahead of the same time in 2009, results were again patchy. Southern Australian production regions processed 2.2% more milk than the previous November, with 2010/11 season to date output up just 0.5% from the same period. Other regions were well down on the comparative.

All Victorian regions posted gains over the same month in 2009, with the state ahead 2.6%, but South Australia remained deep in negative territory. Flood impacts won't show up in Qld and NSW numbers until January numbers are known, but sharp impacts will be felt in those two regions.

Australian milk production - changes in southern v northern output in 2010



Retail food sales remain subdued

Wet weather and inflation lead to tepid retail food sales.

The ABS reported that retail food sales lifted just 1.4% in the month of November compared with the same period last year, blaming wet weather and low inflation for keeping the numbers down. It seems there may be a correction underway in the reporting of sales outside grocery stores as the rise in cafes and restaurants was pegged back to 4.3% in the month, closer to what dairy marketers are seeing in those channels.

Headlines

- Widespread effects of floods
- Southern production up 2.2% in Nov
- EU talks down effect of quota removal
- EU members back reforms for farmers
- China still has a big problem

| Indicators | |
|--------------------------------------|--|
| Dairy export index | Index stronger with weaker dollar |
| World dairy prices | Sharp gains in powders and butter |
| Australian cull cow prices in the US | Prices have continued to rise |
| Grain futures | Small lift in US wheat and local feed prices |

Australian exports statistics

Record increases in value exports for Australian dairy sector.

Year-to-date dairy exports for November 2010 decreased 0.4% in volume terms but were ahead 27% in value terms, according to numbers published last week by Dairy Australia. Export values showed that most products recorded increases in value exported for year-to-date November 2010, the largest rises being for mixtures, skim milk powder and butter with increases of 68.1%, 44.1% and 42.5%, respectively.

NZ banks keep tight rein on lending

Cautious banks far away from the days of lending freely.

Export commodity prices might be riding high but the outlook for the rural economy this year is mixed with NZ's banks keeping a stranglehold on farm lending and cashflows still tight, say sector specialists. It will be 2012 before there is a rebalancing of overheated pre-recession land asset values and income, according to bank economists. ANZ National Bank chief economist Cameron Bagrie says farm balance sheets look "a bit shoddy" despite "remarkably" high commodity prices, generating stronger incomes in the sector. Next year farmers will have repaired their balance sheets and commodity prices are expected to still be strong, he says. Market experts expect only a slight improvement in farm sale activity.

Bank of New Zealand chief economist Tony Alexander says an indication of new economic life in the sector is a strong increase in tractor registrations last month. More people, including syndicates, with capital and only some debt would enter the market this year, he believes. But Waikato accountant Nigel McWilliam, a dairy specialist with Diprose Miller, says banks are responsible for the real estate market squeeze.

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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.

Prices continue to firm.

Spot prices were marginally higher this week for butter and powders, while cheese marked time. The \$A helped out the index as well falling the best part of a cent to close at \$US0.989. The index improved 2 points to 131.9.

Positive outlook for EU markets in 2011.

According to DIN consultancy, the EU dairy market is likely to remain tight in 2011 following the strong 2010 year. Based on the assumption that milk supply will grow by 0.5% to 135.7m tonnes in 2011 compared to 2010, DIN forecasts that net exports and internal consumption of dairy products will be higher than production. In the cheese market, it is expected that production will rise by 90,000 tonnes to 9.5m tonnes but this will be offset by an increase of 80,000 tonnes in domestic consumption and of 10,000 tonnes in exports, keeping the market balanced. In the SMP market, production is forecast to be 90,000 tonnes below consumption and net exports but the planned release of 94,000 tonnes of SMP from intervention should keep the market balanced. However, in the butter market, DIN foresees a fall of 30,000 tonnes in stocks. With no butter left in intervention to plug the hole, the market is likely to remain very tight and prices could continue to hold at high levels.

Quota removal effect played down.

The EU has played down the fears that the abolition of milk production quotas in 2015 could flood markets with cheap milk and drive some producers to the wall. In a food commodity forecast to 2020, the Commission concludes said the end of quotas was projected to have a "limited impact on milk deliveries at the aggregate EU level". Milk production should actually remain below the last 2015 quota cap, with production falls caused by the recent price crisis only being made up slowly. Brussels predicts 2020 milk production would be 153.9m tonnes, only 4% above 2009 levels and well below the final quota due in 2015.

EU members back reforms for farmers

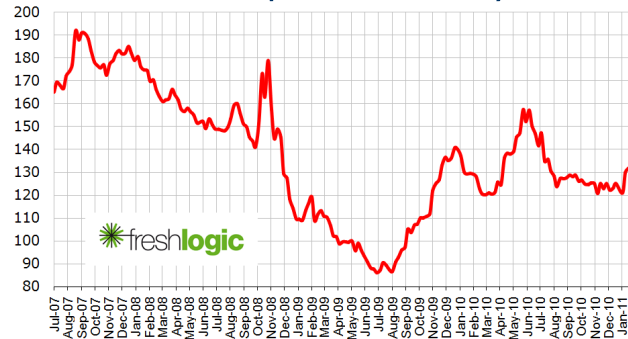
Consensus among EU members brings good rewards for dairy farmers.

EU member states have given support to a proposed scheme to reimburse dairy farmers to voluntarily reduce their deliveries in exceptional cases of "serious market imbalance". Consensus was reached at this week's meeting of the Special Committee on Agriculture (SCA), which saw the Commission briefly sum up the conclusions of the "soft landing" report presented by EU farm Commissioner Dacian Cioloș at the December Farm Council. Broad support was aired over the content and conclusions of the report, although several states called for additional measures to be implemented, and there was debate about the practicalities and effectiveness of a system that relied on voluntary implementation.

New Holland's Zero Turn & Out Front Mowers. New Holland's G5000 zero turn radius mower (ZTR) are commercial grade, petrol powered mowers, designed to handle high volume, high frequency grass cutting for Councils, lawn mowing contractors, profession landscapers and the large acreage property owner. These G5000 mowers offer the choice of two powerful and efficient air cooled engines and cutting decks from 54" to 66". New Holland's G Series out front mowers provide excellent power, manoeuvrability and operating ease for the commercial mowing contractor. The Tier 3 engine, available in two hp sizes, is located at the rear of the chassis, alleviating the need for weights and aiding balance. Sensitrak™ traction management system ensures 4wd is engaged only when slip is detected, for protection against scuffing and marking fine turf. An exceptionally comfortable Operators station allows the operator to work longer, thus productivity is not compromised



Australasian export index from July 2007



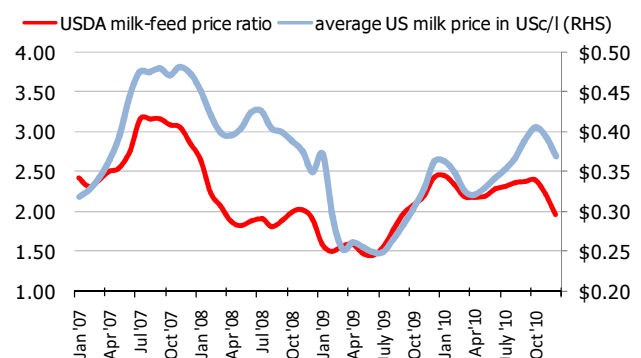
Take note: The index is an indicator of spot trends in gross export returns to the industry based on quoted Australasian export prices, movements in currency and the total milk usage in exports by the Australian industry. It was set at 100 on 1 January 2004.

US prices emerge from the trough

Feed prices escalate on weaker grain crops and high ethanol demand.

Dairy product prices held their ground to continue a reversal of the slump that has affected butter and cheese values on the Chicago exchange over the past couple of months. Fear of shortages later in the year have been blamed as one reason why buyers seem to be defying the current conditions in the market, and it is expected that at least cheese prices can't justify these levels for long. **Poor US farmgate margins** are partly fuelling the supply fears. The latest barometer – albeit crude – of that situation is the milk to feed price ratio which has now dipped back below 2.0, with concerns this will only worsen as feed prices continue to increase on weaker grain crops and higher ethanol demand.

Milk-Feed Price Ratio since 2007



China's problem persists

Ninety-six arrested as milk scam continues to rock China.

Chinese police arrested 96 people in the 2nd half of 2010 for lacing milk powder with melamine, which killed several babies in the milk powder scandal in 2008. Among those arrested, 17 had been convicted, including two people sentenced to life in prison. Thirty-eight people were awaiting trial, the report said, adding that Chinese authorities had seized 2,132 tonnes of melamine-tainted milk powder. The remaining 41 were "under investigation in police custody". The latest crackdown identified "loopholes in the quality control system of dairy products", according to local media. The government has continued to find found loopholes in the country's quality control system that were allowing the products slip through, but has not elaborated on what they were. In addition to the culprits in dairy businesses, 191 product safety officials had been punished for failing to do their jobs.

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