

DAIRY REPORTER

Weekly Dairy News for Members of DFMC



18 May 2010

Dairy 2010 S&O highlights

Key insights into the dairy world – a good year ahead for milk producers

This year's Dairy Situation & Outlook has been released showing a brighter 2010/11 for southern milk producers but a bit of commercial reality in northern regions as milk flows stay ahead of regional fresh product demand.

The S&O comes out a few weeks earlier this year in order to provide a little better timing for decision-makers regarding plans for 2010/11.

Some key points covered in the analysis (which you can pick up in summary version or a trim 60-page full report) are:

- Dairy manufacturers (MG, Fonterra, WCB) are expected to post full year milk prices at between \$5.00/kgms and \$5.40/kgms (37-40cpl). They are likely to open at \$4.40 to \$4.60 – a little higher than where they will close in 2009/10;
- Northern region milk prices will fall 5-7cpl but the range in Qld will widen as Parmalat prices remain at least in the low-50c region, fixed until 2012.
- The domestic dairy market will remain pretty tough as a slow, nervous economic recovery continues.
- Ongoing capture of market share by brands will continue but retailers will continue to use price as a weapon as they struggle to post increases (in real terms) in underlying sales. Food service markets are growing faster but unit prices are more volatile.
- Long-term world market fundamentals remain positive, but prices will remain volatile.
- A contrast of some developments in changing structures of some farmer-owned dairy companies.

March milk production improved

Milk flows output promising in March, though still down on last year.

National milk production was down slightly in March 2010 and year to date output remained 5.8% down on the prior year. But the lines of the monthly comparisons with the prior year for the two regions we track in this newsletter have crossed! Northern milk flows were down on the same month last year; southern milk was very slightly up.

Season-to-date production in southern states was 7.7% down by the end of March, while in northern regions (Qld and NSW) the slow-down in production continued to 2.4% above the prior year.

MG-Danone announce joint venture

MG teams up with Danone to break into domestic fresh dairy market.

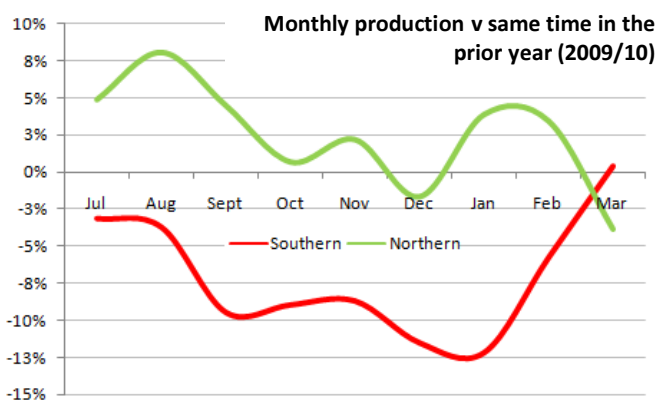
Murray Goulburn has taken another step to improving its exposure to the domestic dairy market with a move into the fresh dairy products cabinet. MG and French giant Danone will enter a joint-venture to process and market yoghurt and other fresh dairy products in Australia. MG's managing director Stephen O'Rourke has stated that he is delighted that MG is entering into this partnership that will enable both companies to enter into the Australian yoghurt market confidently.

The processing will be located at MG's Kiewa site in north-east Victoria and will start offering Danone's products by 2011. Danone's brand in this country was formerly managed by Dairy Farmers prior to its takeover by NatFoods, where it had a small market share only.

Headlines

- Dairy S&O 2010 released
- MG & Danone form new venture
- South Island's boom continues
- Glanbia deal shelved for at least 2 yrs
- Fonterra eyes new market

Indicators	
Dairy export index	A further 2 pts up on firm prices and minor fall in \$A
World dairy prices	Small increase in cheddar with others steady
Australian cull cow prices in the US	Increase in prices from last week
Grain futures	Minor increases in US and local futures prices



Problems with foreign buyers of NZ farms

A probe into Crafar farms' unofficial international sale.

The Overseas Investment Office has launched an investigation into the purchase of dairy farms by the Chinese-backed UBNZ Assets Holdings - almost three months after the land was sold. UBNZ bought four properties held in receivership and owned by Robert Crafar in the lower North Island without applying for OIO approval to do so.

UBNZ's first attempt to apply for retrospective consent from the OIO in early April was thrown out due to incomplete paperwork and an incorrect application fee. There has since been no indication when a complete, paid up application would be filed by the company.

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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 future southern milk prices.

Prices holding.

This week, there was a US\$100/t increase in cheddar spot price quotes while all other prices remained steady, to give the index a further boost. The index continued to climb, up by 2 points to **147.24**, as the \$A ended the week down slightly at **US\$88.5c**.

South Island dairy boom continues.

The South Island dairy herd was in 2009 almost seven times the size it was 20 years ago. Canterbury was the South Island's largest dairying region, with 10 per cent growth to reach a herd size of 918,000, followed by Southland, where numbers grew 19 per cent to reach 589,000, according to the final results of the 2009 Agricultural Production Survey. National dairy herd numbers reached a record high of 5.9 million at 30 June 2009, up 282,000 over the prior year. The size of the North Island herd remained stable however at 3.8 million.

Japan's production declines further

The declining trend continues to plague Japan.

Japan's decline in milk production continues with the country in February 2010 posting a decrease by 1.4 per cent compared to the same period last year. The total milk intake over the year to February 2010 declined by 1.7 per cent compared to the same period a year earlier. That was before the foot & mouth outbreak that was announced this week...

Glanbia deal rejected

Two years required before Glanbia deal opens again.

The Glanbia deal has been shelved after it failed to obtain the necessary 75 per cent majority of shareholder support for the Glanbia cooperative to buy Glanbia plc. Although the deal secured the support of the Irish Farmers' Association (IFA) and Irish Creamery Milk Suppliers' Association (ICMSA), the deal failed to secure the required level of confidence of Glanbia's supplier shareholders, whose main concern were whether the cooperative could deliver a better milk price and manage the liability for pension deficits. According to the cooperative, the companies will be together for "at least two years" before reconsidering any deal.

French co-op bid stalls

Bid stalls over Sodiaal's refusal to service Entremont's debts.

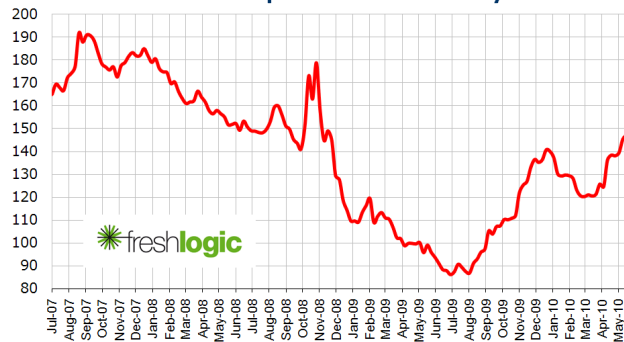
Sodiaal's proposed merger with Entremont Alliance has stalled, following the former's failure to attain an agreement with the Emmental maker's banks regarding the servicing of the Entremont's debts. The major hindrance to the takeover, as per sources, is the provision made for Entremont's debts - estimated at €335.6m in February 2010 - with Sodiaal looking to have part of this sum wiped off and the remainder re-scheduled. However, both companies have confirmed that the negotiations are continuing but have refused to shed further light on the matter.

Fonterra eyes new market

A whopping US\$41.6 trillion market catches Fonterra's eyes.

Fonterra's consumer brands team at Dubai, UAE, is planning to expand in new markets of 43 countries, including Commonwealth of Independent States, North Africa, East Africa, and the East Mediterranean. According to Fonterra Brands' general manager, developing markets, Tarner El Ashmawy, the total gross domestic product of the 43-country market is US\$41.6 trillion with GDP per person at US\$3763.

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.

Futures trading to start at end of May

EU goes independent, launches its own dairy futures trading.

Eurex, part Deutsche Börse AG, has announced that EU's futures trading will be launched on May 31. This trading, that will initially focus on skimmed milk powder (SMP) and butter, will enable participants to hedge prices through an electronic trading system and provide increased market transparency along with central clearing and stability to those in the market. About 420 Eurex members worldwide will be ready to trade contracts at the futures launch.

UK calls for no backtracking on reform

UK takes steps to continue EU agricultural sector's growth momentum.

Seeking to avoid backtracking on EU agricultural sector reform, following the recent change in UK's government, an industry delegation from companies such as Arla Foods, Roberts Wiseman, and First Milk, along with Dairy UK has met senior officials of the Department for the Environment Food and Rural Affairs (Defra).

Dairy UK director general Jim Begg has stated that they were very happy with their achievements in the past five years and that their "contractual arrangements and integrated supply chains are the envy of Europe in their ability to take the industry forward to meet the challenges of the future". Begg said the industry wants to develop "stable relationships which will deliver a confident investment platform" and "will continue to deliver price premiums from farmers meeting consumer needs".

Sodium limit could invite WTO case

US Govt's plan to tone down sodium could invite trouble.

— The new requirements of the US government to reduce sodium in Parmesan cheese could lead to the violation of the country's WTO obligations, since the FDA-mandated salt limits could be seen to constitute a non-tariff trade barrier. Regulatory affairs experts expressed concern about the trade implications and scientific basis for the recommendation, as the US has never carried out a large-scale trial on the overall health impacts of salt reduction, and considers that since the sum of evidence remains controversial, the WTO is likely to consider such a complaint valid.

Delayed start to US futures trading

A while to go for futures trading to start again.

The US futures trading has been postponed, as the US derivatives trading group CME needs more time. CME Group says a new launch date will be announced soon.

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