

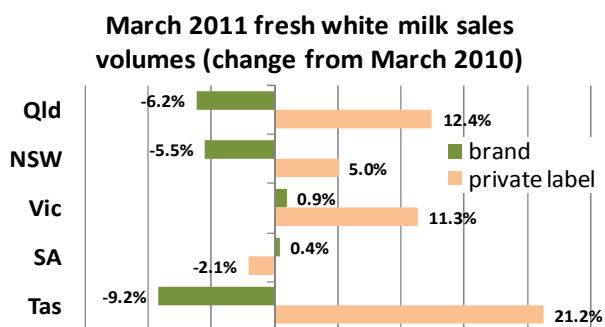
# DAIRY REPORTER

## Brands fighting to hold their place

### Fresh white milk sales growing, as private label movements hold

Dairy Australia said that milk sales in March fell by 0.1% compared with the same month in 2010, while the 9 months to date sales was 1.5% ahead of the previous season. Western Australia and Victoria were the only two states to grow in milk sales in March.

The effects of the private label milk price discounting have shown their first full month of impact in March, given there were probably orders in the system covering February sales when the price moves were announced on Australia day. The **chart below** of fresh white milk sales from Dairy Australia shows that brand volume losses have been pulled back somewhat in NSW, with small recoveries in brand positions in Qld, Victoria and SA. In overall terms, sales of reduced fat lines grew by almost 8% over the same time last year, with discounted private label lines up 21% over the comparative – the source of the greatest loss in value to branded lines.



No comparable WA data - source Dairy Australia

## La Nina weakening to neutral

### La Nina to fade by June 2011, but future outlook remains unclear

The La Nina anomaly blamed for the devastating floods in Australia will weaken in the coming months, the US Climate Prediction Centre has predicted. The agency said that a majority of weather computer models showed a return to neutral conditions by May-June 2011.

## Cost of living harming sentiment

### Consumers remain worried about the drain on cash

The Westpac-Melbourne Institute Consumer Sentiment Index edged 1.2% higher this month to 105.3 points, less buoyant than it was a year ago, when 9.3% higher. Despite steady interest rates, a high dollar and a tight labour market, the Westpac report says families are gloomy about prospects for their household finances. Westpac reported a sharply higher confidence among consumers in rural areas surging 12.2%, propelled by good rainfall and soaring global prices for commodities. The sentiment of urban residents fell 4.6%, with the fragile housing market and rising living costs, including a jump in petrol prices since the beginning of the year and threats of higher power costs.

## Valad farms sold

### Singapore-based group takes a slice of Victoria's dairy farms.

Singapore-based fund Duxton Asset Management has paid \$16.25 million for struggling Valad Property Group's seven dairy farms in Victoria. Duxton, part of the Deutschebank group, manages about 90,000 hectares of global farmland and has about \$US300 million in agricultural assets under management. The properties were sold well below original cost. They include a 600-hectare farm at Valencia Creek, north of Maffra, a 486-ha property at Fish Creek and another west of Moe, which alone cost Valad more than \$17 million.

## Headlines

- Brands fighting to hold their place
- Fonterra to open books on milk price
- Cheese books a place in online trading
- Russia mulls import controls
- Milk poisoning - an act of vengeance

## Indicators

|                                      |   |
|--------------------------------------|---|
| Dairy export index                   | Index down though dollar steady               |
| World dairy prices                   | Fall in butter and WMP prices, others steady  |
| Australian cull cow prices in the US | Strong \$A and easing US demand lowers prices |
| Grain futures                        | US and local futures prices ease              |

## Water trade suspended

### Victoria's filled dams drive interstate water allocation trade suspension

Victorian Water Minister Walsh suspended interstate and intersystem trades in allocation water from NSW to the Victorian Murray irrigation system until July 1, as the Murray system is at full capacity. Walsh said a buildup of interstate trade would have forced cutbacks in Victorian Murray irrigators' allocations for next season to meet its NSW supply obligations.

Trade from the Victorian Goulburn, Loddon and Campaspe irrigation districts to the Victorian Murray irrigation zones has also been suspended, due to the impact it would have on next season's allocations. The wet summer has meant many irrigators are using a third or less of their water, which they want to carry over into next season. Victoria's creation of spillable water accounts has also been a factor in luring NSW irrigators to trade and "park" water on Victorian accounts.



## Rotary a first for Tasmania

### Robotic dairy to revolutionise high capacity automatic milking

The Dornauf pasture-based dairy farm will be the world's first commercial automatic milking rotary installation of its kind. DeLaval International announced the installation of the DeLaval AMRTM, the automated rotary presented last November at EuroTier in Hannover. Three generations of the family run three dairy operations and milk over 1100 cows, and will use the milker in a new facility set up to milk a 500-600 head operation.

# DAIRY REPORTER

Weekly Dairy News for Members of DFMC

## Index of export returns

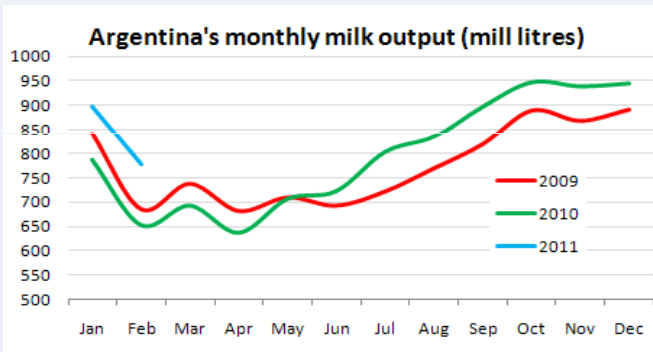
**Freshlogic tracks an index of the \$A value of spot returns from dairy exports as an indicator of the potential impact on southern milk prices.**

### **Butter, WMP weaker.**

Spot prices for WMP and butter were again weaker this week, while the dollar closed the week similar to last week's level. The index of export was down almost a point to 130.3 and the \$A closed at \$US1.056.

**Cheese to be added to GDT** - Fonterra is adding cheese to its roster of products traded online every fortnight. Bidders will be able to buy block cheddar as an ingredient for processing from July 19. Ian Palliser, the co-op's director of optimisation, trading and sourcing, said adding cheese was in line with Fonterra's plans to provide customers with a wide range of products on a world-class platform.

**Argentine exports mixed as output surges.** Argentine dairy exports leapt 40% to \$US1.06bn in value in 2010 - mostly due to higher prices. There were however mixed fortunes in volume terms, with WMP and cheese exports down 18.8% and 11.7% respectively. Ice cream exports rose almost 600% to 12 239t, while SMP were up 61% to nearly 20 000t, according to ministry of agriculture figures. The analysis comes as Argentina's milk supply surges, after several months of strong recovery in volumes in the 2<sup>nd</sup> half of 2010. February output was almost 20% up on the same time last year, while the production for the 12 months including that month was 6.5% of the same period a year earlier.



## Fonterra to open book on milk prices

### **Commission wants to read Fonterra's confidential milk price manual**

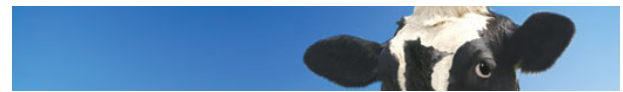
Fonterra chief executive Andrew Ferrier promised full co-operation with an official inquiry into retail milk prices. The inquiry, by the New Zealand's Commerce Commission, has been launched against a backdrop of mounting public and media clamour, as it was claimed that milk prices reached their highest nominal level ever in February. Goodman Fielder, Fonterra's biggest domestic customer for raw milk and main competitor on the home market, stirred the issues as it blamed the co-op for price increases in several of its products.

The commission promised a decision in two months time on whether to go ahead with a full-scale inquiry. It will be asking Fonterra, which collects about 89% of all the country's raw milk, to supply a copy of its confidential milk price manual "and its calculations, to allow an assessment of the farmgate milk price". Fonterra has kept the methodology for setting milk prices a secret, but Ferrier insisted it had been reviewed by accountants Ernst & Young and PwC.

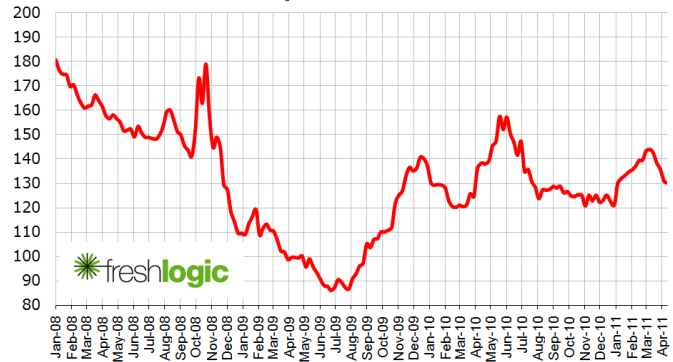
## Milk poisoning was an act of vengeance

### **The latest scandal wasn't a system weakness**

Chinese media suggested a vendetta against a farmer led to the tainted milk incident in China last week, which killed three children. Police have arrested a couple, who co-rent land with a dairy farmer near Pingliang City, alleging the couple deliberately added nitrite to fresh milk from the farm out of anger over "unresolved business disputes".



## 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.

## Russia mulls import controls

### **Future rises in dairy import tariffs a potential concern for EU suppliers**

Russia may increase import duties for butter and cheeses, and also begin intervening on the market for powdered milk, to protect local producers. National Milk Producers Union has asked the Russian government to increase the butter duty from 20% to 50% duties for cheeses and curds from 15% to 20%, for powdered milk from 25% to 40%. These changes would have a major impact on European suppliers, which booked large increases in exports to the Federation last year.

## US budget likely to cut farm subsidies

### **Agriculture subsidies hit hard in the proposed GOP budget plan**

The Republican head of the House Budget Committee has proposed cutting agriculture subsidies by \$30 billion over the next 10 years as part of a broad effort to slash federal spending, but it remains to be seen whether his ideas will be incorporated in legislation that sets funding for agriculture programs. The \$3.5 trillion budget plan put forward by Rep. Paul Ryan, R-Wis awaits a floor vote in the House but has no chance in the Democratic controlled Senate. Ryan has proposed cutting \$30 billion over 10 years by spending less on a crop subsidy program called direct payments and giving smaller subsidies to crop insurance. Direct payments were already expected to be a major target in the 2012 farm bill

## US farms escape "spill" regulations

### **Change in spill-control rules to avoid \$millions for US dairy industry**

The U.S. Environmental Protection Agency (EPA) issued an exemption clarifying that dairy farms don't have to treat milk the same as petroleum products under the Spill, Prevention, Control, and Countermeasure (SPCC) regulation. Farmers worked with Congress and the EPA for two years to win the exemption, so that their bulk milk storage equipment doesn't get regulated under the SPCC rules, since milk storage is already regulated as part of the current Grade A Pasteurized Milk Ordinance (PMO). The goal of the SPCC program is to prevent oil spills into waters of the United States and adjoining shorelines. A key element of the program calls for farmers and other facilities to have an oil spill prevention plan, called an SPCC plan.

## Leprino builds mega plant

### **Family-owned Leprino rolls out plans of largest dairy facility in the world**

Leprino Foods, a significant producer of mozzarella, cheese blends, pizza cheese and the largest exporter of whey products in the US, is said to be investing more than \$250m into the dairy in Greeley, Colorado. When fully operational, the Greeley facility will be one of Leprino Foods' largest plants, handling 7m pounds of milk a day and will produce dairy ingredients, mozzarella, reduced-fat Monterey jack, provolone, reduced-fat cheddar and various cheese blends.

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