

DAIRY REPORTER

Weekly Dairy News for Members of DFMC



19 Oct 2010

August production slowed

West records spectacular growth, while rain dampens Southern milkflows.

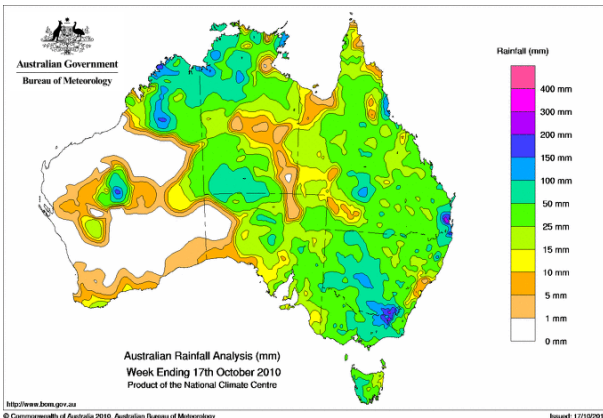
Australian milk production in August was down 0.5% from the same month in 2009 mostly due to very wet production conditions. The slowdown was most pronounced with declines in the 3-5% range in South Australia, NSW, Northern and Western Victoria, while at the other end of the scale the best year-on-year growth was seen in WA which was almost 14% up (so any clatter about inadequate milk prices isn't being seen in the action on the ground) and Gippsland, which was ahead 8%.

The growth in Southern export regional output has steadily weakened since peaking in May, since abundant rain started to affect grazing conditions and cow management. Northern regions have seemingly got the message in two-tiered pricing for supply to fresh dairy markets.

More rain likely

Wetter spring to unfold as La Nina gathers persistence and strength.

The chart below shows the drenching everyone but WA got in the past week. The weather bureau says it's more likely than not that there'll be more good rain throughout spring and in early summer. The La Niña in the Pacific remains a moderate to strong event. The Southern Oscillation Index (SOI) value of +25 for September was its highest monthly value recorded since 1973. Long-range models surveyed by the Bureau suggest that this La Niña will persist into at least early 2011.



Heart Foundation claim rebuked

Heart Foundation guilty of using selective data.

Dairy Australia has disputed claims by the Heart Foundation that butter sales have risen 9 per cent on the back of the TV show MasterChef. The Foundation claimed the high use of butter by the celebrity chefs and contestants was a worrying trend. But the source of the Foundation's claims stems from data published by Retailworld in late 2009, which reported summary grocery sales data up to about August 2009 (reflecting the increase as reported), whereas the series ran from late April to mid-July.

There was much more going on in 2008/09 than MasterChef that inspired more home cooking, as consumers shied away from dining out in preference for saving money by greater use of the home kitchen.

Dairy Australia's data for all sales (including non-grocery) for the year to June 2009 showed an increase in butter product sales including blends of just 4.7%, but in the year to June 2010, total sales have declined 1.2%. The HF assertion also ignores the dip that has been seen in per-capita butter consumption, which doesn't support the contention of an expansion of butter consumption.

Headlines

- Wet slows milk output
- MDB plan to get more work on impacts
- More products for online auctions
- Sth Island producing 40% of NZ's milk
- Much interest for Yoplait's ownership

Indicators	
Dairy export index	Index steady despite the \$A touching US\$ parity
World dairy prices	Slight lift in cheddar, butter and powders flat
Australian cull cow prices in the US	Prices improve marginally in \$A terms
Grain futures	Sharp lift in Sorghum prices, US wheat down

Basin plan maintains high profile

MDBA orders fresh study to pacify anger over basin plan.

At the other extreme, the debate surrounding the future of irrigation water access continued on the guide to the draft of a plan for the future of the Murray Darling Basin. The Murray-Darling Basin Authority has ordered a fresh study into the social and economic impacts of increasing the security for environmental flows in the river system. Consultants will conduct the study to help the authority understand more fully the potential impacts of the guide proposals on basin communities. It will be based on "extensive consultation" with local communities and is expected to be completed by mid-March 2011.

Yet another fresh milk brand

New milk product promises fun and health for children and families.

Longwarry Food Park has entered the fresh milk market, claiming its new fresh milk will put the "fun back in the fridge." Launched recently, the green, orange and blue labels feature a cartoon Holstein named Gippy, which the processor hopes will engage both children and families. Longwarry's management says the products will attract consumers "because they don't contain permeate".

The milk is being sold in selected stores throughout west Gippsland which is a reasonably small zone, but up to 30 million litres of milk a year can be bottled at Longwarry's processing plant. The company hopes to double this capacity in the next three months as well as installing a UHT plant which would process 20 million litres of milk, which will require a healthy slice of the market in a capital city or two, some very agile distribution and the sacrifice of price to gain such a foothold. Longwarry Food Park has 107 farmer suppliers, mostly in west Gippsland.

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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.

Index steady after parity party.

Export spot prices for cheddar improved as the only change in prices this week, but all focus was on the value of the \$A. The \$A touched parity on Friday after a lot of attention seemingly willed it over that line, and then it retreated as reality set it and it lost a cent to close at **US99.05c**. The index of the \$A value of export products was steady at **124.7**.

gDT volumes increase by 11.7%.

The volumes of milk powder available at the next *globalDairyTrade* auction have increased by 11.7%. An additional 2,000 tonnes of wholemilk powder will be put up for auction, bringing the total volume of wholemilk powder on offer to 24,000 tonnes. Skimmilk powder volumes have also increased by 1500 tonnes to 8500 tonnes. The volumes of buttermilk powder (BMP) and anhydrous milkfat (AMF) available remain the same as the previous auction, which were just 1000 tonnes of BMP and 2800 tonnes of AMF.

40% of NZ milk now from South Island

Two-fifths of NZ's milk now flows in South Island.

Industry-good body DairyNZ says that in the 2009-2010 season, South Island dairy farms produced 565 million kilograms of milksolids, up more than 5.5 percent from last year. South Island milksolids production has more than doubled since 2000, to 39.3 percent of national milkflows, with an increase of 307 million kg milksolids (equivalent to 7.7 percent a year) and 610 new dairy herds in the past 10 years. In 2009-10 the dairy gross revenue invested in Canterbury was \$1.65 billion -- with milksolids valued at \$6.37/kg -- and in Southland, it was \$1.15 billion.

Review of Fonterra's milk supply to rivals

Review of decade-old raw milk regulations welcomed by Fonterra.

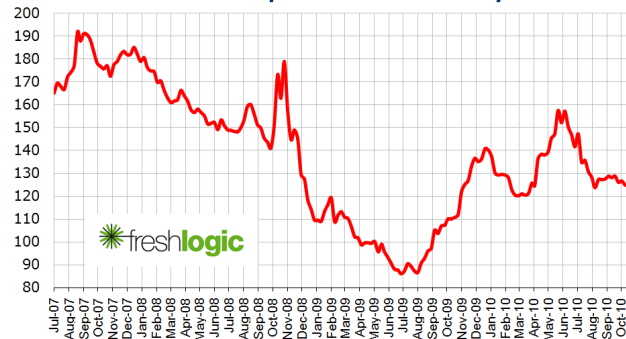
The days of Fonterra being forced to supply milk to competitors with their own supply herds may be numbered, with the Government announcing it will start a full review of the raw milk regulations in March. The Dairy Industry Restructuring Act (DIRA), passed nearly 10 years ago includes an obligation for Fonterra to supply competitors with up to 50 million litres of milk each a year. At that time, Fonterra controlled 96 per cent of the country's raw milk.

Fonterra now controls 92% of the country's raw milk but several of the new processors buying the regulated Fonterra milk have their own farmer suppliers, a fact that irks Fonterra leaders. Last week Agriculture Minister David Carter said a full review of the regulations would be undertaken by the Ministry of Agriculture in March.

New Holland BOOMER T1000 Compact Tractors.

If your "little piece of heaven" comes with a long to-do list, a Boomer 1000 is for you. The Boomer 1020, 1025 and 1030 handle chores that ordinary lawn and garden tractors can't! You get two power take-off's (PTO) and linkage as standard equipment. The 2,200 RPM mid mount PTO powers the 60 inch mid mount, side discharge mower deck. The rear 540 RPM PTO and the 715Kg 3 point hitch capacity allows you use implements like slashers and rotary hoes. With separate steering and hydraulic pumps, there is plenty of hydraulic power to allow the fitment of a level lift loader to move materials such as gravel, and dirt, without compromising safety and productivity. The 1025 and 1030 models come with the Sensitrak™ option that allows four wheel drive automatically when extra traction is needed.

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.

Shifts in whey production and trade

US doing more innovation in whey compared to Europe.

US whey powder production has dipped to a 25-year low, and prompted rising interest in whey futures. Output has trended lower for the last few years, as manufacturers are forced to innovate due to the commodity nature of the cheese market, producing more higher-protein whey protein concentrates (WPCs) and whey protein isolates (WPIs), with less whey solids available to make dry sweet whey. Dry whey production in August was the lowest since 1984, while stocks of human-grade whey to were 25.8% down on August 2009.

It's very different in the EU where subsidies have cushioned cheese makers from the need to innovate. Exports from Germany, the world's leading supplier, are on the rise, up 11% in the first half, while output was 3.8% up in the first six months. While exports from France were slightly down, French plants produced 4.4% more whey powder in the first half of this year than in January-June 2009.

Plenty of interest in Yoplait's ownership

Strong interest in Yoplait spans continents.

The list of potential buyers for Yoplait is the subject of plenty of speculation in European and US financial media with a list of potentially interested parties that includes a clutch of four food sector private-equity firms, Mexican food maker Grupo Lala, General Mills from the US (holder of the US licence but in dispute with the business), and China's Mengniu Dairy all linked to the French yoghurt maker. The four private-equity firms, are reported mulling whether to bid for the 50% of Yoplait owned by private equity firm PAI Partners. The yoghurt maker's other shareholder, French dairy co-operative Sodiaal, has said it wants to hold on to at least part of its shares.

New R&D home for WCB's partner

FrieslandCampina consolidates R&D facilities.

Dutch dairy co-operative Royal FrieslandCampina is building a new €16m research and development (R&D) centre to target innovation in consumer products and ingredients. FrieslandCampina (a partner in a joint venture with WCB in Australia) aims to grow its specialist ingredients business by 5 per cent a year, which reflects a shift away from its traditional bulk products such as milk- or whey powder. The co-operative is also targeting sales of more branded consumer products in more European, Asian and African countries, by catering for strong worldwide growth in dairy-based beverages, branded cheeses and infant/toddler nutrition ingredients.

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