

DAIRY REPORTER

Weekly Dairy News for Members of DFMC



20 September 2011

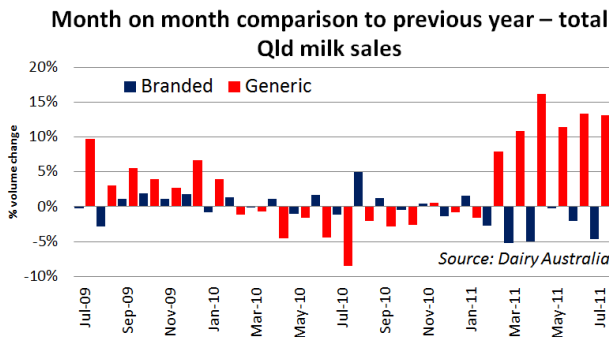
Coles' takes flak at QDO conference

Coles failed to pacify angry farmers at the latest QDO conference.

Coles' attempts to defend its pricing of house brand milk unsurprisingly failed to convince angry Queensland farmers attending the QDO conference last week. Coles' merchandise director John Durkan maintained the line that dairy farmers should not be impacted at the farmgate, as the supermarket was absorbing the costs of discounting. Durkan claimed that the cost of absorbing the price reduction and 'paying a higher commercial price to suppliers to compensate for the reduction in branded milk volumes' was about \$75 million on an annualised basis.

The event was an effective stage-managed farmer protest and media event, as audience members were well-primed with placards and questions. The QDO's presentation to the conference highlighted the risks of processors discounting branded products to resist further losses in market share. It stressed that processors expected to lose an additional \$44 million in product sale margins this year if they cut prices 20%.

Lion's submission to the Senate review – posted last week – articulates some of the pain that group is going through as milk volumes move from branded products to private label products. Lion quotes Nielsen data in its submission, reporting branded grocery volumes of fresh white milk were down 6.7%; private label grocery volumes up 17%; petrol & convenience sales down 2.7%, and sales into the "unstructured convenience" channel were down 15.1% (although this channel had shrunk more than 10% in the period prior to grocery deep-discounting).



Parmalat repackages milk

First innovative fresh white milk packaging for 10 years launched this month

Parmalat has undertaken a \$2.2 million upgrade at its Rowville plant, to use innovative white milk cartons, which it admits as the first significant innovation in fresh white milk packaging for 10 years. As part of the upgrade, the plant will be reconfigured to use the new Tetra Brik Edge carton, which is reported to be easier to use and is the only Forest Stewardship Council certified milk carton available in Australia. The company holds that the new packaging will both hold existing customers and attract new ones, with its promise of better storage, improved convenience, ease of use, and unique environmental profile. Parmalat says its Paul's fresh white milk brands account for 50.8% of Victoria's branded fresh white milk grocery market.

ABARES grain outlook

Latest grain forecast near record level on the back of good rainfall.

ABARES has lifted its winter crop forecast to an estimated 41 million tonnes, on back of consistent rain in August and early September, particularly in Western Australia. Although the latest forecast is down slightly on last season, it would be Australia's four-largest winter crop on record. Wheat production is forecast at an estimated 26.2 million tonnes in 2011/12, slightly lower than last year's crop and barley at 8.3 million tonnes. Canola production is forecast to jump 7% to 2.3 million tonnes in the 2011/12 season.

Headlines

- Coles' cops heat at QDO conference
- Parmalat innovates with milk packaging
- Legal brawl for Franklins continues
- Rabobank sees weaker global demand
- Nestle grows Indonesian footprint

Indicators	
Dairy export index	Index lifts as dollar falls
World dairy prices	SMP loses but WMP gains
US cull cow prices	Prices increase
Grain futures	Wheat futures slide, but local grains rise

Resurrection of Corryong dairy factory

Milk factory back on track to commence operations next season.

Snowy Valley Milk has announced that production at its new Corryong dairy factory – a refurbishment of the previous Snowy Mountains Organic Dairy – will commence at the start of next season. The company promises to pay a price premium above the top four prices in Victoria, and acquire a total of 40 million litres of milk. The plant will "focus on the Asian export markets", with a range of value-added products.

ACCC-Metcash legal fight drags on

ACCC challenges judgement, as the pressure builds on ailing Franklins.

The ACCC lodged an appeal against a Federal Court decision to allow Metcash to acquire the Franklins supermarket chain, as it holds that the Federal Court made legal and factual errors in dismissing its application to stop the acquisition. It has also warned that it will closely monitor moves by the other big supermarkets to acquire Franklins' business, as that would lessen competition within the Australian grocery sector. However Metcash gave notice on 11 September that after five business days it considered itself free to waive the condition requiring ACCC approval for its proposed acquisition of the Franklins supermarket business. The existing owners Pick n Pay said that if a deal with Metcash didn't proceed, Franklins would be unlikely to survive in view of the deteriorating financial performance amid intense retail competition.

Consumer confidence rebounds

Pause in interest rate hike helps rebound consumer confidence.

The Westpac-Melbourne Institute of Consumer Sentiment rebounded by 8.1% to 96.9 in September, after falling to its lowest level in more than two years in August. Westpac states that this recovery has been driven by release of better than expected GDP growth for the June quarter and fading expectations of an interest rate hike by the Reserve Bank.

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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.

Dollar slumps further to lift index. The index of Australia export returns again rose this week, as the \$A lost strength against the \$US. Spot prices for powders moved in opposite directions, reversing last week's trend, as WMP gained and SMP lost by US\$50/t each, and others stayed firm this week. The \$A closed the week weaker against the US dollar at **\$US1.0299**, while the index of spot returns rose by 2 points to **123.9**.

New GDT contract period. A new 'Contract Period 1' has been added to the options available in the *globalDairyTrade* platform, where the shipment period incorporates the first month after the month of the trading event. The existing Contract 1 will be renamed as Contract 2, while Contracts 2 and 3 will change to Contracts 3 and 4, respectively.

Rabobank: Trend and outlook for the global markets. In its latest dairy quarterly report, Rabobank says global dairy prices will continue to weaken, as major developed economies slow and dairy product surpluses build. The first eight months of 2011 have delivered good prices to the US, but the closing months of 2011 will see more surpluses in the Northern Hemisphere will collide with what looks like a strong Southern Hemisphere season.

According to the update, there has been a marked deterioration in demand conditions in the US and the EU together with lighter imports from China and Russia that have been inadequate to mop up solid supply growth as dairy producers responded to the remainder of attractive milk prices. In its outlook, Rabobank expects a downward pressure on international market pricing through the fourth quarter; however, it also holds that the price movement is likely to be limited, as many buyers that have been squeezed out of the market by high pricing in 2011 to date are likely to re-enter the market as product becomes more affordable.

Further, Rabo says that if the expected strong buying by China does not occur, the downside would be greater. With the global grain stocks alarmingly low, and forage short in key parts of the US, farmers in more feed intensive regions remain exposed to potential feed market stocks which could further reduce supply.

Australia pledges to help Sri Lanka

Aussie cows wanted for new Sri Lankan dairy farms.

Australia and the Netherlands will provide assistance to boost Sri Lanka's dairy industry by investing over US\$12 million. As part of the project, Sri Lanka will import 4,500 dairy cows from Australia and develop farms belonging to National Livestock Development Board (NLDB) to increase milk production. Under phase 1 of the project, 2,000 dairy animals will be imported and the NLDB's Bopaththlawa farm will be developed at a total cost of \$12.9 million. Based on the performance of the Phase 1 animals, the remaining 1,500 cows will be imported and the NLDB's Nikaweratiya and Siringapatha farms will be developed.

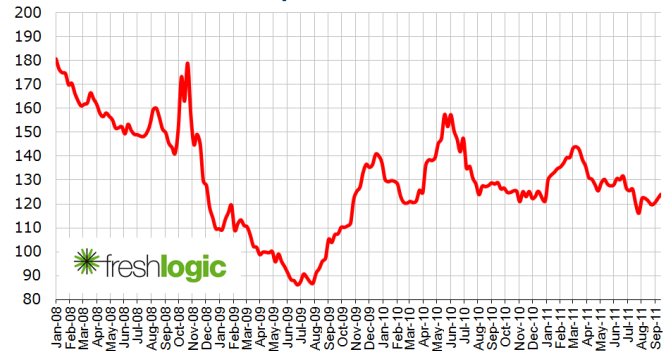
Special inquiry into NZ milk prices open

Committee heard opposing views as it examined if milk price is too steep.

Last week, the NZ Parliament's commerce select committee commenced hearing opposing views on whether the price of milk is too expensive in NZ from farmers and dairy industry workers.

The Federated Farmers recommended that New Zealanders are not paying too much for milk relative to other countries and defended its case that the domestic dairy markets are operating effectively under existing legislation. On the other hand, the Dairy Workers Union is argued that New Zealanders' support for the multi-billion dairy export industry entitles them to a discounted milk price at home and that they should not have to pay a global price for milk because international commodity prices are currently strong.

Australasian export index from Jan 2008



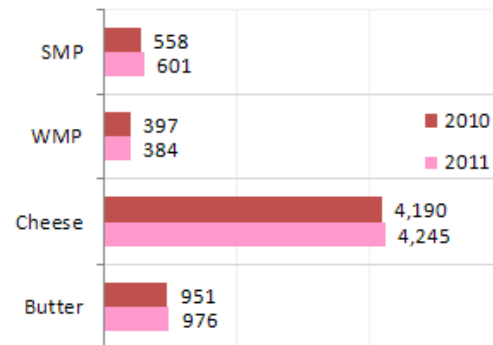
Take note: The index is an indicator of spot trends in gross export returns to the industry based on quoted Australasian export prices, movements in currency and the total milk usage in exports by the Australian industry. It was set at 100 on 1 January 2004.

More SMP from EU plants

Output of dairy products lifts as more milk flows into the EU dairies.

The expansion of EU-27 milk deliveries by 2.2% during the first six months of the year boosted production of dairy products in 2011. Production of all dairy products, excluding WMP, were ahead of last year, with SMP posting the largest increase of 7.9%, followed by butter at 2.6%. In comparison, cheese grew at a slightly smaller pace. However, WMP fell 3.2%, affected by the weaker international demand and decreasing world market prices.

EU-27 dairy production Jan-June period (000t)



Nestle expands Indonesian presence

Nestle pumps millions to strengthen its hold in Indonesian dairy market.

Nestle has commenced the construction of its fourth local plant - a US\$200 million new processing plant - in Karawang, West Java, Indonesia, to meet the Indonesian consumers' rising demand for nutritious, branded products at affordable prices and strengthen its leadership in the rapidly developing economy of the country. The new plant has a designated capacity of 65,000 tons of Milo chocolate malt drinks, Cerelac infant cereals, and Dancow milk powder, with the output primarily allocated for the domestic market with possible exports to neighbouring countries in Southeast Asia. The plant is expected to become operational in the first quarter of 2013 and employ more than 600 local people.

New Tesco site promotes dairy benefits

Journey of milk story to highlight the work of dedicated milk supply group.

UK retailer Tesco has launched a new dairy website to promote the nutritional benefits of milk, featuring the work of its dedicated milk supply group, the Tesco Sustainable Dairy Group. The site will also host a blog by a Tesco dairy farmer's daughter, Jo North, and there will be video footage showing the journey of milk from farm to fridge. There will also be recipes and interactive games for children to highlight the health benefits of milk and to teach them about dairy farming.

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