

# DAIRY REPORTER

Weekly Dairy News for Members of DFMC



21 December 2009

## Climate conference fizzer

*The lack of a meaningful commitment out of the Copenhagen climate conference throws the future of proposed CPRS laws into uncertainty*

The failure of the juggernaut UN-led climate conference in chilly Copenhagen to reach a meaningful statement of commitment late last week throws the immediate future of the potential CPRS into further doubt and will deepen divisions between Australian political parties over the need for laws against a background of a world that incapable of agreeing how to address the challenges.

## Things are a little friendlier in Tasmania

*The parties in the long-running dispute over milk prices in Tasmania may be heading to a "successful" conclusion*

The long running dispute between the Collective Bargaining Group (CBG) and National Foods might be closer to settlement following a meeting in Melbourne. A joint statement said talks in Melbourne to review National Foods' milk price model had been "fruitful" and that the parties had emerged with a renewed sense of goodwill.

A further meeting has been scheduled in Tasmania next week where National Foods will respond to the CBG proposal on milk prices. CBG spokesman Phil Beattie said they had been encouraged by the attitude that National Foods had brought to this meeting and their willingness to listen to the views the CBG, and that the parties at least seemed to be "on the same page." What that means in terms of distance apart isn't clear, but price rises in southern regions will have helped narrow the chasm.

## Milk sales improve slightly

Year to date milk sales for the 5 months to the end of November lifted to be 2.6% over the same period in 2008, as NSW and SA showed strongest gains, of 4% and 4.7% respectively. The building momentum in Qld milk sales abated as the state posted a slowing of the monthly gains to 3%, and remained the slowest growth state into which DFMC milk is sold.



## Lower MDB review of dairy is published

*An interesting read if you are bored over the Christmas break...*

The independent review of dairying in the Lower Murray Darling basin released its report, which concluded that, with better prices and improved water allocations, rates of return comparable with dairy in other regions and other agricultural sectors within the LMDB can be earned. It points out what it calls the inevitable uncertainties that plague decision-making by investors in the region, but suggests that much of the future capacity in the region is best driven by improved certainty from water policy and advocates water market information that is accessible and transparent.

Dairy Australia also released a response to the report. Outgoing MD of Dairy Australia, Mike Ginnivan, said the report would inform policy making and the on-going strategies of all those with an interest in the LMDB. Despite climate variability, the lowest ever recorded inflows, drastically reduced irrigation water allocations, emergent policies on water availability and increased farm debt, "a number" of dairy farms in the region have generated competitive rates of return over the past decade.

Proudly sponsored by



## Headlines

- Uncertainty hangs over climate policy
- Closer to a deal in Tasmania
- Milk output weakens further
- Export spot prices stalling
- US looks to stabilising prices

## Indicators

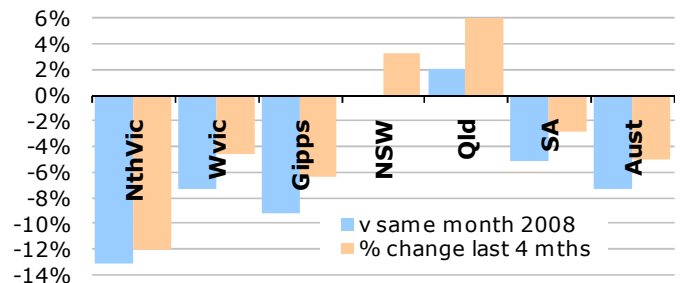
Dairy export index	Passes 140, up 3 points
World dairy prices	Falls in butter and SMP, cheddar still improving
Grain futures	US wheat up 3%, Aust barley, sorghum flat

## Milk production slides further

*The hot dry spring bit into production in most regions for November*

Dairy Australia reported that Australian milk production estimates for November indicate output was down 7% on October 2008, while year to date figures production has now slipped lower by 5.5%. Official October figures were also published in the week (below), which saw year to date decline widen to 5% as the month itself was also more than 7% down on the same month in the prior year. The hotter, drier spring is having a striking effect on the surplus milk flows in the northern region which continue to give the supply chain a headache, with Queensland output slipping back to a rise of 2.8% while NSW was back in line – each compared with Oct 2008. Victorian regions deepened the retreat on the prior year, down close to 10% in the month, with the decline stronger in the West and Gippsland compared to September 2009.

## Milk production October 2009



## ADHIS reviewing APRs

*A revised system of profit rankings will be out in April 2010*

The Australian Dairy Herd Improvement Scheme has announced that after an extensive review, it will update its main breeding index for dairy sires, the Australian Profit Ranking. The updated formula places more emphasis on daughter fertility and survival while increasing overall profit compared to the current APR. ADHIS general manager Daniel Abernethy said it was important that the APR reflected current and future trends in the Australian dairy industry. The updated formula will be used for the next ABV release, in April 2010.

# DAIRY REPORTER

Weekly Dairy News for Members of DFMC



## Index to a 13-month high

**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.**

Export spot prices per NZ quotes stalled for all major dairy commodities with the exception of cheddar this week, with the quotes for butter and SMP actually falling from last week's levels which brings a touch of reality given the stocks sitting in the EU of these products. The \$A fortunately slid by the end of the week to finish weaker against the US currency at **US88.9c**, pushing the index past the 140 level to **140.7**, its highest for 13 months.

### Prices stalling?

The monthly canvassing by Dairy Australia of spot prices being experienced by exporters saw powder prices stalling in the month of December, a 7.5% rise in the average price quoted for cheddar and a small decline in the price for butter.

DA's analysis suggested that overall, the amount of new purchasing activity has died down after a busy few months, as buyers are generally covered for the holiday period and manufacturers are satisfied with their current stock position.

## NZ dairy futures a step closer

**The proposed operator of futures contracts picks its benchmark**

NZX says it will use the milk powder price in Fonterra's globalDairyTrade auctions as the benchmark for its futures contract to be launched next year, says chief executive Mark Weldon. The stock exchange operator had been weighing whether to use Fonterra or its weekly Agrifax prices as the benchmark. NZX expects milk powder futures will be offered starting in April or May next year.

In June NXZ announced plans to launch a cash-settled futures contract aimed at allowing participants in dairy products trading worldwide to hedge price risk in the whole milk powder market.

## Strong gain in NZ yields after drought

**Annual stats on the 2008/09 year are released by NZ's industry bodies**

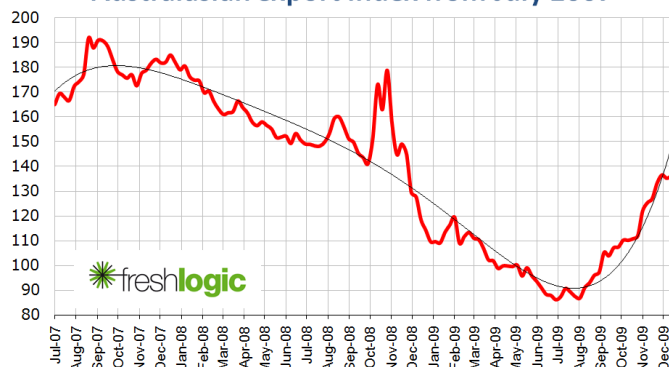
Stats on the NZ dairy industry showed that the number of dairy cows was up 6% on the previous year, according to the annual report of NZ industry statistics. The total number of herds increased by 182 to 11 618, reversing a trend that began more than 30 seasons earlier when herd numbers declined annually at an average rate of 176 herds a year. 21.3% of herds have 500 or more cows, but a majority (58%) have between 100 and 349 cows. Average milksolids per hectare in 2008/09 was 5.4% higher at 921 kg. Production per cow increased by a similar percentage to an average of 323kg ms.

## US looks to digesters

**The main thrust of reduced farm greenhouse gas emissions is a plan to harvest methane using farm digesters**

US Department of Agriculture and US dairy producers will work together to reach a 25% reduction in greenhouse gas emissions by the year 2020. USDA will do so by undertaking research initiatives, allowing implementation flexibility and enhancing marketing efforts of anaerobic digesters to dairy producers. Through the agreement, USDA and the Innovation Center for U.S. Dairy will increase the number of anaerobic digesters supported by USDA programs. Beyond promoting the digesters, the agreement will encourage research and development of new technologies to help dairies reduce greenhouse gas emissions.

## Australasian export index from July 2007



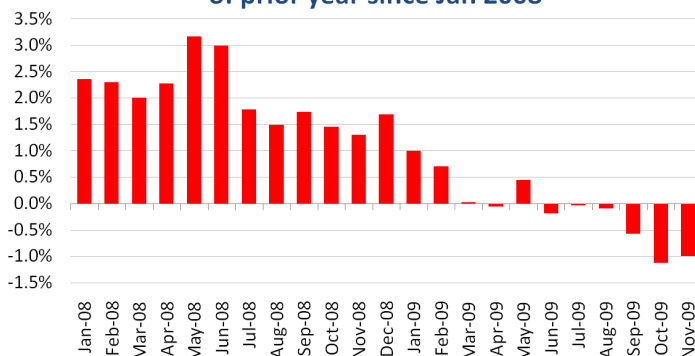
**Take note:** The index is an indicator of spot trends in gross export returns to the industry based on quoted Australasian export prices, movements in currency and the total milk usage in exports by the Australian industry. It was set at 100 on 1 January 2004.

## US milk production down in November

**The correction in milk supply will push up prices next year**

Milk production in the US was down 1% in the month of November compared to the same month of the prior year. There were an estimated 9.091 million cows in the US milking herd in November, 242,000 lower than the same time in 2008, while production per cow is up 1.7%. Analysts in the US industry reckon the over-correction in milk supply will continue well into 2010 and result in the US industry going through another cycle – higher dairy product prices pulling in more production and the rollercoaster of farmgate prices will roll on.

## US milk production % change on same month of prior year since Jan 2008



## Riding the cycles?

**One of the US proposals to allow producers to ride out the cycles in farmgate prices is gaining legs in California – it sounds a little like an AFD scheme**

while there are now a number of proposals are being kicked around across the country and up on Capitol Hill as to how the US government change how milk is priced to farmers, one proposal gaining profile is that being supported by California's Milk Producers Council and several other producer groups called the Dairy Price Stabilization Program (DPSP). The DPSP allocates market share and if a farmer wants to grow beyond that 1-2 percent, he would pay a modest market access fee. That fee would go into a fund and all of that money would be distributed to the producers who did not increase their milk output above the 1-2 percent.

Proudly sponsored by

