

DAIRY REPORTER

Weekly Dairy News for Members of DFMC



21 June 2011

Australian milk sales lift in May

Year-to-date milk sales stay ahead across all states in May.

Dairy Australia reported that milk sales in May were 3.8% higher than the same month the previous year, while the YTD sales were 1.8% ahead of the previous year-to-date. All states experienced growth in milk sales in May excluding Tasmania and SA, but on an YTD basis, all states are ahead of the previous season.

Discount impacts lower than expected

Insights into the actual flow-on from the retail milk price war.

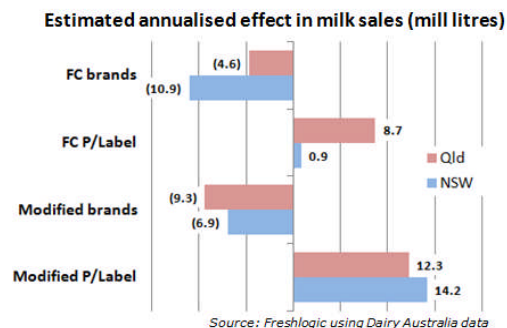
Data for the period since the end of January 2011 shows that the impact of discounting private label lines by supermarkets may thankfully be less than what has been feared by industry. Analysis for the Northern Situation & Outlook presented last week in Brisbane showed the volumes of milk sales lost by brands based on data for the 3 months to April in Qld and NSW. May data further supports this trend.

Dairy Australia data suggests 14 million litres in annual sales (or about 6% of brand sales) appear lost by brands in Qld alone, which will be eating into processor margins based on the differential that exists between processor and retailer brands. The effect is potentially greater in NSW despite a slightly lower share of brand sales being lost, but where the price differential between brands and private label is higher.

Dairy Australia's sales data shows that branded milk sales in Victoria are now higher than the same time last year, although there has been migration between higher value modified line and full-cream milk products, and any growth in sales volumes has been won by private label.

As for **price impacts** over the past few months, scan data suggests that average retail prices in supermarkets for branded full cream and modified products have not fallen in Queensland in the past 4 months. Dairy Australia's wholesale price index for the period has also not reduced. In terms of promotional discounts offered on brands, Freshlogic's **Adwatch** tracking of retailer promotional activity indicates that branded fresh white milk lines have appeared in Queensland catalogues of supermarkets **on just 3 occasions** since Australia Day.

The data tells a positive story for the resilience of product values and the importance that consumers have continued to place on the convenience of milk products in non-grocery outlets, despite immense retail price competition. It may also indicate that some of the vocal industry protests about discounting reached the consumer and influenced purchase decisions.



Milk farmers get more collective bargaining

A decade of collective bargaining power could be handed out to farmers.

The Australian Consumer and Competition Commission (ACCC) has made a draft decision to extend the collective bargaining power of farmers for another 10 years, rather than five. However, it has made some changes that clarify that third parties can be involved in contract talks to provide legal advice, training, and general assistance.

Headlines

- Impacts of discounts on sales
- New MG CEO is no stranger to change
- Prices slip again at GDT
- US production growth slows
- Fonterra gets Chinese money

Indicators	
Dairy export index	Index and dollar steady
World dairy prices	Butter and SMP prices lift
Australian cull cow prices in the US	Market falling fast, helped by poor US demand
Grain futures	Fall in US wheat; local grain prices steady

New chief for Murray Goulburn

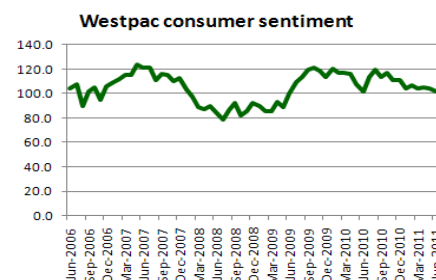
SunRice chief swaps rice for cows as he moves to lead Murray Goulburn.

After close to a year after long-serving CEO Stephen O'Rourke flagged his resignation, the company has found a new CEO in the form of Gary Helou, aged 49 and the former Sunrice CEO for the past 11 years. Admittedly we got this appointment horribly wrong a couple of weeks back with the tip that swept industry about the appointment of a different prospect! Gary has a strong background in agribusiness and fast moving consumer goods, and led a significant improvement in the role that Sunrice played in global and domestic rice and snackfoods markets, while taking the co-operative through significant operational challenges in managing volatile rice crop volumes in the past 10 years. He will start his new role at MG on 3 October 2011.

Consumer sentiment drops to 2-year low

Personal finance worries darken consumer mood.

The Westpac-Melbourne Institute of Consumer Sentiment slipped 2.6% in June to 101.2, the lowest level recorded in two years. Westpac states that this fall was largely driven by concerns over job prospects, taxes, and the economic outlook. The component of the sentiment index reflecting economic conditions for the next 12 months decreased the most.



Proudly sponsored by

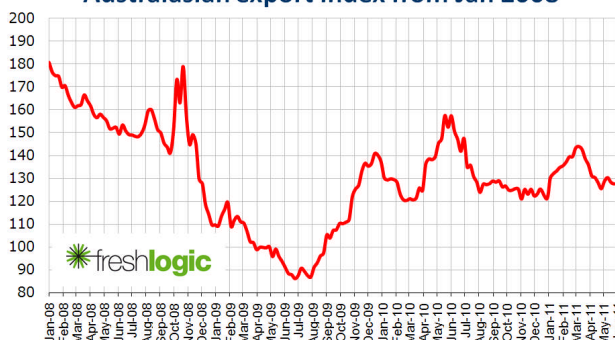


DAIRY REPORTER

Weekly Dairy News for Members of DFMC



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.

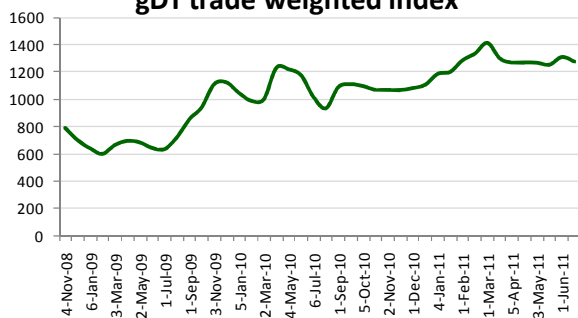
Index of export returns

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 and SMP firmer. Spot prices for butter and SMP were up by \$50/t and cheddar was steady. WMP, however, slid by \$25/t last week. The index of spot returns stayed nearly unchanged at **130.0** and the \$A closed the week at **\$US1.059**.

Prices dip at online auction. Average dairy products prices fell from a three-month high at Fonterra's online auction on June 15, as commodity prices and equity markets weakened on doubts about the pace of US economic growth and debt woes of Greece. The *globalDairyTrade*-trade weighted index fell 2.6% to \$4,324/t compared to the previous auction held a fortnight ago on June 1. The biggest movement came in skim milk powder, where the average (of \$3,999/t) was 7.1% lower than at the last event two weeks ago. Anhydrous milk fat prices dipped 5.9% to \$5,346/t, while milk protein concentrate and rennet casein declined 0.3% and 2.4% respectively. In contrast, whole milk powder prices continued to edge up by 2.6% to an average price of \$3,888/t.

gDT trade weighted index



Fonterra issues Renminbi bonds

Fonterra on track to tap the Hong Kong Yuan bond market.

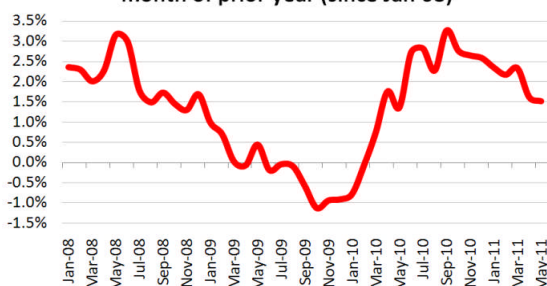
Fonterra has announced that it will raise 300 million Chinese Yuan (NZ\$42 million) through a bond issue denominated in CNH (Chinese Yuan deliverable in Hong Kong). General Manager Treasury, Stephan Deschamps, has said that the bond issue represents a further diversification in Fonterra's Treasury strategy. Fonterra already has debt denominated in US Dollars, New Zealand Dollars, Euro, Sterling and Japanese Yen. The company announced the issue had closed heavily over-subscribed.

US milk production slows

Growth rate sluggish though milk flows still ahead of last year.

Milk production in the US during May totalled 7.83 billion litres, a gain of 1.3% on the corresponding month in 2010. However, this is the slowest rate of growth seen in the US over the past 14 months.

US milk production % change on same month of prior year (since Jan 08)



Feed costs eat into profitability

High feed prices drag dairy profitability ratio to two-year low.

According to the profitability ratio published by the US Department of Agriculture (USDA), high feed costs are to be blamed for the latest downturn in dairy profitability. The preliminary milk-feed ratio for May was 1.74, lower than April when the ratio was 1.84. The ratio is the lowest recorded since July 2009, when it hit 1.57.

Lift in retail sales as UK population booms

Burgeoning UK population to drive liquid milk growth by 2015.

According to predictions by market researchers Mintel, UK retail milk sales (including flavoured milk and cream) will grow by an estimated 4.6% in volumes to 5.4 billion litres and by 9% in value to €4.89 billion by 2015 on the back of an estimated 3% growth in the UK population by 2015. White milk – which currently constitutes about 96% of the market volume and 88% of market value – is expected to dominate overall performance. While cream sales are expected to grow by an estimated 10.8% in value, sales of flavoured milk are expected to increase by 22% and 33.5% in value by 2015.

EU says Lactalis can buy Parmalat

EU approval almost secures Lactalis acquisition of Parmalat.

The European Commission has approved the proposed takeover of Italy's Parmalat by Lactalis. After examining the takeover bid, the competition regulator concluded that the deal "would not significantly impede effective competition in Italy or any other European Economic Area (EEA) countries" and that its investigation did not uncover any anti-trust concerns.

Mengniu eyes million dollar investment

Chinese dairy co-op to spend a whopping sum to improve supplies.

Chinese dairy processor Mengniu will be investing 900 million Yuan (\$135 million) this year in order to develop raw milk sources, including expansion of its dairy farms. Earlier this year, Mengniu reported a 10.9% increase in its 2010 full-year net profit to 1.24 billion Yuan. However, it had warned that rising material costs were affecting its margins.

Olam extends offer for NZFSU farms

Takeover offer deadline stretched to give shareholders time to consider.

Olam International has extended its takeover offer for NZ Farming Systems Uruguay (NZFSU) by two weeks, from June 14 to June 29. Two remaining directors have now recommended selling their 22% share to the Singapore-based supplier of raw and processed agricultural commodities. However, divisions on the board appear to be holding up a potential sale. It will be an admission of failure on behalf of NZFSU if the sale goes through.

Proudly sponsored by

