

# DAIRY REPORTER

Weekly Dairy News for Members of DFMC



21 Sept 2010

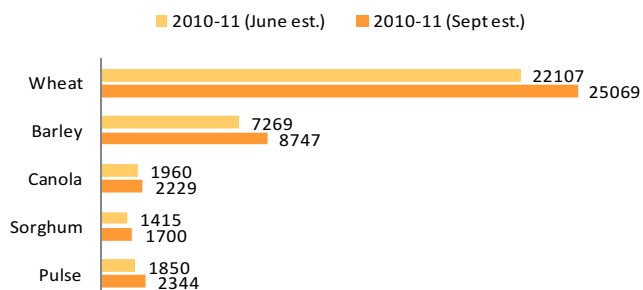
## Grain crop prediction from ABARE

**ABARE predicts a bumper grain crop production for Australia.**

ABARE has upgraded its forecast for winter crop production to 40.7 million tonnes, 5.5 million tonnes more than it expected in June and 16 per cent higher than last season. Nationally, the crop would be the third biggest on record, after the drought-breaking 43.4 million tonnes harvested in 2003-04 and the 41.3 million tonnes in 2005-06. Production in NSW is forecast to rise 93 per cent to 14.5 million tonnes, but dry conditions in WA are expected to slash production there by 22 per cent.

ABARE's quarterly report says that not only are the eastern states set for a good winter crop, but the conditions are also promising for the summer sorghum crop mainly grown in Queensland, with plantings up 55 per cent. The bumper crop in the east is assured only as long as locusts don't chew through too much of it, particularly in southern NSW, Victoria and South Australia, and the wet conditions may lead to an outbreak of stripe rust.

**ABARE grain production outlook (000't)**



## Milk sales improved in August

**A recovery in sales but numbers remain disappointing.**

The August milk sales data published by Dairy Australia this week showed total sales for the 2 months of the 2010/11 year were up 0.5% with some recovery in Qld and NSW, and ongoing strong sales growth in the WA market. Some of the odd UHT effect from July's numbers was reversed and the strong drift towards reduced fat products continued – those lines reported up 5.7% in the 2 months.

## FoodWorks limping towards death

**Troubled bid for Coles stores multiplies FoodWorks woes.**

Struggling 700-store independent supermarket chain FoodWorks has taken a hit from its failed bid to take over 45 Coles stores, running up a \$26m loss for the year. Its financial statements carry an auditors' warning of "significant doubt" the group can continue as a going concern. Financial statements filed by the company show it plans to be rid of all 22 stores so far transferred from Coles by Christmas. Wesfarmers, which loaned FoodWorks \$31.7m to buy the supermarkets, has agreed to a new payment timetable that pushes the bulk of payments out to the end of the next financial year.

## UHT expansion for Fonterra

**Fonterra expands UHT to quench burgeoning global demand.**

Fonterra Brands New Zealand has completed a NZ\$8 million expansion of its UHT milk processing plant in Takanini, Auckland, as part of the unit's plans to grow its footprint around the world and in Asia in particular. The division will be filling an additional 600 000 packs of UHT milk every week, an increase in output of 30%. The unit will have annual production of 90 million litres, up from 60 million last year and 27 million in 2005

## Headlines

- Crop forecast grows but locusts to hurt
- Milk sales better but sluggish
- Trade index up 1.9% in gDT auction
- Farmgate prices on the rise
- A long-awaited German co-op merger

### Indicators

Dairy export index	Index stronger despite a small lift in \$A
World dairy prices	Powder spot prices continue to rise
Australian cull cow prices in the US	Prices lower in \$A but market improving in US
Grain futures	Sharp lift in US wheat prices, local grains down

## Tax nasty for farmers

**ATO may act on treatment of FMDs for Australian farmers.**

Farmers who carry on their businesses through a trust structure could face increased tax bills, based on the Australian Taxation Office's interpretation of a High Court decision. Many farmers use trusts as their preferred vehicle for carrying on their business. In the past, the ATO allowed them to access specific tax concessions such as averaging and farm management deposits (FMD) even if the trust was in a loss position.

The ATO has interpreted the March High Court decision in the controversial Bamford case in a way that could result in these concessions soon being unavailable to farmers operating their businesses through trusts that have recently incurred a loss. One to watch for those using FMDs.

## Viet processor to invest in NZ Nth Island

**Vinamilk plans to set up a presence in NZ in its first move out of Asia.**

The country's largest milk processor and marketer, Vietnam Milk Joint Stock Company (known as Vinamilk), has been licensed to buy a 19.3 percent stake of a new NZ dairy venture Miraka Ltd which is reported to be developing a \$120million export production plant that will churn out just 32,000t of milk powder, and scheduled to go into operation in August, 2011. This is the company's first project outside Vietnam that would pave the way for it to further penetrate the global milk market, said Vinamilk.



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## Index of export returns

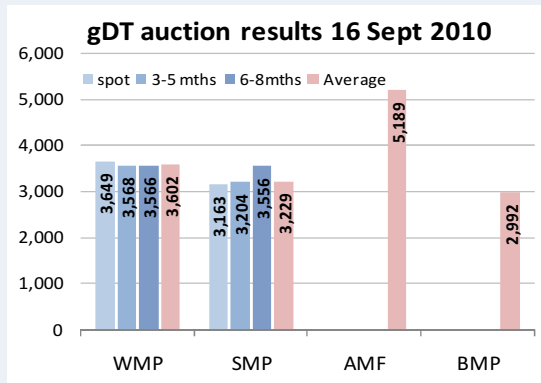
**Freshlogic tracks an index of the \$A value of spot returns from dairy exports as an indicator of the potential impact on southern milk prices.**

### Prices make further gains.

Export spot prices for both milk powders and butter rose again this week, with WMP posting the best gains after the fortnightly on-line auction results. The \$A was another 1 cent stronger over the week to **US93.78c**, wiping out most of the benefit of firmer prices on the value of exports in the local currency. The index gained half a point to be **128.8**.

### Auction results remain positive.

Prices have risen again on Fonterra's latest online global auction, although not as dramatically as the previous 16.9% rise. The 1.9% increase in the trade weighted index on globalDairyTrade was nonetheless a welcome sign of stability. The gains in the latest sale were led by a 10.2% increase for anhydrous milk fat, while SMP rose 1% and butter milk powder fell 6.4%. WMP climbed 1.4% to an average US\$3 602/t. There were 127 bidders participating in the sale which lasted 2 hours.



## Another loss for A2 Corporation

### A2 is still struggling to post a profit.

New Zealand's A2 Corporation (A2) has posted another full year loss, this time mostly caused by foreign exchange losses and the 50% NZ\$1.3m purchase of the Australian joint venture, A2 Dairy Products Australia, that it did not already own. The post-tax loss for the year ended 30 June 2010 came in at NZ\$2.19 million, down from a loss of NZ\$3.53m in the 15 months ended 30 June 2009. Operational losses of NZ\$640 000 were less than feared and compare to a loss of NZ\$2.73m in the prior 15 months.

## China lifts cheese imports

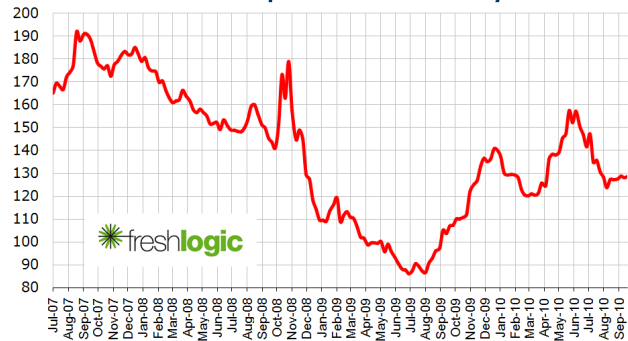
### Imports swell, as China pursues its new found love for cheese.

China has imported 11 480 tonnes of cheese in the first six months of this year, 65% up on the same period a year ago. The imports were mostly from New Zealand, Australia and the United States. Last year in full, China imported 16 980t, up from 13 900 in 2008, according to GTIS.

### New Holland Self Propeller Windrowers.

For the large scale operator New Holland offer a range of Self Propeller Windrowers (SPW) and associated fronts. The SPW range from 126hp to 226hp and can be purchased with HayBine™ sickle bar front cutting fronts from 14' to 18', DiscBine™ front from 12 discs cutting 15'5" to 14 discs cutting 18'. Additionally draper fronts can be installed cutting from 25' to 36'. If you are a large operator or contractor, call and talk to your local New Holland dealer for a brochure and quote on your requirements.

## 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.

## Farmgate prices on the rise

### Steady momentum as EU wholesale markets improve.

The average producer price for milk across the EU-27 countries in July was 30.1c/litre, according to official European Commission data, an increase of 2.7% on June price of 29.3 cents/100kg, and around 29 c/litre a year ago. The Commission report showed that the highest mainland prices in the EU in July were paid in Finland (36.7c) and Greece (36.3c), while the lowest prices were reported in Lithuania (22.6c) and Romania (21.2c). Greece and Portugal were the only two member states in which the July 2010 producer price was lower than the average price paid the previous year – due to the economic turmoil in both countries this year.

## German co-ops apply for merger

### Co-ops opt for much needed rationalisation to improve the weak German dairy sector.

German milk processing companies Nordmilch AG and Humana have applied for a formal merger, 15 months after winning the go-ahead to merge some of their operations. The full merger has been discussed since March, but the final hurdle, after regulatory go-ahead, will be the formal approval of their respective delegates at extraordinary general assemblies, aimed to ensure completion by January 1. The move will be welcomed by farmers. German farmers' union DBV said the merger would strengthen the market position of dairies against the overwhelming market power of retailers, and will trigger further structural improvements in the German dairy sector.

## Fonterra closer to two new Chinese farms

### Fonterra now a step closer to strengthening its Chinese dairy empire.

Fonterra signed an agreement with the Government of Yutian County in China to formalise the final stage of due diligence on two potential Fonterra dairy farm sites. Fonterra China Managing Director Philip Turner said: "This agreement is a positive step in the negotiation process with Yutian County. "We've always said that we believe the bulk of China's growing demand for dairy will be met by locally produced milk. The company's first farming operation in China, Tangshan Fonterra Farm, which was established in Hebei Province in 2007, has succeeded in demonstrating that "we can produce high quality milk at good volumes, profitably". By investing in two further farms, Fonterra says it is building on a commitment to build a safe, secure and sustainable milk supply for customers in China. Mr Turner added that: "We are pleased with today's agreement and the progress to date but there are still some critical issues to be resolved by Yutian County before we can finalise any transaction."

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