

DAIRY REPORTER

Weekly Dairy News for Members of DFMC



22 June 2010

National milk sales remain sluggish

Mixture of a sluggish north and good gains in the south limits the overall milk sales growth.

Australian milk sales were up by 0.3 per cent in May, with the year to date sales for the 11 months of 2009/10 season remaining 1.6 per cent higher than the prior year. The shift to reduced fat milk from full cream and no fat products continued this month, with month on month drops of 1.5 per cent and 4.9 per cent, respectively, with a year to date gain for reduced fat by 4 per cent. UHT has enjoyed strong growth with year to date value of 7.2 per cent. Sales in Qld and NSW remained sluggish – just in the black but when adjusted for the growth in UHT business, fresh milk sales are slightly down on the prior year.

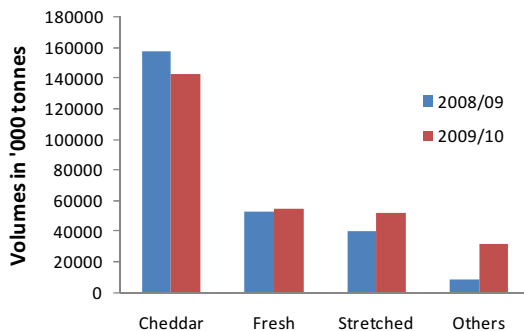
Cheese output is just below prior year

Cheese category gets an uplift, though major changes have occurred in our production mix as manufacturers.

Dairy Australia's latest figures show that national cheese production was up by 14.7 per cent in April, though output in the season to date at 281 067t remained 1.2 per cent down on the first 10 months of 2008/09.

Cheddar production, the main variety, rose by 8.4 per cent in April to 8,246t, though year to date output for the first 10 months of the 2009/10 season stayed 9.6 per cent down at 142 562t. On the other hand, fresh cheese manufacturing has reported a 3.8 per cent increase at 54,658t, while stretch cheese (including mozzarella) output has lifted more than 30% on the strength of the pizza market to 51.876t in year to date output.

Australian cheese production by type



ABARE grain outlook

ABARE revises March estimate, infuses optimism into Australian grain outlook.

The Australian Bureau of Agricultural and Resource Economics (ABARE) has offered a positive grain outlook for 2010/11 period and revised its forecast by 1 per cent from its March estimate.

According to ABARE, Australia could harvest its best crop in five years at 22.138 million tonnes in 2010/11, up by 2 per cent from last year. In particular, it reckons that the good rains in the eastern Australia would help the Australian eastern states to yield an above average crop output.

However, it takes a dimmer view on the winter crop prospects in Western Australia. The federal government's commodity forecaster has also added that there could be a fall in the wheat exports to 14.52 million tonnes in 2010/11 from an estimated 14.77 million tonnes in 2009/10.

Headlines

- Milk sales remain sluggish
- Cheese output down 1.2% on last year
- EU sells more butter out of its bunkers
- HLG paper paves ground for EU reform
- Danone-Unimilk in historic merger

| Indicators | |
|--------------------------------------|--|
| Dairy export index | 3pt decrease with a 2c rise in \$A |
| World dairy prices | Small increase in butter, with others steady |
| Australian cull cow prices in the US | Prices fall as US buyers fears weak demand |
| Grain futures | US wheat futures rise, local prices steadied |

Woolworths last in customer satisfaction

Woolies fails to impress customers, gets shoved to the last place.

Latest figures from consumer researcher Roy Morgan showed customer satisfaction with supermarket chains in Australia is the highest among Aldi's patrons by a wider margin, with Woolworths dropping to the last place of the big four. Over the 6 months' average surveyed response to April 2010, Aldi customers have reported 91.9% satisfaction - a 12-month high - compared to 86.4% for Coles, 85% for IGA and 84.3% for Woolworths.

The April results show Coles reasonably stable, but more importantly ahead of Woolworths by just over two percentage points. The Supermarket Satisfaction report also reveals Coles outperform Aldi in two categories of fresh meat and packaged goods.

Fonterra retains fifth ranking

Rabo's top 20 list gets a reshuffle, though Fonterra is still very much in the power game.

Fonterra has retained its fifth position in a report on the world's top 20 dairy rankings, which shows two China producers now in the line-up.

Dutch financial group Rabobank's report said the Yili Group has entered the top 20 for the first time, while 19th-placed Mengnui, which debuted last year, has moved to place 16. Fonterra, the world's leading dairy exporter and NZ's biggest company, held its 2009 fifth position by turnover of €7.28 billion. Swiss giant Nestle remains No1 with annual turnover of €18.55. Second is France's Danone on €10.60b, third Lactalis of France on €9.09b and fourth Dutch heavyweight FrieslandCampina with €8.01b. Rabo observes that in recent years, rising domestic market demand in developing world has helped increase the number of representatives from non-Western countries to make it to the list previously dominated by EU and American multinationals.

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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 hold.

Powder prices stayed firm, while butter prices strengthened further by US\$50/tonne this week. However, currency movements continued to pull the index of export returns south. The index was pruned more than 3 pts to **147.0**, as the \$A closed the week up 2 cents stronger at **US\$87.20C**.

More butter sold from intervention, SMP bids rejected.

After a successful first round of intervention tendering, the second round of selling to offload EU dairy stocks sold a total of 11935t of butter but again no SMP was moved. Butter sold within a narrower price range of €3551 to €3815 per tonne, though still significantly above the average market prices, and current spot futures prices. However, all SMP bids offered at prices ranging from €300/tonne to €2212/tonne were rejected yet again, as Brussels refused to sell below the average current market price of €2340/tonne. The next tenders scheduled to be conducted in early July will have bids called for the remaining 1755t of butter and 79553t of SMP.

HLG paper paves ground for mild reforms.

After six months of discussions, EU member states have finally reached a consensus in a "compromise" report on milk at the recent High Level Group's (HGL) meeting held on June 15. This final HGL paper summarises urges the EU Commission to reform the dairy sector, besides tightening its grip over milk contracts, to avoid further crisis repetitions. Reform is a strong term perhaps as these changes are very mild and require a lot of faith in member country willingness to change competition law for the dairy sector. It also gives a blessing to other forms of support such as intervention and potentially export subsidies, which the Commission has tried to consign to history, but fears of future volatility once quotas are removed from milk production may keep export refunds in the cupboard.

The report makes some important policy recommendations, including preparing an EU contractual framework that will cover specific delivery elements such as price payable at delivery, volume and time of delivery, and duration of contract; amending the EU competition rules for dairy farmer organisations to negotiate contract terms; and examining if current fruit and vegetable sector flexibilities can be extended into dairy. The report also urges the commission to consider new support tools and "feasibility of different options" for country origin labels for primary dairy products. In response, EU Farm Commissioner Dacian Cioloş has pledged to develop a stand-alone regulatory package on dairy before the end of this year. The above HLG recommendations will now be discussed by the EU Commission at the July Farm Council.

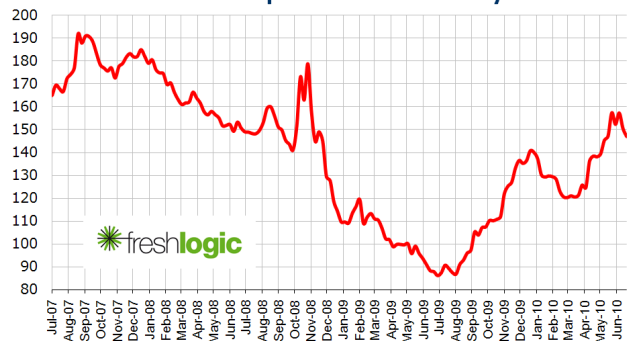
MAF tips 20% expansion in output by 2014

MAF treads the path of caution, yet paints a rosy picture for future.

Government economists are taking a more cautious view than Fonterra this season, but in the medium term, predict milk prices will jump to \$7.21/kg of milk solids by the end of the 2014 season. The Ministry of Agriculture and Forestry's (MAF) analysts – whose SONZA report projected agricultural earnings out to 2014 – have taken a more conservative stance than Fonterra's \$6.60/kg MS forecast for this season, picking a national milk price of \$5.60/kg for the season, averaged across a series of companies. The surge in earnings will be based on a rise of nearly 58% in the value of dairy exports. MAF predicts though the price will dip to \$5.24/kg in 2012, rise to \$6.17/kg in 2013 and \$7.21 in 2014. They also forecast the nation's milking herd would increase from 4.6 million cows to more than 5.02 million by 2014, and the volume of milk solids produced would rise by 21.9% between 2010 and 2014.



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.

Danone-Unimilk in historic merger

Historic merger blends strengths to create a dairy market leader in CIS.

French Danone and Russian Unimilk have decided to merge their business operations throughout Russia, Ukraine, Kazakhstan, and Belarus to create Danone-Unimilk, the prospective market leader in dairy in the Commonwealth of Independent States (CIS), before the end of this year. This merged entity will be controlled by Danone at 57.5 per cent interest, while Unimilk's current shareholders will hold the remaining 42.5 per cent. Danone-Unimilk is expected to generate annual sales of about €1.5 billion (based on proforma 2009 figures) and employ over 18,000. According to Danone, this alliance, which will enable it to gain a foothold in the fresh dairy market throughout Russia and Eastern Europe, will bring together the complementary strengths of the two companies in geographical presence, distribution networks, production strengths, and product range. The merger transaction will now be subject to regulatory approval in both the countries.

Euro MPs extend country labelling to dairy

European MEPs vote sparks wrath of UK dairy industry, intensifies war on country labelling.

The EU Parliament has voted to extend country labelling (COOL) to dairy products, including other foods like meat, poultry, and fish. This decision has come as a huge disappointment to the dairy industry lobbyists, the European Dairy Association (EDA), which still "strongly opposes" the mandatory country of origin labelling and intends to prevent the bill from becoming a law. Although proponents of COOL state that country labelling would enable a greater transparency and prevent misleading labelling, EDA maintains that it would be impractical, costly and inefficient. Further, it states that COOL could also hamper EU trade, limit sourcing flexibility, and coerce companies to change labels frequently. The adopted bill will be now considered by the Council and then read for a second time in the Parliament before it is established as law.

Dairy health message confusion in UK poll

UK consumers confounded and lost in the maze of dairy health messages.

A recent poll conducted in the UK reveals that one in three people in the UK are confused about dairy health messages. According to the survey, about 82 per cent of the respondents believe that dairy is good for children, though many are clueless about how to include it in their diet. Health perceptions of dairy were also found to differ widely, with women more inclined to perceive the negative effects of dairy and cut down daily intake (37 per cent) compared to men (26 per cent). While 65 per cent of respondents considered milk to be nutritious, 10 per cent of them associated the word "fattening" with it. Yoghurt was the only dairy product that was rarely viewed as unhealthy, with 71 per cent regarding it as healthy.

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