

DAIRY REPORTER

Weekly Dairy News for Members of DFMC

22 March 2011

NatFoods rationalises cheese sites...

NatFoods gets on with rationalising its cheese business, but will boost existing sites.

National Foods announced a rationalisation of its cheese production sites from 8 to just 4 plants. NatFoods will invest \$120million to upgrade its Burnie facility to a 25,000-tonne site, producing all its mainland specialty cheeses, transferring operations from Heidi Farm and Kings Meadow over 3 years. The Murray Bridge and Jervois sites in South Australia (where NatFoods milk supply is under the strongest pressure) are likely to be sold to an unnamed 'interested party', who can presumably work miracles in the circumstances. Victoria's Simpson and Campbellfield sites will be wound down over 3 three years.

The company's joint venture with Warrnambool Cheese and Butter at Allansford wasn't part of the review, but will get a touch-up. King Island will get a \$12 million boost to improve operations. The Malanda site in far north Queensland will continue to manufacture mozzarella to use contracted milk supplies from local suppliers, in surplus after loss of the Woolworths private-label milk contract.

...drawing concern from DFMC

DFMC worries about the effect on its suppliers.

DFMC chairman, Ian Zandstra, said the decision to close plants was of great concern to all dairy farmers, and could cause significant disruption to DFMC members businesses who supply to the SA and Victorian cheese plants. The announcement followed recent factory closures in NSW and the loss of major retailer contracts in Queensland, and will mean NatFoods will want much less of DFMC members milk – theoretically forcing more milk into a lower Tier 2 milk price pool in the 2011/12 season and beyond.

Zandstra said the National Foods today is "not the company his members were promised" when they agreed to sell the Dairy Farmers business in 2008. DFMC is seeking a commitment from National Foods to extend all DFMC contracts in the southern region at current volumes until at least the end of the 2011-12 season, but says it will also enter into discussions with other processors about potential future supply arrangements.

Coles plays "household savings" line

Coles says milk price cuts only to benefit consumers, not hurt farmers.

The written submission from the major retailer defends its decision to cut its private label milk prices, as lower prices are designed to give Australians a better deal on groceries in the face of rising living costs. Coles has put a number of \$800m to \$1bn in savings to consumers through its lower price strategy alone. The submission says Coles did not intend to sell, and hasn't sold, retail milk below the commercial cost of acquiring it, and believes that because of the price rises in private label products in mid-January, there'll be no impact on processors' margins or returns to farmers. Coles says it supports Australian dairy farmers and "greater transparency of farm gate pricing". Coles' representatives are due to appear at the Senate committee in Canberra on March 29.

Fonterra steps-up

Fonterra steps up for southern suppliers to get back in line with its competitors.

Fonterra has increased its average annual farm-gate milk price by 26 cents per kilogram of milk solids to \$5.30kg/MS. This price rise, for Victorian and Tasmanian suppliers, includes an increase of 16c/kg of butterfat and 40c/kg of protein and will be backdated to July 1 last year. Fonterra national milk services manager Heather Stacy said the increase reflected strong international demand for dairy products and milk products, particularly across the Middle East, South East Asia and China.

Headlines

- NatFoods to reduce cheese sites
- Coles plays up household savings
- Fonterra steps-up
- Prices fall heavily in GDT
- SMP tender draws no bids

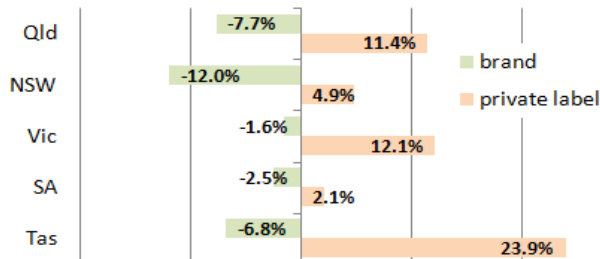
Indicators

Dairy export index	Index falls with weaker dollar
World dairy prices	Sharp fall in prices
Australian cull cow prices in the US	Market stronger with better US beef demand
Grain futures	Strong rebound in US wheat futures

Shift in milk sales varied in February

Dairy Australia's data on February milk sales shows varying effects from the reduction in private label pricing, with branded fresh white sales volumes down in all states and private label volumes well up. While the full impact may not be known until we see March numbers because of orders in the system and product on shelf when the price cuts took effect, the impact is nonetheless significant in several states. The numbers for brands are worse in modified milk products, where the price cuts are more severe. WA data is omitted due to inconsistencies in the data pool in 2011.

February 2011 fresh white milk sales volumes (change from Feb 2010)



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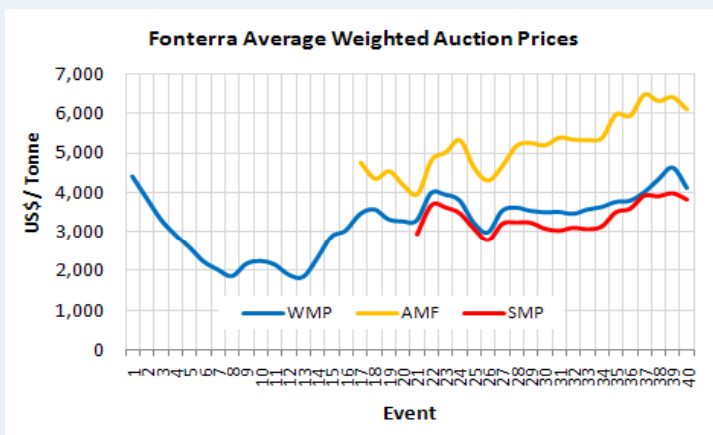
Index of export returns

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.

Japanese factors hit markets and \$A.

Spot prices fell this week following the lead shown by the mid-week gDT auction (below), with powder prices taking a bath – WMP losing US\$350/t and SMP US\$200/t. The panic response of financial markets to the tsunami and nuclear disasters in Japan saw the value of the \$A fall sharply – quickly dropping 3c against the US dollar - but it rallied as the world began to take stock of the effects and support the Japanese financial situation. The \$A closed a turbulent week at \$US0.996, leaving the index down slightly to 142.5.

Fonterra auction prices slide. Milk powder prices fell heavily at the latest Fonterra online auction, a 11.4% decline for whole milk powder (WMP) to US\$4 105/tonne from two weeks earlier. The average price is dragged down by the lower price of \$3 890/t for September-November orders. But the drop in prices for June-August orders was sharpest - down 13% to \$4 303/t. Skim milk powder (SMP) was also down 4.6% to \$3 816/t, with earlier shipment orders dropping hardest to \$3 730/t for shipments in June to August. AMF fell 4.5% to average \$6 111/t.



SMP tender interest dries up. No-one is very interested in helping to clear the small mountain of skim milk powder in the EU. No bids were received for intervention skimmed milk powder in the tender by the EU dairy management committee in Brussels. 50,000t of SMP remains available for sale from intervention. Lack of interest in the tender indicates that concerns over powder supplies have now eased as the EU enters its peak milk production period and comes after weakening in SMP prices in Fonterra's auction.

NZ: Long way to go for "clean and green"

Fonterra and MAF not on the same page for initial minimum fund size.

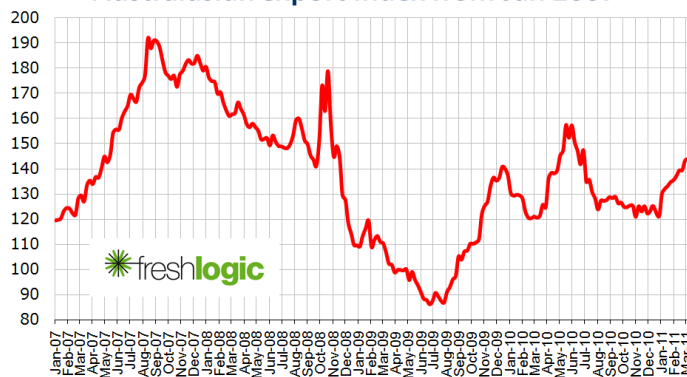
Fonterra says last week's Clean Streams Accord result on consent compliance is unacceptable. The update for the Dairying and Clean Streams Accord showed significant non-compliance increased by 1 per cent to 16 per cent for the 2009/10 season. Overall the result for dairy effluent being appropriately treated and discharged increased 5 per cent to 65 per cent, reclaiming the lost ground from the 64 per cent result in 2007/08.

Danes adopt a "fat tax"

Denmark has adopted its controversial "fat tax" after a vote in favour by the country's parliament, despite a massive lobbying effort by the country's food sector, including the dairy industry. The tax will apply across a range of products, including meat, meat products, oils and processed foods containing saturated fats. The Danish Dairy Board said it was a "sad day" for the sector and put dairy products in the same category as cigarettes and alcohol: unhealthy foods to be avoided by the consumer.



Australasian export index from Jan 2007



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.

Early days for Japanese impacts

Challenge looms for dairy in Japan as radiation turns up in milk.

Radioactive material from Japan's leaking nuclear plant has reportedly affected milk supply in Japan, causing some panic buying of fresh food and dairy products in stores. The government's food health officials have been trying to play down the risk, suggesting that cat-scans pose a greater risk of radiation exposure than drinking milk from affected feed and cows. The extent of the ongoing threat to Japan's milk supply depends on the success of measures to gain control of the Fukushima plant where progress has been claimed in recent days, but confidence and trust are the biggest battles ahead for the Japanese leadership. There have been some disruptions to trade due to the damage to ports on the eastern coast of the country, yet it is far too early to call the extent of damage to the Japanese economy from the damage and nuclear accident.

Lower growth, higher prices in US outlook

Expected decrease in milk per cow trims the yearly milk output for the US.

The USDA has cut its milk production forecast from its February forecast and accordingly slightly lifted nearly all of its dairy product and milk price forecasts for 2011. USDA has trimmed its milk production forecast to 88.9 million tonnes, though this is still up 1.6% from 2010's record output. Relatively high milk prices and more replacement heifers are expected to encourage further increases in the herd through much of 2011, but the rate of increase in milk per cow is forecast to slow, USDA said. US exports are forecast higher as global SMP and cheese demand remains strong, with tight supplies in competitor markets (Australia and NZ) expected through the first half of 2011. **US production in February was up 2.1%** - a further slowing in the rate of increase over the prior year, mainly due to higher cow numbers.

General Mills wins Yoplait stake

Long-standing relationship strengthens as General Mills grabs 51% stake in Yoplait.

General Mills, US food manufacturer and Yoplait licence holder, has paid US\$1.12bn for the 50% stake in the company on offer from French investment group PAI Partners, and 1% of French co-op Sodial's 50% stake. The deal enables Sodial to retain an equal stake in the licensing of Yoplait. This transaction further cements the longstanding relationship between Yoplait and General Mills, which began in 1977 when General Mills was granted the Yoplait brand licence in the US. General Mills, one of the world's largest food companies with net sales last year of \$16bn, offered a long term strategic plan for the business. The plan aims to strengthen Yoplait's market position in Western Europe as well as accelerating its international expansion, particularly in emerging markets.

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