

# DAIRY REPORTER

Weekly Dairy News for Members of DFMC



23 Nov 2010

## MG to take up WCB issue, buy shares

*MG stays committed to a bigger involvement in WCB.*

Murray Goulburn has announced that it will purchase enough of the newly diluted Warrnambool Cheese and Butter shares to bring it back to its original percentage stake in the company, following WCB's proposed equity raising.

The company has effectively signalled it will continue in its bid for rival WCB with its purchase of "additional" shares last week – buying 580,302 shares when WCB shares were trading at \$3.28 to \$3.61. In a letter to suppliers, managing director Stephen O'Rourke said this move was to reinstate the co-operative's 10 per cent shareholding, which will be diluted to about 8.5 per cent after WCB announced it would raise \$37 million through a placement and entitlement offer.

## Tatura's profits improve

*Market adaptability a key factor in Tatura's success.*

Tatura Milk Industries has reported a before-tax profit of \$12.7 million, which compares to a loss of \$5.4 million the previous year. Chairman Barry Irvin said while Tatura revenues decreased from \$310 million to \$271 million, the processor's ability to adapt to the market has helped it recover. Tatura reported \$5.8 million had been invested in capital projects and debt had been reduced to \$24.6 million last financial year. The company declared a 4c/share dividend, which added to the 3c/share interim dividend declared in March.

## Parmalat's 3<sup>rd</sup> quarter results

*Australian operations boost global results for Italian parent...*

Parmalat SpA group's 3<sup>rd</sup> quarter results featured a strong contribution from its Australian operations, chiefly due to the consolidation of the former National Foods' FreshCo, acquired in July 2009. Australian operations posted consolidated net revenues of \$796 million, up from \$621 million in the first nine months of 2009 while EBITDA increased by 22% to \$67.4 million.

Parmalat cited a decrease in the cost of raw milk, as well as positive results for high-margin products such as flavoured milk and yoghurt as also contributing to the stronger result. Parmalat said it had strengthened its position in fresh white milk by expanding its distribution network.

## ACCC blocks sale of Franklins

*ACCC's decision poses exit dilemma for supermarket chain Franklins.*

The Australian Competition and Consumer Commission said it will oppose the sale of supermarket chain Franklins to independent wholesaler Metcash, on the grounds that it would create a monopoly in wholesale supermarket supply in NSW, and make it more difficult for another wholesaler to enter the NSW market. The ACCC also said it was "aware that other parties, whose bids would not raise the same competition concerns as Metcash's bid and indeed may enhance competition, have expressed strong interest in acquiring the entire Franklins business."

However, the Chairman of Franklins' owner Pick n Pay, Mr Gareth Ackerman, said no other offers for the Franklins business had been made to them. The ACCC's decision will make their exit more difficult, requiring them to activate their back-up plan - sale of individual supermarkets, or groups of supermarkets, by tender.



## Headlines

- MG will keep chasing WCB
- World market steady in latest auction
- Rabo changes view on China
- Russians to get out of NZ
- Milk growth in US may slow

Indicators	
Dairy export index	Index weaker with steady dollar
World dairy prices	Powders and cheddar weaker
Australian cull cow prices in the US	Weak recovery in prices continues
Grain futures	US wheat prices lower, local grains steady

## Russian owner to sell NZ plant

*Trouble at home may cause a retreat.*

New Zealand Dairies Ltd's plant on the South Island at Studholme is officially on the market, with Russian owners Nutritek calling in global financial services firm Morgan Stanley to find a buyer. NZDL chairman Richie Smith said Morgan Stanley would advise Nutritek on a potential divestment of its New Zealand operations, and will invite expressions of interest in the South Island milk-processing operations. Following a strategic review of its global operations, Nutritek had decided to refocus on its domestic Russian business.

The company has been reported to have monetary troubles at home and proposed expansion including moving into value-added milk products such as baby food have been put on hold at the dairy factory. The company expects strong interest in the facility, which was well-placed for expansion.

## Slump in NZ farm values slows sales

*Turnover in dairies almost grinds to a halt.*

October farm sales in New Zealand slumped by almost one-third on last year, amid a climate of cautious buyers and tight lending criteria. Real Estate Institute of New Zealand (REINZ) figures show just 147 farms changed hands in the three months to the end of October, most of them in the Manawatu/Wanganui. In the three months to the end of October 2010 only 147 farms changed owners, a 28.3 per cent drop on the 205 sold in the same 3 months last year, 390 farms in 2008, and the 582 sales in 2007. Just eight dairy farms and four arable properties were sold during the three months. Anecdotal evidence suggested an increase in buyer inquiry for dairy farms in recent weeks, particularly in the South Island, he said.

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## Index of export returns

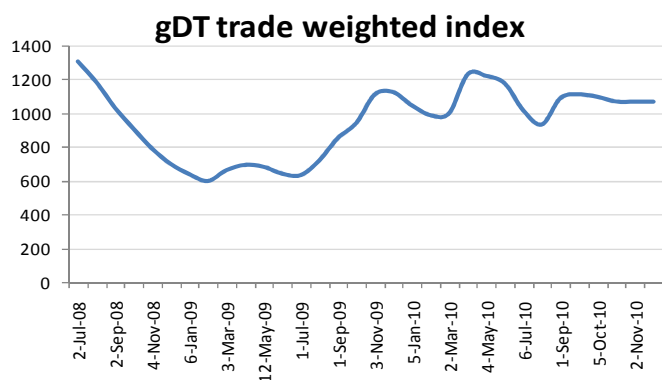
**Freshlogic tracks an index of the \$A value of spot returns from dairy exports as an indicator of the potential impact on southern milk prices.**

### Weaker spot prices.

powder and cheese prices fell this week – WMP taking the biggest fall – as fears of the effects of higher production and stocks curbed enthusiasm. The index of export returns was 2 points weaker at **123.0** after the \$A stayed relatively unchanged over the week at **US98.6c**.

### GDT prices steady.

Dairy commodity prices showed little movement at Fonterra's globalDairyTrade online auction, with prices for butter milk powder (BMP) and skimmed milk powder (SMP) faring best. The global dairy trade weighted index fell 0.1%, as AMF on average fell 1.8% to \$5 341; BMP was up 3.6% to \$3 113; SMP rose 1.9% to \$3 096; but WMP fell 1.4% to \$3 447.



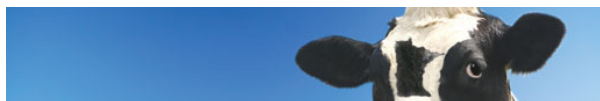
### No takers in SMP latest tender.

The EU's latest tender to sell dairy products from intervention has again attracted minimal interest from traders, as no bids were received for sales of butter or skimmed milk powder. Even though intervention stocks of SMP still stand at just under 200 000t, bids to withdraw these stocks for use on the internal market have dried up in recent weeks. Some 44,102t of SMP are to be made available for sale at the next tender, which the Commission will adjudicate at the next management committee meeting on December 16.

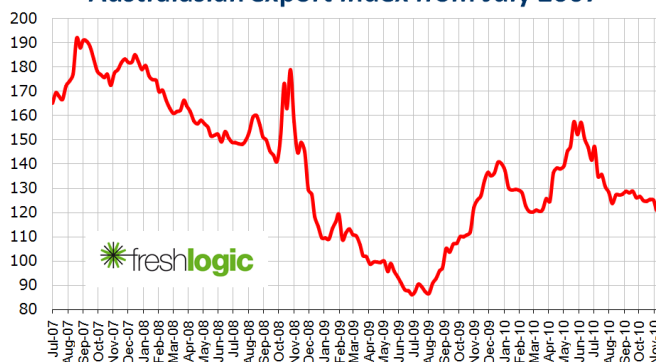
The Commission announced that the standing tender for butter sales has now been closed, because the quantities left in stock have all been reserved for distribution to deprived persons under the EU's Aid for the Needy scheme in 2011. Only 1 544t of butter remain in EU intervention stocks, the majority of it in Lithuania.

### New Holland BOOMER T4000 Compact Tractors.

With an ultimate combination of brawn and agility, the 55 horsepower Boomer 4055 and the 60 Horsepower Boomer 4060 are the perfect choice for jobs that require big power in tight spaces. Their huge engine and hydraulic capacity means they can grade, dig, haul and lift; do more in less time. The 12 x 12 Electro - Hydraulic Shuttle Shift (EHSS) transmission allows you to shuttle between forward and reverse without clutching, for easier loader and blade work, or when mowing. The optional Super suite™ Cab, features a unique hi visibility roof window, slim line cab pillars, flat floor and curved glass. This ensures excellent noise suppression further boosting operator comfort. With 45.5 LPM pump capacity, on top of a 20.8 LPM from the separate steering pump, productivity when loading and turning is not compromised.



## 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.

## Rabobank changes views on China

### Deeper, structural change will sustain reliance on imports.

Rabobank has shifted its opinions on the likely role of China and India in global dairy markets, no longer holding the view they will soon reach self-sufficiency, and now predicts that they will call on imports more frequently in the next three to four years.

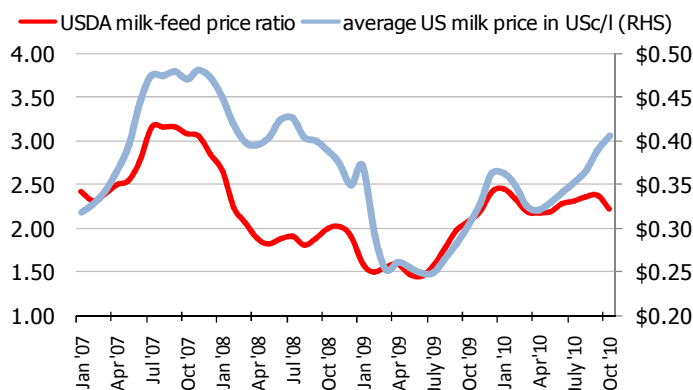
Rabobank said that China in particular has a structural deficit that will be difficult to erode in coming years, but internal demand from their own consumers will add to upward pressure on prices. Rabobank predicts that China and India will offer major opportunities for processors. It said both markets offer opportunities for export growth, selling of know-how and services, or investment on the ground in the manufacture of milk or dairy products. Part of this need for know-how will be servicing by Chinese companies expanding outside the borders of China.

## US milking margins not getting better

### Rising milk prices do not necessarily translate into higher margins on dairy farms.

While US milk prices have been rising as the flow-through of higher product prices get delivered to dairy farmers, margins on farm aren't getting any better as feed costs are also rising quickly. The recent dip in product prices will soften and reduce farmgate prices in the coming months, tightening the screws even further. Feed costs have risen quickly in the past quarter and the USDA projects 2011 costs to remain high due to crop shortages and a higher offtake into biofuel production.

## Milk-Feed Price Ratio since 2007



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