

# DAIRY REPORTER

Weekly Dairy News for Members of DFMC

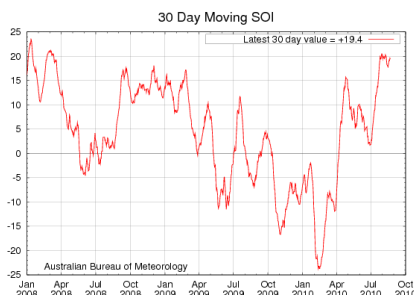


24 Aug 2010

## Positive weather outlook

*La Nina stays around to usher in wet days and cool nights in Australia.*

The latest outlook by the Bureau of Meteorology says that a La Niña event - usually the bringer of above average rain - is entrenched and likely to last into next year. Computer models indicate the central Pacific will continue to cool over the coming months, suggesting the La Niña will persist until at least the end of the year. The Southern Oscillation Index - a measure of difference in air pressure across the Pacific - remained well above La Niña thresholds.



The latest SOI remains in a healthy positive position, where it has been since April this year.

## Coles shines for Wesfarmers



*Profits improve at Coles, as the chain gears up for further work to catch-up to Woolworths.*

Coles Supermarkets posted increased profit margins for the 2009/10 financial year. The food & liquor division of Coles delivered a 17% lift in EBIT on \$867m on revenues that improved 5.4% and 5.0 on a same-store basis over the full year. Coles' food & liquor EBIT margin was up from 3.3% to 3.7% showing benefits of its turnaround strategies.

This is still a long way behind its rival Woolworths which booked an EBIT margin of 6.45% in its half year result with included fuel. Return on capital for Coles in full (including convenience) lifted from 5.5% to 6.5%, also well behind the return achieved by its rival of 41% in the half year - albeit on a very different funding model.

## Pizza chain has some challenges in Europe

*Domino's sales growth sliced as EU customers turn away from pizza.*

Domino's which runs 825 pizza stores in Australasia and parts of Europe reported total network sales of \$694.3 million, up 2.7 per cent, while revenue for the company itself of \$236.1 million for 2009-10 was down 1.2 per cent. Full-year profit rose 16 per cent to \$17.8 million, which Domino's said took annual profit growth for the past three financial years to 25.1 per cent. However, like-for-like full-year sales showed problems, as same-store sales rose only 2.8 per cent, down from 4.6 per cent in 2008-09. The Australia and New Zealand stores recorded slightly better same-store sales growth of 3.23 per cent, while comparable sales in Europe were 3.7 per cent, but overall growth was lower due to closures.

## NZ dairy gets an R&D boost

*Multi-million fund injection to spur innovative developments in NZ dairy.*

The NZ Government is putting up \$144 million into two initiatives worth \$321 million over seven years to boost productivity and new products for the dairy and red meat sectors. Under the Primary Growth Partnership - a joint scheme involving government and private investors - the government will inject \$84.6 million into the seven-year, \$170 million dairy programme, and \$59.5 million into the seven-year \$151 million red meat project. The dairy programme, led by Fonterra and DairyNZ, aims to create new products, boost on-farm productivity and reduce farmers' environmental footprints. It expects to drive significant additional benefits by 2020.

## Headlines

- Rainfall outlook remains positive: BOM
- Coles posts stronger profit result
- NZ dairy gets an R&D boost
- Fonterra sets new exports record
- US output up almost 3% in June

Indicators	
Dairy export index	Minor decrease with a small lift in \$A
World dairy prices	No changes in commodity prices
Australian cull cow prices in the US	Prices higher in \$A as US beef supply shortens
Grain futures	Sharp decrease in wheat prices, local grains up

## Fonterra delivers record exports

*Fonterra exports hit 2.1 million metric tonnes...*

Fonterra has set a new export record by sending 2.1 million tonnes of products to international markets. The exports tonnages were 60,000 metric tonnes higher than those in 2008/09, contributing to NZ's six-month consecutive trade surpluses. This record includes 140,000 TEU (twenty foot equivalent containers) shipped from NZ ports between August 2009 to July 2010. The leading exports included milk powder, butter and cheese that lifted the June trade surplus to \$276 million and year-to-June surplus to \$639 million.

According to Fonterra CEO Andrew Ferrier, consistent demands throughout the year from international markets such as Asia has helped Fonterra to overcome the 2 million tonne milestone and end the financial year with tight inventories

*... as it sticks to its 2010/11 price forecast, despite weaker spot prices.*

Fonterra has announced it will not change its forecast payout before retentions for the 2010/11 season in the range of NZ\$6.90-\$7.10 per kgms. The payout combines an unchanged forecast milk price of \$6.60/kg ms and an unchanged forecast profit after tax of 30-50 cents/share. The company had previously signalled a possible cut to the payout rate on August 4.

Meanwhile Canterbury dairy processor, *Synlait* has signalled its belief that 'industry payouts' will drop by the end of this season. Its August 2010 'Synergy' newsletter states that if dairy prices continue the falls of the past 3 months, current payouts will be unattainable. "Our current estimates are that industry payouts are more likely to be in a range of \$5.50-\$6.00 in the 2010/11 season."

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## Index of export returns

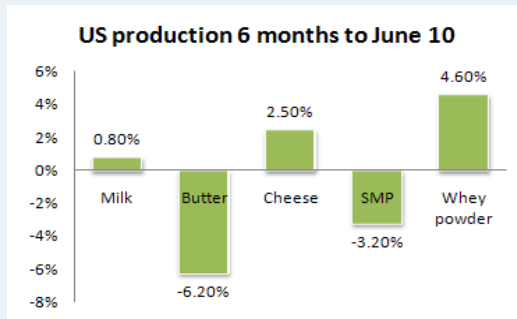
**Freshlogic tracks an index of the \$A value of spot returns from dairy exports as an indicator of the potential impact on southern milk prices.**

### All quiet

Spot prices for all major commodities were again unchanged this week, while the \$A had risen slightly over the week to trim the value of the export index. The \$A closed at **US\$89.4c**, while the index was down at **127.2**.

**US production up nearly 3%** will add to over supply fears

US milk production in July was up by 2.9% over the same period in 2009 said USDA, with higher per-cow productivity and few cows. The biggest surge came in California, which continues a rebound that will place most of the growth onto export markets already struggling with more supply expansion than demand growth.



## Long-term cheese trends are changing

**New US demographic patterns set to change long-term cheese demands.**

The USDA has published a long-term study into cheese consumption which suggests that strong growth in consumption for more than three decades may abate as Americans age and the non-white population grows. Annual per capita consumption of all cheese products has grown steadily from 6.5kg in 1975 to 16kg in 2008, as per capita demand for liquid milk and other dairy products declined. Cheese now uses a staggering 43% of US milk. Natural cheese demand for use in pizzas has been the driver of the growth. USDA reckon race and ethnicity changes will erode per-capita demand, with the non-white US population forecast to increase more rapidly than the white population, and the fact that Africans, Asian and Hispanics eat less cheese. The aging population will help offset that as people over 65 tend to eat higher amounts in their diets.

## Better result for UK's biggest co-op

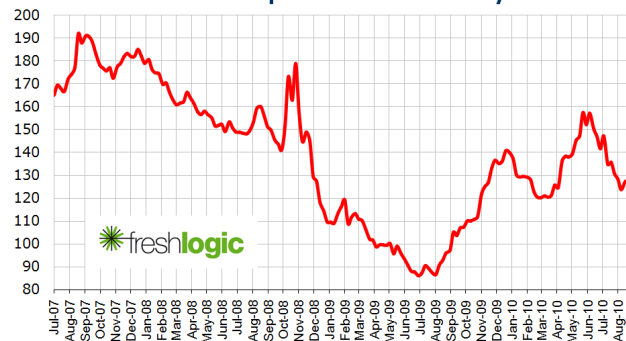
**First Milk books solid profits despite last year's economic downturn.**

UK's First Milk says it has achieved a turnaround in profit despite the global economic downturn and falling commodity markets. First Milk booked a £10.3 million turnaround in pre-tax profitability to achieve a small profit for the co-op of £0.4m in the 2009/10 financial year. Group turnover was £536m, which was down 8% on 2008/09, reflecting a move away from a number of low margin private-label cheese contracts. The company said it invested in a number of projects for site improvements and upgrades to improve efficiency.

### New Holland RolaBar™ Rakes.

New Holland and RolaBar™ rakes are legendary in the haymaking industry. Depending on the model, rakes delivering either left or right, ground or hydraulic driven and in widths of 8'6" and 9'6" are available. For wider raking, the model 216 Unitized rake offers a twin rake working width up to 27'. To discuss your hay rake requirements, call your local New Holland dealer.

## 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.

## Kirin down in first half

**First half spells losses and slash of profits for Japan's biggest beer maker.**

Kirin, the owner of National Foods, booked a 52.2% fall in net income to ¥7.16bn (US\$83.6m) for the six months to the end of June. Sales from Kirin's soft drinks and foods division fell 21.7% in part because of the company's decision to change the financial year of Lion Nathan National Foods, the parent company of Dairy Farmers, National Foods and Australasian brewer Lion Nathan. Operating income from Kirin's soft drink and foods division stood at ¥2.5bn - against an operating loss of ¥9bn a year earlier.

## Turnaround in UK milk output?

**Could surging milk flows herald the turn of tide for the fragile UK milk industry? Rising feed costs may shorten the current rally in milk flows.**

UK milk production was the highest for a month for 4 years says DairyCo. Deliveries to plants during the month were up 40 million litres, or 3.6% higher than a year ago, the highest level for the month since July 2006/07. DairyCo says it is too early to say whether this is a turning point for UK output, after years of decline. During April to March 2009/10, output hit a new low of 12.82bn litres compared to 13.48bn litres in 2006/7.

Farmer margins have increased on higher milk prices and low feed costs, but that may be short-lived with the jump in feed prices. In June, total average feed costs stood at 4.87ppl, a fall of 0.43ppl (8.1%), compared to June 2009. There was also a 1.35ppl (5.9%) increase in the average milk price over the period, to 24.08ppl.

## Mexico gets back at US over trade barriers

**A stalemate for the 15-year cross-border trucking dispute as countries get even.**

The Mexican government has said that it would impose tariffs of 20% to 25% on several major categories of U.S. exports to Mexico, including many cheeses. According to the Mexican government, this action is being taken as part of Mexico's ongoing effort to seek U.S. compliance with its NAFTA obligation to provide Mexico with cross-border trucking access into the United States.

This retaliation has been authorized by a NAFTA Dispute Settlement Panel due to lack of U.S. compliance with its NAFTA transportation obligations. With respect to the newly published retaliation list, Mexico noted that it had "yet to receive a formal proposal for the resolution of this dispute and an unequivocal signal that the U.S. government is working to eliminate the barriers that Mexican long-haul carriers face to access the U.S. market."

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