

DAIRY REPORTER



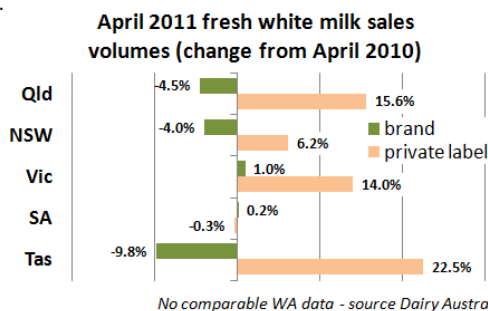
Weekly Dairy News for Members of DFMC

24 May 2011

National milk sales update

Fresh white milk continues to grow, as private label movements hold.

Dairy Australia reported that milk sales in April were on a par with the same month in 2010, while the YTD sales were 0.5% ahead of the previous year to date. All states experienced growth in milk sales in April, excluding South Australia which was down by 3.3%. The impact of reduced private label pricing continues to be mixed. In Victoria, sales of fresh white milk in brands is now ahead in aggregate terms compared to the same time last year, SA has seen limited overall effect, while in Qld and NSW the changes in share remained similar to previous months and much deeper in modified milk products.



WCB loses shares cap this week

Processor now a valid target as it loses shares cap

Shares in Warrnambool Cheese & Butter (WCB) continued to climb over the past week to reach \$4.89 last night, as speculation about the future ownership of the company builds ahead of the removal of a 15% shareholder cap on Wednesday of this week. WCB shares are probably benefitting from expectations of a better bottom line as the company, with brokers RBS Morgan tipping EBITDA of \$37.5 million, up from \$25.8 million last year.

Burra Food milk step-up

Burra Food announces fourth step-up in farmgate prices for its farmers

Gippsland manufacturer Burra Foods has announced a further price step-up of 7cents/kg fat and 17cents/kg protein, which the company says takes the average annual net price to above \$5.40/kg of milk solids.

Wesfarmers denies ADF

ADF: Wesfarmers' denial of meeting is an act of "extreme arrogance"

Wesfarmers has rejected a shareholders' request to hold an Extraordinary General Meeting on the issue of the discounting of private label products by its subsidiary Coles on the basis that the proposed resolutions relates to "management matters" and were legally invalid. In response, ADF has stated that it is disappointed with Wesfarmers' decision, and that it would be consulting with farmers about what their next move was. Earlier, ADF sent an open letter to Wesfarmers chairman Bob Every requesting a meeting to explain Coles' price strategy on milk and dairy products, and how Coles' strategy is consistent with values and corporate social responsibility. According to ADF, Coles is selling milk "cheaper than many varieties of bottled water", a move that it claimed is significantly devaluing "one of the most premium fresh products" available.

Danone launches Activia

Danone debuts popular yoghurt in 69th country - Australia

Danone, through its joint venture with dairy co-op Murray Goulburn, has launched its global probiotic yoghurt Activia in Australia. Activia is Danone's flagship spoonable yoghurt, with is sold with claims of soft digestive health benefits in 68 countries across the world.

Headlines

- National milk sales update
- WCB shares rise ahead of cap lifting
- Wesfarmers denies ADF
- US milk output growth slows
- NZFSU revises earnings outlook

Indicators	
Dairy export index	Index trimmed as dollar stronger
World dairy prices	SMP steady, \$50/t drop in others
Australian cull cow prices in the US	Market weaker again with increased supply
Grain futures	Sharp rise in wheat prices

Metcash talks up growth ahead of results

Analysts predict better earnings, as Metcash unfolds expansion plans

Grocery wholesaler Metcash has embarked upon ambitious plans for expansion in new stores and refurbishments this year, addressing tough retail and property market conditions to exceed expansion targets in 2011. IGA retailers opened or acquired 73 new stores in the 12 months ended April 30, completed 41 refurbishments, while 40 existing supermarkets were converted to the IGA network. Stores converted to IGA in 2010 achieved an average of 22.3% lift in sales while refurbishments delivered an average of 15-20% sales lift. Metcash reports its full-year results in two weeks, expected it to report net profit of about \$252 million for 2011, compared with \$245 million in 2010.

Consumer confidence dips

Confidence takes a hit as Federal budget weighs on consumer minds

The Westpac-Melbourne Institute of Consumer Sentiment slipped 1.3% in May to 103.9 from 105 in April, the fifth fall in 10 months and the lowest recorded since June 2010. Westpac states that this decline was largely driven by concerns over possibility of another interest rate rise and state of economy. The Federal Budget weighed heavily on consumer minds, with 36% of respondents stating that the budget will worsen their finances. Only 7% stated that it will improve their finances.

La Nina in death throes

La Nina's fading away heralds normal rainfall patterns for Australia

The La Nina anomaly that brought unprecedented rain and flooding and tropical cyclone activity in Australia over the past year is now in its death throes, with most indicators now showing neutral conditions returned to the Pacific ocean, according to Dr Andrew Watkins, the Bureau of Meteorology's head of climate prediction services.

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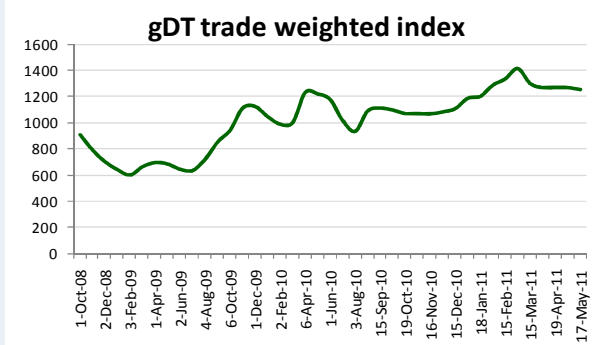
Index of export returns

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.

Market slightly softer.

Spot prices for WMP, butter and cheddar slid this week by \$50/t each, while SMP stayed unchanged. The \$A climbed higher against the \$US to pull down the index of export returns by almost 2 points to **128.1**. The \$A closed the week at **\$US1.0638**.

Prices align with expectations at GDT. Dairy product prices were once again relatively stable at Fonterra's online auction on May 17, with *globalDairyTrade*-trade weighted index down just 1.1% from the previous event on May 3. The biggest movement came in anhydrous milk fat (AMF), where the average (of \$5,340/t) was 5.8% lower than at the last event two weeks ago. There was virtually no movement (-0.1%) in whole milk powder (WMP) prices, whose contracts for shipment by July averaged \$3 989/t. This slipped to \$3,958/t and \$3,753/t for product to be shipped between August and October, and November and January 2012, respectively, reflecting higher spring availability. The average price for skimmed milk powder (SMP) dipped -1.5% to \$3,824/t. There was no trading in milk protein concentrate (MPC) and rennet casein, which were being offered for the first time.



Record volumes traded on NZX Futures Market. NZX Dairy Futures has recorded the highest volume executed in a single month since launch, with 162 lots being traded in May, surpassing the previous record of 155 lots in December 2010.

Fonterra's debt rating holds up

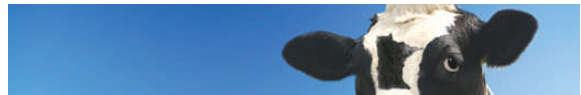
Fonterra gets its long-term debt rating affirmed

Fonterra Cooperative Group had its long-term debt rating affirmed at AA- by Fitch Ratings. Fonterra accounts for 40% of the world's international dairy trade, with exports of whole milk powder, skim milk powder and anhydrous milk fats, reflecting its status as a low-cost producer. That gives the group flexibility when seeking to grow market share in developing markets, Fitch said. It also had a stronger credit profile since amending its constitution last year, making explicit that payments to its shareholder-farmers are subordinate to debt payments. But Fitch said a ratings increase was "considered unlikely" given Fonterra's reliance on a single product and a single country for its milk.

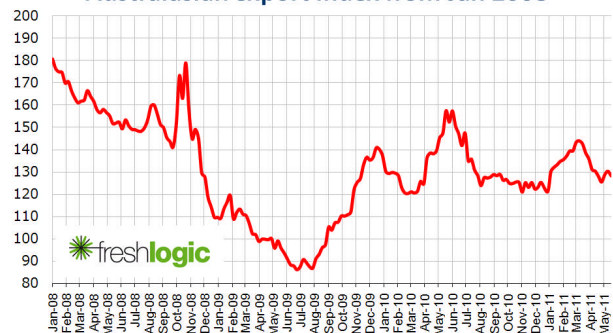
NZ milk production for March

Promising times for dairy farmers as more milk flows in NZ farms

New Zealand milk production in March 2011 edged up by 7.3% compared to March last year. While milk production usually starts to ease rapidly during Q2, good pasture growth rates this year have resulted in greater numbers of cows being milked on during the autumn period. Output per cow has also benefitted from higher feed levels. The 2010/11 season will conclude next week, with the total milk collected across New Zealand now expected to be around 4% more than last season.



Australasian export index from Jan 2008

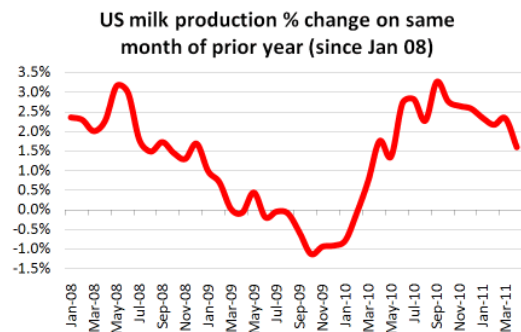


Take note: The index is an indicator of spot trends in gross export returns to the industry based on quoted Australasian export prices, movements in currency and the total milk usage in exports by the Australian industry. It was set at 100 on 1 January 2004.

Growth of milk output eases

Milk flow eases despite good increase in the figures of cows milked

US milk production in April 2011 totalled 7.56 billion litres, a gain of 1.5% on the corresponding month in 2010. In April 2011, although the number of cows in milk increased from the previous month by 8,000 head, after growing 37,000 head during the first quarter, the output per cow eased, curbing the total output.



Lactalis faces rejection from Parmalat

Lactalis' "inadequate" bid fails to impress Parmalat

Parmalat turned down a bid from French dairy giant Lactalis to buy the whole of the business, after the company's board of directors reviewed Lactalis's €3.4 billion (\$4.83bn) bid for the 71% of the group it does not already own. Parmalat's board said it reached its decision after considering an opinion on the bid from Goldman Sachs. Lactalis' offer price of €2.6 is also lower than the €2.80 per share it paid in March to acquire a 15.3% stake taking its share to 29%. Earlier in the week, Lactalis received the approval from Italy's stock market regulator CONSOB for its bid and since stated that it is aiming to acquire at least 55% of Parmalat.

NZFSU revises earnings outlook

Strengthening milk prices trim full-year forecast loss for NZFSU

South American dairy operator *NZ Farming Systems Uruguay* (NZFSU) trimmed its forecast loss for the full year on the back of stronger milk production and milk prices. NZFSU said that it now anticipates a loss of \$8.3 million before interest and tax for the year ended 30 June 2011, an improvement of \$2.9 million over the forecast announced in February. NZFSU has received an average of 35.9 US cents per litre at the farmgate for the 10 months to April 2011, with milk production now forecast at 105 million litres for the full year compared with its earlier forecast of 95-100 million litres.

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