

# DAIRY REPORTER

Weekly Dairy News for Members of DFMC

25 Jan 2011

## Warrnambool's profits leap

*WCB tips a record half-year profit as it thrives on a strong export market.*

Warrnambool Cheese and Butter has forecast a significant lift in profit for the first half, expecting a net profit after tax in the range of \$35-37 million for the six months ended December 31, 2010, up sharply from \$8.9m in the corresponding period a year earlier. WCB said its result was boosted by strengthening international dairy commodity prices and a favourable shift in the volume mix of the business to reflect an overall higher margin contribution. WCB's share price has risen sharply in the past week, up more than 60c to sit at \$4.37 as this goes to print.

WCB warned that results for the half year are not necessarily indicative of the company's full year results, as retrospective increases in milk prices from July 1, 2010 may hit full-year earnings. Final half year figures are expected by the end of February.

## Fonterra steps up southern milk prices

*Fonterra ups price to farmers on back of strengthening global commodity prices.*

Fonterra has stepped up Victorian and Tasmanian milk prices by 8c/kg fat and 20c/kg protein, or about 13c/kg milk solids, backdated to July 1 last year. Fonterra's National Milk Services Manager Heather Stacy said the increase reflects conditions in global dairy commodity markets where prices have held and then strengthened at the end of last year.

## Heifer trade may have peaked

*Prices soar as demand for heifers builds momentum.*

The lucrative export heifer market may have peaked, after recent strong demand for heifers forced prices up \$200 a head for unjoined heifers aged six to 12 months. Elders' meat and livestock general manager Hamish Browning said exporters were waiting for demand signals from China as to the outlook of the trade this year. Chinese buyers had recently paid \$1000-\$1300 recently to secure the heifers, and Elders didn't expect prices to alter, as value is driven by a number of outside influences such as domestic prices and global dairy commodity values. But it might be the volume of heifers exported that could be affected. Dairy Livestock Services director Scott Lord said there was plenty of demand for Holstein heifers, but supply was an issue.

## Woolworths' sales pick up

*Inflation and frugal consumers dampen Woolworths' earnings forecast.*

Woolworths Ltd closed downgraded its earnings forecast for the 2011 financial year, after posting 4% sales growth for the first half of the year. The company blamed ongoing dampened consumer sentiment, the disruption due to the flooding and low food price inflation. Australian food and liquor sales grew 3.5% to \$18.8 billion, despite increased competition from Coles, with same-store sales growth of 2.5%. Woolworths reported negative inflation for the quarter – after the effects of promotions – of 4.3%.

## Margin to leave Goodman Fielder

*More change at small-time dairy player Goodman Fielder, as another executive steps down from the top.*

Peter Margin, former CEO of National Foods and now at Goodman Fielder, a key player in the fresh milk market in NZ, announced his resignation to "pursue the next stage of his career". Chairman Max Ould said Margin had done an "outstanding job of leading the company" through its IPO in late 2005 and "establishing it as the leading locally-owned food company in Australasia". The resignation of Margin, who will leave Goodman Fielder in April, is the second major departure to be announced at the company in two months. Former Warrnambool Cheese CEO Neil Kearney has taken up the role of CFO at Goodman.

## Headlines

- Fonterra pays its 2<sup>nd</sup> step-up
- Another positive auction result
- US milk production up 1.8% in 2010
- Japanese cheese imports lift
- Farm Bureau open to change

Indicators	
Dairy export index	Index stronger with stable dollar
World dairy prices	Sharp gains in butter, while powders stay firm
Australian cull cow prices in the US	Small lift in prices
Grain futures	Sharp increase in US wheat prices

## Worrying fall in NZ sales

*Dramatic fall in sales as price of milk becomes rich for many NZ households.*

A jump in the price of a two litre bottle of milk to \$4.30-\$4.50 in the past three months has resulted in a 1% slump in sales. Fonterra Brands managing director Peter McClure says milk sales have been growing solidly at 2-3 per cent for five years, boosted by Kiwis' love affair with coffee. While price rises have affected demand in the past, this time the decline is persisting. Sales of 1kg family blocks of cheese have also dropped off after reaching \$10. But sales of butter, which has soared by 50% to \$5 for 500gms, are holding steady thanks to the "incredible impact" of householders' appetite for television cooking and celebrity chef shows", he says.

## Dairy farm price revival?

*New upturn in farm sales – a solid start to 2011 for NZ rural sector.*

The REINZ says the sale of 30 dairy farms in December as "a huge boost for the rural sector and has brought about a significant improvement in the market." The national median farm sale price rose to \$1,150,000 for the three months to December 2010 – the highest for 2010 and a 15% on the same period in 2009, but well below the median of \$1,525,000 for the equivalent period in 2008. The average size of the dairy farms sold in December was approximately 146ha, with an average milk solid production of 982kg/ha. The average price per hectare was \$38,479, almost \$5,700 up on the per hectare price for dairy farms in November.



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## Index of export returns

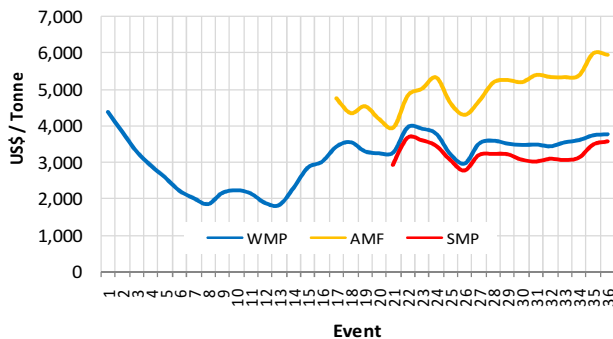
**Freshlogic tracks an index of the \$A value of spot returns from dairy exports as an indicator of the potential impact on southern milk prices.**

### Butter, skim firm.

Spot prices for butter and SMP moved higher this week. The \$A was practically unchanged over the full week to close at \$US0.989, but the index improved a point to **133.1**.

**gDT auction prices.** Dairy commodity prices on average rose slightly with a 1.2% lift in the trade weighted index last week. BMP was the big mover, up 14.5% for the short-term contract. Powders were more subdued – SMP was up 2.4% and WMP lifted just 0.5%, with stronger rises in short term contract prices. Fonterra is not picking a trend in what it says remains a volatile market. Fonterra director of optimisation, trading and sourcing Ian Palliser said it was difficult to predict prices. "I'm not certain that it creates a trend one way or another," he said. "If you look at the volatility in dairy prices over the last three years I wouldn't say that the rises we've had over the last three or four events are out of line with [that] volatility."

Fonterra Average Weighted Auction Prices



**Brussels offloads 9506t of SMP.** The EU fixed a minimum selling price for skimmed milk powder (SMP) of €2250/t, to offload 9,500 tonnes in its latest dairy tender. The minimum selling price was fixed close to the assessed average EU market price for SMP for food purposes of €2253/t. Some 81,815t of SMP will be available for the next tender, to be held on February 3.

## Japanese cheese imports

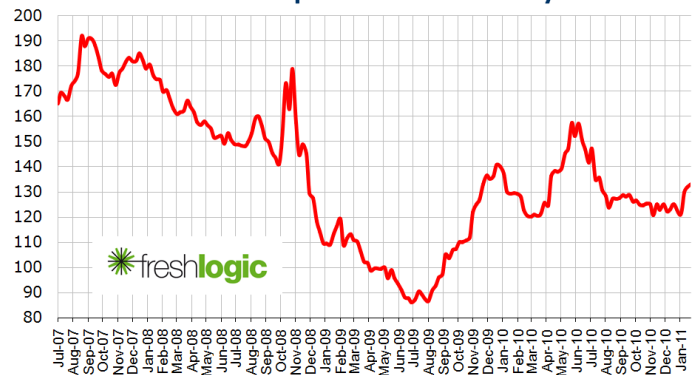
**Stronger yen and burgeoning appetite drive solid cheese imports in Japan.**

Japanese spending on all cheese categories climbed 7.4% to ¥74 billion (€667.7 million). Over the 11 months from January to November 2011, imports of cheddar and related types has risen 10% in volume, while the import demand for fresh cheeses has increased 8.5%. In **fresh cheese**, Australia dominates with 64% of volumes but that was also a slip in % terms, with NZ picking a couple of points of share to hold 17% of that market.

**New Holland's T7000 AUTO COMMAND Tractors** is all about ease of operation. No complex transmission menus. Simplified function options. Easy access to advanced and easily understood features. Auto Command matches ease of operation with exceptional efficiency. By making it easier than ever before to optimise performance and productivity, a New Holland T7000 Auto Command tractor repays your investment faster. Throughout the working life of the tractor, you benefit from your foresight to invest in the best. Designed and built by New Holland, T7000 Auto Command benefits from a new generation of CVT transmission. With four direct drive points, offering 100% mechanical efficiency, plus advanced double clutch control, you get the smoothest and most productive CVT available on the market today. Discuss your working application with your local New Holland dealer to see how a T7000 Auto Command will meet your requirements.



Australasian export index from July 2007



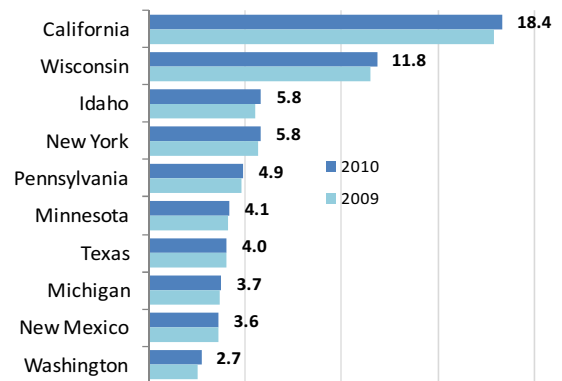
**Take note:** The index is an indicator of spot trends in gross export returns to the industry based on quoted Australasian export prices, movements in currency and the total milk usage in exports by the Australian industry. It was set at 100 on 1 January 2004.

## US production growth slowing

**Assorted results by major dairying regions subdue the milk output rate.**

US milk production climbed 2.6% in December, bringing annual production in 2010 to 87.6 billion litres, or 1.8% higher than 2009. In the past quarter production has grown 2.8% higher than the comparative quarter. The rate of monthly year-on-year growth has expectedly tailed off slightly in the past quarter. The top 10 states showed mixed fortunes in total output, with the top 4 states outperforming the national average growth rate for the year, as Idaho became the number 3 state, pipping New York into 4<sup>th</sup>. Of the top 10, Texas and New Mexico posted slight declines in output.

US top 10 state milk output (bill litres)



## US farmer body now open to key change

**New dairy risk management to curb milk price volatility in the US.**

The American Farm Bureau Federation, the largest US farm organisation has opened the door to considering of a temporary dairy supply management. AFB has rejected production or marketing quotas but said that the milk pricing situation justified a mechanism to discourage excessive milk output. Delegates at its 92nd annual meeting supported a new direction in dairy policy to reduce milk price volatility. A new policy of dairy risk management, adopted by delegates, offers protection based on gross margins after subtracting feed costs. The system should be created "in a fiscally responsible way" by diverting the funds previously allocated to dairy price supports and Milk Income Loss Contract payments to finance the new risk management program. The new policy allows consideration of a temporary supply management system but maintains AFBF's opposition to mandatory milk quotas. The policy shift gives Farm Bureau the flexibility to support a proposal similar to the margin insurance and growth management schemes advocated by the National Milk Producers Federation (NMPF).

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