

# DAIRY REPORTER

Weekly Dairy News for Members of DFMC



25 October 2011

## UDP buys Lion's Murray River plants

*Lion offloads SA plants to concentrate its cheese operations in Tasmania*

The Victorian-based milk trader and processor United Dairy Power has purchased the Jervois and Murray Bridge cheese factories in South Australia from Lion for an undisclosed sum. The plants were formerly part of the Dairy Farmers and National Foods businesses respectively, now merged into the Lion dairy division of the Japanese-owned processor. The plants have formally been on the market since Lion completed a review of the future of its cheese business earlier in 2011.

UDP says it will take over the factories in November and plans to increase capacity at Jervois. As part of the sale of the two sites, UDP has acquired the Caboolture (a regional town in Queensland) brand, and they will also contract pack a number of Lion products at the sites, including Le Rice, Pura Sour Cream and Mozzarella cheese. David Basham, president of the *South Australia Dairyfarmers' Association*, said the sale was a win for dairy farmers as it would "increase competition in the South Australia dairy market".

## Parmalat shifts south

*Parmalat prefers cheaper milk from NSW over fragile northern supply*

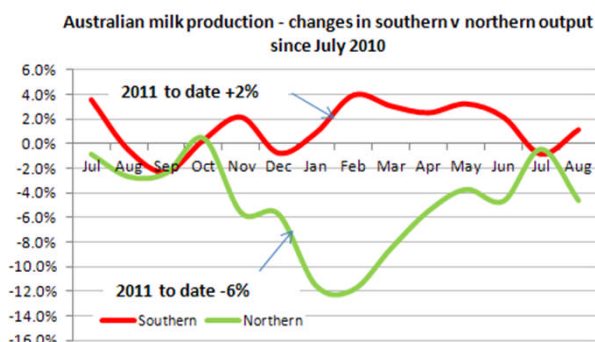
Parmalat is reported to be looking to shift processing lines from Brisbane to Sydney plants after picking up about 130 million litres of milk a year from new suppliers in NSW to fill expanding local production needs at its big Lidcombe plant. Parmalat's commercial development manager, Vince Houlihan, is reported to have said he would like to sign up another 40m litres after January 2012 to lift central NSW supplies to the Sydney plant. Parmalat is considering transferring some of its Pauls modified milk production in brands such as Trim, Skinny Milk, and PhysiCAL which also launched in NSW this year.

"Trying to service the Australian market with milk processed in Queensland milk is not so sensible in the long term," Mr Houlihan said. Apart from milk being more expensive to produce in Queensland, the average age of Queensland's 670 dairy farmers was now 61 and many would leave the industry within 10 years. "NSW has quite a few older farmers in a similar position - we're on the cusp of a general shift in numbers out of the industry leaving fewer farms to rely on, particularly in northern climate zones," he said.

## August milk was flat

*National milk flows curbed by ongoing output declines in the north*

Dairy Australia released national production for the month of August which showed output level with the same month in 2010 - a situation that has changed markedly since with a strong spring flush occurring in southern export production regions. Victoria and Tasmania were the only states ahead of the comparative in August (despite Gippsland being 8% down), while Queensland is still showing the effects of weather and low confidence, posting a decline of almost 9%.



## Headlines

- UDP buys Lion's SA plants
- Parmalat shifts south, wants more milk
- National milk output was flat in August
- Powders rebound, cheese slides at GDT
- US output 1.7% higher in September

Indicators	
Dairy export index	Index lifts, dollar steady
World dairy prices	Powders rise, butter falls
US cull cow prices	Prices increase
Grain futures	US wheat prices firmer on dry weather and late crop

## Coles' sales sustain momentum

*Coles notches up 13 consecutive quarters of sales growth*

Coles Supermarkets sales rose 8% per cent for the three months to September. Sales at convenience stores jumped 17.7% as fuel incentives kicked in, while food and liquor sales increased at a more sedate pace of 5.5 per cent over Qtr 1 last year. The group claimed that its same store sales were 5.2% - the same as the previous quarter. Food and liquor price deflation was 1.8% due to lower fresh produce prices as crops recovered from weather damage earlier in the year. Coles refurbished 10 stores in the renewal format, opened three new stores and closed two stores in the quarter. Coles has a total of 157 renewal stores out of a total 742 stores.

## Water cuts not so great

*Proposed cuts below the bottom end of the previous draft plan*

The chief executive of the Murray Darling Basin Authority Rhonda Dixon told a Senate committee last week that the draft plan for the basin's water future - due out next month - would contain cuts in availability of irrigation water to users in the basin of around 2800 GL. This is down from the range of 3000 to 4000GL that sparked a massive backlash from irrigators and rural communities last year and led to a delay in the plan's completion and the resignation of the Authority's then CEO, Mike Taylor. The plan was likely to entail buybacks of water through to 2015, and then a reassessment of ongoing requirements.

## Dairy farmers need "special support"

*Co-op steps up to help farmers under the new carbon regime*

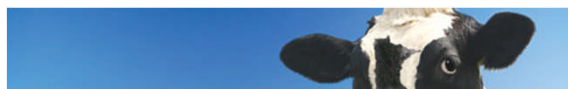
Fonterra estimates the average dairy farm will pay about \$3,000 more for power once the carbon tax comes into effect. Australian MD John Doumani told a press breakfast last week that the company is talking to Government as "we believe they have not fully understood the specific needs of dairy farming". The company is advocating greater assistance for farmers to help them transition to low carbon technologies, and that they should be considered when it comes to compensation packages.

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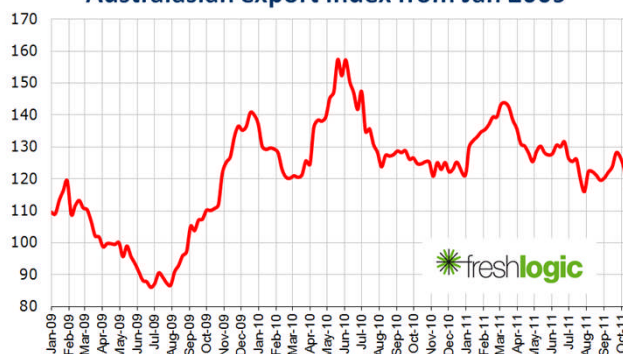
## Index of export returns

*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.*

**Prices fall.** Spot prices for milk powders improved this week in line with the rises seen in the GDT auction, while butter lost \$US100/t. The \$A ended the week near to where it started, closing at **\$US1.0358**. The index of spot returns lifted to **117.0**.

**Auction prices mixed as powders stabilise.** The average price for the mix of commodity products offered in the latest gDT auction rose 1.7 per cent, to give the platform its first increase since June. But it was a mixed bag with powders rising and fat products continuing to fall. Cheddar continued its inglorious start on the auction platform, recording another heavy fall. Whole milk powder prices rose on average 5.7% to US\$3,503/tonne from the previous auction, as shorter term delivery contracts performed best with the two nearer-term contract products improving by more than 6%, while the June 2012, contract edged higher to \$3,603/t. SMP was also up 3% on average to US\$3,292/t. Anhydrous milk fat fell 1.7% to \$3 645/t but cheddar put in another poor performance, falling 8.4% to \$3 497/t.

Australasian export index from Jan 2009



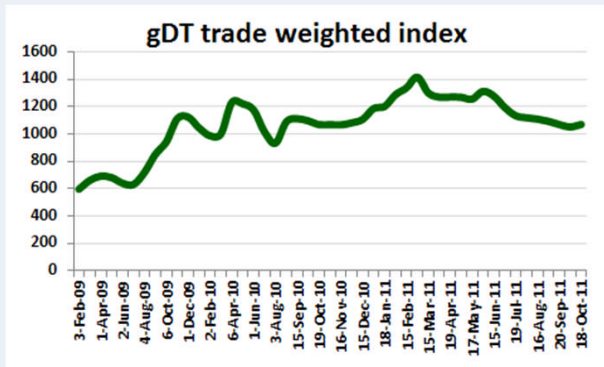
**Take note:** The index is an indicator of spot trends in gross export returns to the industry based on quoted Australasian export prices, movements in currency and the total milk usage in exports by the Australian industry. It was set at 100 on 1 January 2004.

## US production up 1.7%

*More milk flows as yield resists hot summer temperatures*

US September milk production was estimated by the USDA to be 1.7% higher than September 2010. Cow numbers were estimated at 9.21 million head, 88,000 cows more than September 2010, but unchanged from August 2011. Production per cow was slightly higher than the prior year. US milk production during the September quarter was up 1.4% from the same quarter last year.

Despite high feed prices and continued heavy cow slaughter, the US herd continues to hold onto more cows than anticipated. The herd is forecast to average close to current levels at 9.2 million head for the year. Yield per cow has also risen more rapidly than anticipated, and is forecast at 9,680 litres per cow (national average!), an increase from September estimates. Milk output per cow doesn't appear to have been burned off as much as expected by the hot summer temperatures.



**Fonterra using EU futures platform.** Fonterra has started trading butter and skimmed milk powder (SMP) futures on the European derivatives exchange Eurex operated by *Deutsche Börse AG* and *SIX Swiss Exchange*. "We believe in hedging our price risks through listed derivatives as offered by *Eurex Exchange* as we see continued volatility in dairy markets around the world", said Bruce Turner, director of commodity risk & trading at Fonterra. "With Eurex's futures we now have the instruments to help us to address our exposure in Europe." The Eurex derivatives market is one of a number of risk management tools that Fonterra uses.

## Doha dead, new plan revealed by Emerson

*Free trade push as decade-long Doha trade talks reach a dead end*

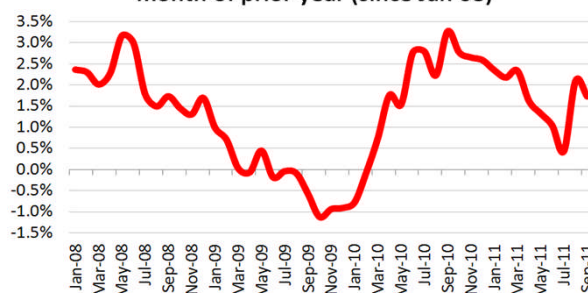
Australia's Trade Minister Craig Emerson has admitted the Doha Round of global talks is dead with no genuine progress reached in talk last week and 2012 elections in the United States, India, Korea, France and Mexico. Emerson says Australia will now lead "a breakaway free trade push sidelining the nations that cling to protectionism". The WTO would hold trade liberalisation talks on a sector-by-sector basis under this new Emerson plan, broking agreements with those genuinely willing to negotiate, and leaving the protectionists to their own devices. While this is not a unilateral approach, it is different to reaching bilateral FTAs.

## EU is 6% below quota but 5 get fined

*Exceeding sunseting EU dairy quotas brings fines for 5 members*

Denmark, the Netherlands, Austria, Cyprus and Luxembourg incurred EU penalties of about €55.6m after producing more milk than their EU quota in the year to 31 March 2011. This quirk of the EU's farm policy is despite total EU milk production still 6% below the total quota volume, and 14 member dates recording milk deliveries to plants at least 10% below their quota.

US milk production % change on same month of prior year (since Jan 08)



## Another Algerian investment

*New dairy plant strengthens Nestlé's dairy footprint*

Nestlé hopes to boost growth in Algeria by opening a new milk powder factory about 20km south-east of capital city Algiers, which will supply *Nespray* and *Gloria* packaged milk powder products to the country. The factory also looks set to expand the distribution of other Nestlé brands such as *Nescafé* and *Nesquik* in 2012. The new factory follows a commitment by the Algerian government to open up trade and encourage international companies to help boost local production. The Algerian government announced it wanted to create jobs, improve living conditions, and encourage global companies and organisations to create added value to the country.

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