

DAIRY REPORTER

Weekly Dairy News for Members of DFMC



28 April 2011

Bega shareholders approve float

112-year-old-farmer-owned company set to become the biggest on ASX

An historic meeting of Bega Cheese shareholders held in the home town base of the company last week saw almost 90 per cent support by supplier-shareholders for the company's plans for a listing on the Australian Securities Exchange in a float worth an estimated \$375 million. Bega Cheese will become the second dairy processor listed on the ASX, joining Warrnambool Cheese and Butter, in which it holds a 15 per cent interest. The company will appoint an investment banker in the near future to manage the IPO process.

Senate Committee wants more time

Complexity of milk pricing issue delays final verdict of Senate Committee

The Senate Economics Committee released a 2-page interim report, with the final report now possibly delayed until as late as October this year, infuriating farm advocates who had built expectations for a substantial report recommending "government action". Senate Economics References Committee chair Alan Eggleston said the committee needed more time to analyse evidence. The two page interim report makes just one recommendation which pushed an issue back to the Government - to revisit the committee's report of 2010 and make a formal response by May 13. The Committee blamed the late submission of question responses by Coles, but the response didn't shine much further light on issues raised in the hearings. In reality it has probably bought time to allow the deep discounting period to pass, as retailers told the committee the \$1-a-litre prices weren't a permanent fixture.

WCB and Burra announce step-ups

Dairy suppliers receive pre-Easter boost as Victorian processors step-up

Warrnambool Cheese and Butter and Burra Foods announced increases in farmgate milk prices. **WCB** said it had increased milk pays to an average of about \$5.40 per kilogram of milk solids, with a lift of 20c/kg for protein and 10c/kg for butterfat paid retrospectively for milk supplied from the beginning of this financial year. **Burra Foods'** third step-up for the season lifted the company's annual weighted average price to \$5.25/kg of milk solids, with a 7c/kg increase for butterfat and 17c/kg rise for protein.

Advocates want an ombudsman

Calls for a supermarket ombudsman to scrutinise changes in dairy pricing

Advocacy groups are calling for a supermarket ombudsman to create "transparency and fairness" along the supply chain. Choice and the Australian Food and Grocery Council have called for the establishment of an ombudsman in their submissions to the senate over dairy pricing. Choice chief executive Nick Stace questioned whether "recent actions from the major supermarkets are a sign of genuine competition or a short-term strategy that may erode competition further and see price rises in the future". AFGC chief executive Kate Carnell said there was an "urgent need for a supermarket ombudsman". The ombudsman would ensure regulators "enforced their rules", according to Ms Carnell.

Franklins bleeds

Parent Pick n Pay determined to offload deeply ailing Franklins

South African retailer Pick n Pay has reiterated a plan to sell off its Australian supermarket chain, Franklins, regardless of the outcome of the current court case, after the chain booked deeper losses. **Full-year results** released by Pick n Pay showed that Franklins lost \$123.4 million before tax in the 12 months to February, compared with a profit of \$16.3 million the previous year. Franklins' loss was made on a 3.9 per cent decline in sales which shows the direct effects of the intensifying retail competition.

Headlines

- Bega shareholders back float plan
- Senate Committee needs more time
- More Victorian step-ups
- GDT prices steady
- US milk output growing stronger

Indicators	
Dairy export index	Surging dollar curbs index
World dairy prices	Prices fall for WMP, rise for SMP, but others steady
Australian cull cow prices in the US	Strong \$A and easing US demand lowers prices
Grain futures	Sharp lift in US wheat futures, local grains fall

Retailers' 3rd quarter results out

Majors' share strengthens with stronger sale results

Coles sales growth again outpaced Woolworths' supermarkets for the 8th consecutive quarter, rising 7.1 per cent in the three months ended March, while same-store sales at Coles rose 7.2% - outperforming Woolworths same-store sales increase of 3.9 per cent (Easter adjusted) in the March quarter. Excluding the impact of higher tobacco excise, Coles recorded food and liquor price deflation of 1.4 per cent, compared with claimed price deflation of 3.6 per cent at Woolworths. **Woolworths'** sales through its Australian food and liquor division grew 4.6% increase on the year, but when adjusted for Easter 2010, sales were up 5.2%.



A2 says it's prospering

Milk pricing war lifts appeal and sales of genetically modified A2 milk

Despite the intense private label price competition, A2 milk claims it has lifted its market share to over 3.5 per cent, and that sales have grown 8 per cent over three months since Coles announced prices of \$1 a litre for its home brand milk on January 26.

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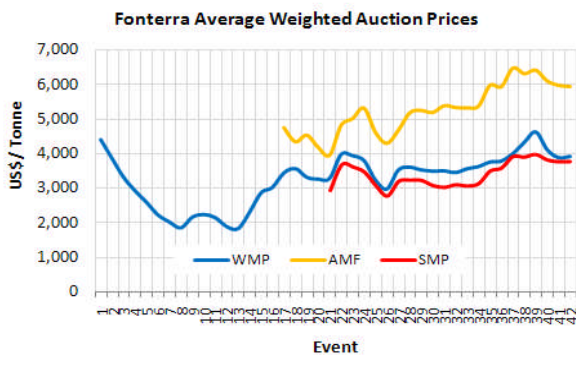
Index of export returns

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 steady but dollar hurts index.

The index of Australia export returns fell further this week. Spot prices for WMP and SMP moved in different directions but by the same amount, but the rampaging \$A again did the damage, closing at \$US1.074. The index of export was down almost two points to 128.0.

GDT prices steady. The correction in dairy prices halted at the latest Fonterra auction, rising slightly for the first time since early March – albeit by only 0.1%, but with anhydrous milk fat and skimmed milk powder chalking up further small losses. Whole milk powder posted an average rise of 0.8% across all contracts, but all prices remain below \$4,000 a tonne. The amount of whole milk powder offered, at some 7,000 tonnes, was less than one-third that in October, when southern hemisphere producers enjoy a so-called "spring flush" in output as cows are put out to pasture, and grass quality improves.



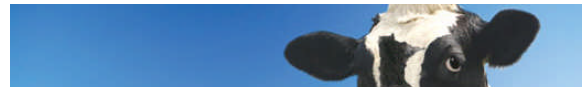
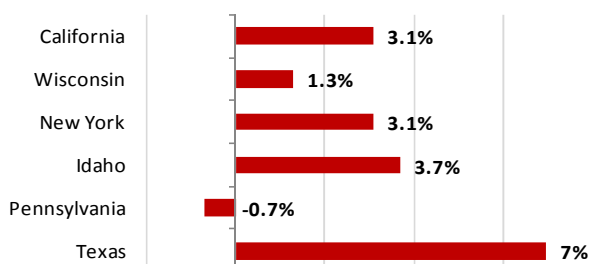
Russia looking at exchange trading. Russia is considering entering exchange trading in milk powder and butter products, with reports suggesting this could start as early as this month. It follows an agreement signed between Russia's National Union of Dairy Producers and the country's trading platform MICEX.

US milk production growing stronger

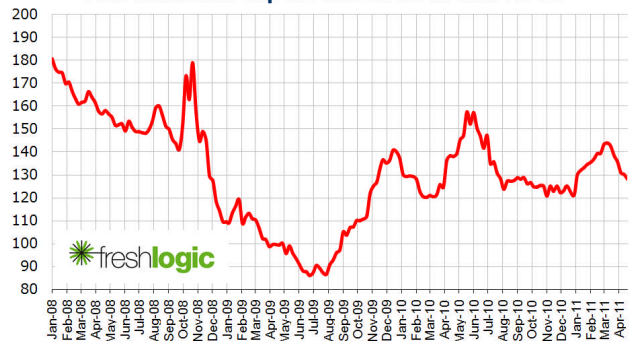
Latest data reveals the changing landscape of US milk production

Milk production in the US during March was 2.38 percent higher than March 2010, lifting the year-on-year growth rate from that seen in the prior month, when February's output was 2.18 percent above the same month in the prior year. Production per cow in the top 23 States averaged 1,872 pounds for March, 24 pounds above March 2010, while the number of milk cows on farms in the 23 major States was 93,000 head more than March 2010 at 8.42 million head.

Where US growth is occurring - The largest 6 States (March 2011 v March 2010)



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.

Irish may achieve large expansion

Projected boom in dairy herd to lift milk flows from Irish farms

Irish cow numbers are set to increase in the next few years, but the number of dairy farmers will fall, according to Teagasc's latest dairy industry projections. Teagasc expects the national herd will increase to 1.38 million cows, but the number of farmers fall to 15 500. The *Irish Cattle Breeding Federation* (ICBF) expects cow numbers to increase by 3.2% in 2011, and by a further 3.8% in 2012 and 2013, mostly in Counties Cork and Kilkenny. The average Irish herd size will increase to 89 cows, while the average milk delivered per farm will increase to 458,000 litres. Overall milk production is forecast to rise to 7,101m tonnes in 2018, an increase of 43% above 2009. Teagasc predicts numerous improvements in technical performance on farms between now and 2018. Milk yield per cow is expected to increase from 4,661litres to 5,140litres in 2018.

Pricing formula proposed by farmers

Market-related pricing may be a solution for the UK milk market

The developers of a new farmgate milk pricing formula in the UK hope it will "break the cycle of market failure" in the UK dairy supply chain. The National Farmers Union of Scotland (NFUS) has come up with a new "market-related pricing formula", a price formula based on a 20:80 ratio of the existing market indicators of Actual Milk Price Equivalent (AMPE) and Milk for Cheese Value Equivalent (MCVE). The proposal has won an early favourable response from Dairy UK. Dairy UK's boss Jim Begg believes it is "an interesting proposal that will now require some detailed examination". Processor reaction has been minimal – without their adoption into pricing structures, the plan has no legs.

NFU talks down its industry's prospects

Turbulent milk market undermines future says dairy farm leader

NFU dairy board chairman Mansel Raymond has warned of a 'massive collapse' of the dairy supply base, if milk prices do not improve. He said a combination of 'scandalously' low prices, spiralling costs and forthcoming Nitrate Vulnerable Zone (NVZ) regulations were forcing many farmers to consider ahead of the next winter of indoor feeding. UK milk production is currently at its highest level since 2006, due mainly to helpful weather conditions, but production is now under threat due to the 'sheer frustration' felt among dairy producers at the shortfall in the market, Mr Raymond said.

Raymond said the current situation in the milk market was a 'scandal' and a 'disgrace', with UK farmgate prices of 26ppl standing at 3p below the EU average and at 6p below the market indicator, AMPE, which is currently trading at 32.3ppl. As a result the UK currently stands 23rd on the EU milk price league table at a time when exchange rates should be helping the industry.

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