

DAIRY REPORTER

Weekly Dairy News for Members of DFMC



26 Oct 2010

Fonterra sells Brownes, quits WA

Fonterra divests business, offloads Brownes back to Australian hands.

Fonterra agreed to sell its Brownes business to a group owned by private equity firm Archer Capital. The agreement with DairyWest will become effective early next year. All Brownes employees and existing farm arrangements in Western Australia, including the current farmgate pricing arrangements, will transfer with it. Fonterra Brands CEO John Doumani said Brownes would be better served by owners with a regional focus. Brownes manufactures and sells white milk, flavoured milk, yoghurt, dairy desserts, cream, custard, juice and bulk cheese, and owns the Balcatta and Brunswick manufacturing sites.

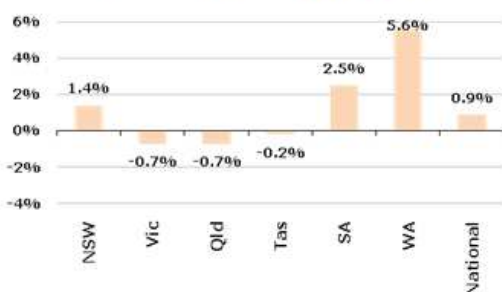
ADIC attacks MDB guide

ADIC slams MDB guide as it fears shrinkage of the dairy industry.

The Australian Dairy Industry Council has been highly critical of the proposed savage cuts to water entitlements outlined in the Murray Darling Basin guide. ADIC said the cuts would inevitably lead to a smaller dairy industry, the loss of regional jobs and export income to the economy.

ADIC said the lower regions of the Basin constitute Australia's largest dairying area with more than 2600 dairy farms, 32% of all dairy farmers in Australia. These dairy farms irrigate about 85,000 hectares, equivalent to 15% of irrigated land in the region and produce about 2.1 billion litres of milk, worth \$800 million at the farmgate at current pricing. There are about 6000 people employed directly on dairy farms with a further 2600 employed in manufacturing and processing in the region. ADIC chairman Wes Judd called on Government to work closely with industry to restore a better balance between environmental, economic and social water uses to the MDB Plan.

Packaged fresh milk sales volumes – YTD change to Sept 2010 (by state)



NSW drought-free, but some still not happy

Heavy downpour washes away decade-long dry spell of NSW, yet fails to lift spirits of wary leaders.

NSW has broken free of drought for the first time in nine years. The area officially in drought is now zero, down from 4.2 per cent last month, while the marginal area has reduced from 20.5 per cent to 10.8 per cent. The height of the drought occurred in April 2003 when 99.5 per cent of NSW was ravaged.

Politicians weighed into the issue. Federal Nationals leader Warren Truss warned the breaking of the drought in NSW had created a new set of problems in moving what's expected to be bumper harvests in grain-growing areas. NSW opposition primary industries spokesman Duncan Gay warned it could take up to 18 months for farmers to see the financial benefits of their current crops.

Headlines

- Fonterra quits WA business
- Coles' growth shades Woolworths
- gDT auction results slightly weaker
- More future platforms get going
- US milk output jumped 3.3% in Sept

Indicators	
Dairy export index	Index higher with slight drop in \$A
World dairy prices	Butter and cheddar prices higher, powders weaker
Australian cull cow prices in the US	Prices improve in \$A terms
Grain futures	US wheat down, local prices steady

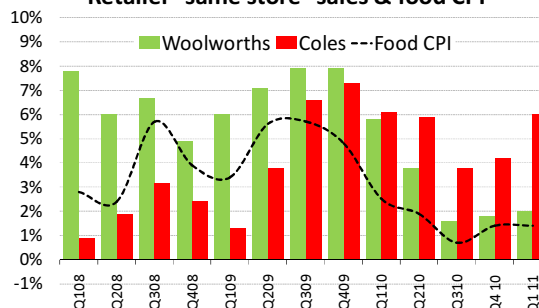
Coles, Woolies post sales numbers for Q1

Coles continues to make inroads against Woolworths.

Woolworths reported lower-than-expected first quarter food sales due to tight sales due to tight consumer spending and a strengthening Australian dollar. The Australian food and liquor division sales were up just 3.2%, with 2.0% same store growth. In the detail of the numbers it is clear that new stores being added by Woolworths aren't delivering. The company's chief executive Michael Luscombe said the results were positive, but warned that tight consumer spending would make for a challenging year.

Meanwhile Coles continued its comeback. Food and liquor sales grew 5.9%, while convenience sales rose 1.2%. Coles recorded comparable food and liquor store sales growth of 6.2%. Coles experienced food price deflation of 0.3 per cent despite the impact of higher excise on tobacco prices during the quarter

Retailer "same store" sales & food CPI



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Index of export returns

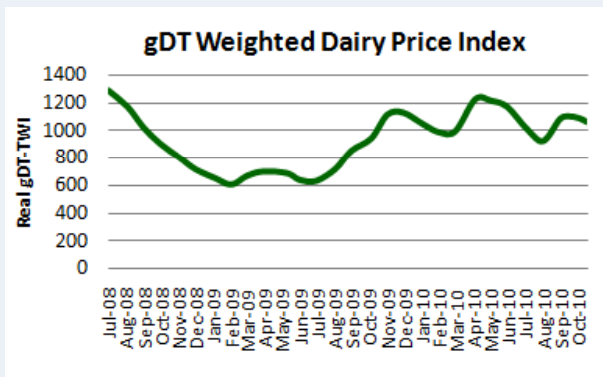
Freshlogic tracks an index of the \$A value of spot returns from dairy exports as an indicator of the potential impact on southern milk prices.

Index higher on mixed changes.

Spot prices for powder were weaker, with SMP shedding US\$100/t yet both butter and cheddar lifted to offset the damage. The \$A faded a little as the prospect of interest rate rises faced and as China lifted its rates unexpectedly. The \$A ended the week down at **US98.25c**. The index of the \$A value of export products was up slightly to **125.4**.

gDT prices slip.

Dairy commodity prices slipped across the board at *Fonterra's* latest *globalDairyTrade* auction on October 19, with the *globalDairyTrade* weighted index down 2.5% to US\$3 506/tonne. This was the second decline in a row, following a reduction of 1.3% at the October 5 exchange. Skimmed milk powder (SMP) saw the biggest drop, with the average price of all three contracts down 4.7%. Whole milk powder (WMP) quotations eased 1.1%, with the biggest reduction reserved for delivery in December 10 - prices dropped 2% to \$3 485/t, the lowest level since early August. The price of NZ WMP for contract one delivery fell 2.63% to \$3 455/t - this is the reference point for the October 2010 futures contract on NZX.



Yet another futures platform launched.

LCH.Clearnet launched a Skimmed Milk Powder (SMP) Futures Contracts traded on NYSE LIFFE, to improve transparency of trading within Europe. The contracts will be traded in multiples of 24 tonnes, delivered every 2 months, Physical delivery will be carried out at points that are within a 150 km radius of several EU cities making this the biggest delivery zone in Europe. The first delivery will take place in March 2011.

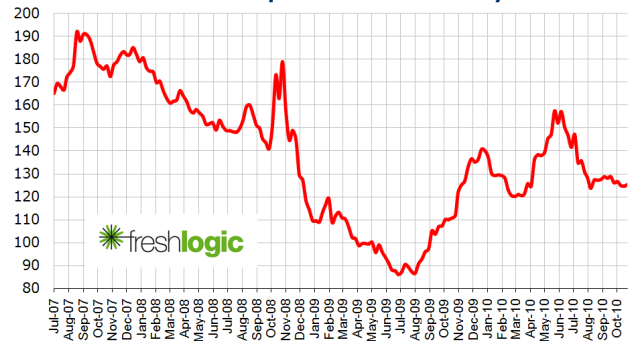
US milk production up 3.3%

Plenty of milk in the US, as cow numbers and yields pick up.

An increase in cow numbers and yields drove September milk production in the US up 3.3% from the September 2009 level, according to *US Department of Agriculture* (USDA) figures. There were 31 000 more cows on farms during September (8.37m head), resulting in an average milk yield of 1 729 lbs, 54 lbs above September 2009.

New Holland RUSTLER Utility Vehicles. The Rustler™ utility vehicle expands the New Holland product offering to include a capable, durable and practical vehicle that is both safe and easy to operate. The Rustler™ is available in 4WD, Two or Four passenger seating capacity, with the option of petrol or diesel engines. Quality construction and solid engineering means you can rely on Rustler utility vehicles for the long haul. The wide range CVT transmission eliminates the need for high/low gear and a top speed of 40kph. Packed with features that will appeal to the Agricultural, Lifestyle and Recreational customer base. A safe, practical and versatile replacement to the quad bike.

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.

Fonterra to develop new Chinese farm

Fonterra injects to strengthen its dairying base in China.

Dairy giant Fonterra has invested \$42 million for a second farm development in the Hebei Province of China. Fonterra chief executive Andrew Ferrier said that the company was committed to investing in the local industry. The free stall farm would be developed on 42 hectares in Yutian County, house about 3000 cows, with 12 barns, a milking parlour and waste water treatment systems. Fonterra said the cows would be housed inside large barns to protect them from the climate and to let them roam freely. Construction would take about a year, with cows imported from New Zealand expected to start milking in November 2011.

Ireland lacks capital for 50% milk growth

Irish dairy industry will be heavily dependent on farmers' funds to make a dramatic expansion in capacity.

ICOS, the umbrella body representing Irish cooperatives, has claimed dairy processors do not have the funds necessary to deliver the 50% expansion in milk output, which is central to the government's Food Harvest 2020 plan. The cooperatives say that while the plan is ambitious, it fails to recognise the reality that commodity milk processing has been loss-making in recent years. ICOS dairy policy executive, TJ Flanagan, said neither the industry nor the government had funds available on this scale, adding that this suggested that farmers, as the shareholders of the cooperatives, would have to make a significant contribution. Flanagan said that in preparation for this ICOS will be trying to ensure a higher dairy farmer participation in share ownership of dairy cooperatives.

Company accused of slandering competitors

Employee smears competitor, gets Chinese dairy giant into trouble.

An executive at Mengniu Dairy, one of China's largest milk producers, and three employees from its online marketing company have been arrested for allegedly planning and executing a campaign to smear the company's competitors. The suspects are accused of organising a month-long operation that involved impersonating concerned parents and experts to question the safety of competitors' products through the internet and the media. The alleged campaign, if proven, would appear to be a cynical plan to capitalise on a string of scandals in the Chinese dairy industry. Mengniu's biggest competitor, Yili Dairy, claims it was the target of an online campaign that began in mid-July.

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