DAIRY REPORTER

Weekly Dairy News for Members of DFMC

Dairy Farmers Milk Co-operative

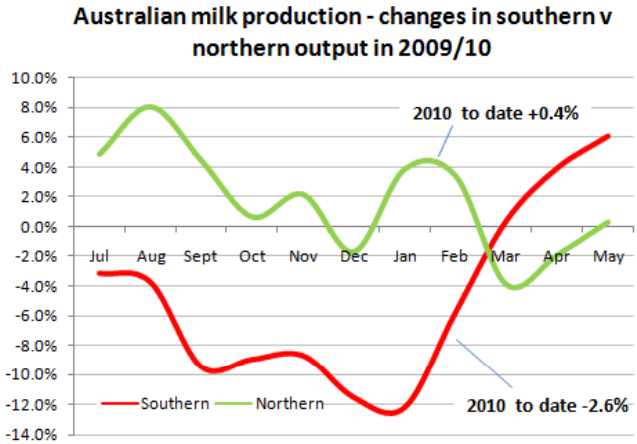
27 July 2010

Milk output stronger in May

Australia rides high on stronger milk flows in May.

Australian milk production rose in May, although cumulative output lagged behind 2008/09. May production was up 4.9% from a year ago, bringing cumulative output for the 11 months of the season to date to 8.4bn litres, according to Dairy Australia, a decline of 4.5%.

The biggest increases in May came from Victoria where Gippsland lifted 13.1% and Western Districts 13.1%, but Northern Victoria remained in the red, down 2.4%. The only decline during May was a 3.5% dip in South Australia, while each of Queensland & NSW were a whisker over the line, each up less than 1%.



Parmalat on the acquisition trail

Parmalat seeks premium assets, product innovation to strengthen its footprint in Australia.

The CEO of the Australian subsidiary of the EU-based milk and dairy products group says it is on the trail to buy "premium-branded dairy assets" to contribute alongside organic growth being achieved through innovation and marketing. Craig Garvin told the Financial Review that he didn't have a list of targets but the newspaper speculated the company might be interested in Peters & Brownes, Bulla or Bead Foods. Parmalat reported a 16% lift in net revenue last financial year to $902m, posting an EBITDA of $84m, which improved 74%. The company is boosting spending on marketing by 30-40% and putting further investments into product innovation. Garvin said the industry had allowed private label sales to expand through a lack of innovation.

A2 agrees to buy out local partner

Long-pending merger to bestow unequalled control powers on A2.

A meeting of A2 Corporation Ltd shareholders has approved a deal to buy the remaining 50 per cent stake in Australia's A2 Dairy Products Pty Ltd, in return for its partner Freedom Nutritional Products Ltd taking a 25 per cent stake in A2 Corp. Freedom will have an option of later increasing its stake to 27 per cent. A2 Corp said full ownership would give it exclusive rights for the production and sale of A2 milk products in Australia and Japan, leaves the company in a stronger financial cash-flow position, paving the way for overseas expansion. In Australia, A2 has 15 suppliers across northern Victoria, NSW and southern Queensland supplying 20 million litres for milk and yoghurt, in which the company has a licensing agreement with Jalna.

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Headlines

- National milk output up 4.9% in May
- Parmalat looking for targets
- Grain prices rising again
- Supermarkets post stronger sales
- US milk output rose 2.4% in June

Indicators	
Dairy export index	Index pruned with slight gain in $A
World dairy prices	Powders lose ground, butter steady
Australian cull cow prices in the US	Prices continue to increase
Grain futures	Increases in US wheat and local grains futures

Grocers build underlying sales

COLES Woolworths

Woolworths posts strong sales for 2010....

leading grocer Woolworths Ltd posted a 5.1% increase in annual sales for its Australian food and liquor business in 2009/10, excluding petrol to reach $34.67 billion. Woolworths' New Zealand Supermarkets division booked a 2.4% gain in sales (in Australian dollars) to reach $4.13bn. The Australian Food and Liquor division posted a 3.3% increase in comparable store sales over the full year, constrained by continued low food inflation of 1.1%, with deflation in produce and perishables.

During the fourth quarter, comparable store sales were up 1.8%, an improvement on the prior quarter. Woolworths' New Zealand Supermarkets division saw comparable sales grow 4% over the year. During the fourth quarter, sales in the New Zealand Supermarkets division increased 5.2% (in NZ$) and comparable sales were up 4.1%. The results were also impacted by deflation, falling 1.4% over the quarter, a decrease on the positive 5.6% in the same period of the previous year.

....while Coles eats away at Woolies dominance.

Coles posted a sales increase of 4.3% over the full year according to its parent Wesfarmers, with a jump of 5.5% in the 4th quarter. The group sustained a better same-store sales performance against its larger rival, with the 4th quarter like-for-like increase rising to 4.2%, making this the third quarter in row that it has outperformed Woolworths. Of course, Coles comes off a lower base, and has a lot of catching up to do in sales-area productivity and business margins.

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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.

$A cuts index.

Export spot prices for both major powders were weaker again this week, but it was the jump in the value of the $A that cut the value of the export index. The $A gained against the US dollar to be **US89.6c** by the weekend, and the index lost 5 pts **130.7.**

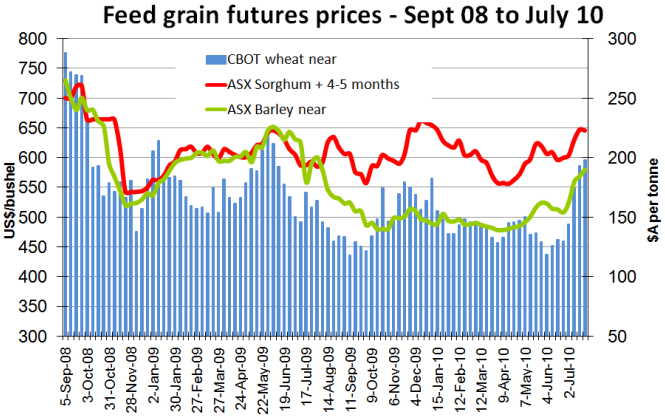
SMP, butter bids rejected in latest tender.

The latest EU Management Committee meeting saw unanimous agreement to reject all tendered bids for SMP, as offers once again came in well below the market prices. With prevailing prices for SMP resting around €2230/t for food and €2090/t kg for feed, bids were in a €1960-€1980 price range. There was less interest in the SMP tender however as this week's offers amounted to 500t of product, while nearly 80 000t of powder sits in public stores. The meeting also rejected a single offer for 0.725 t of butter in French stores for the same reason. Only 1,500t of butter now remains in EU cold stores and supplies remain tight.

Grain prices on the march

Global weather patterns bring a tide of worries for the grain market.

Hot, dry conditions in Europe threatened to reduce the annual grain harvest, while wet weather in Canada and drought in Russia, has helped lift grain prices for Australian wheat farmers, and aiding a rise in futures prices for feed grains in the local market. But grains analysts reckon prices may not surge so quickly as the situations in the EU and Canada may not be as bad as first thought. Barley seems to be the crop in most trouble with supply, which has helped lift local futures prices in recent weeks. Meanwhile in Australia, stronger feed barley prices may be underpinned by a higher 5 of the crop going to malt uses.

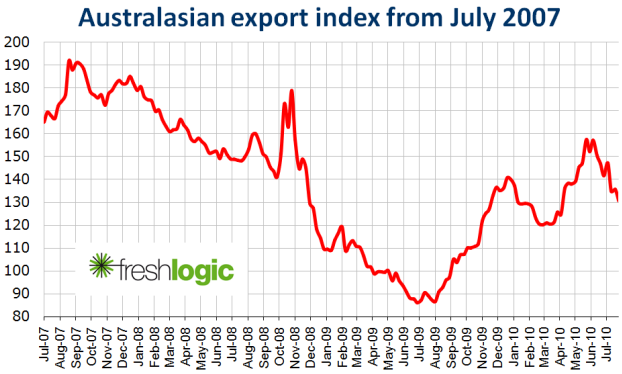


July heat wave lifts US prices

Prices jump high, as the baking summer curbs milk surge in US.

A prolonged heatwave across much of the US is cutting milk production and pushing prices for milk products higher on the Chicago Mercantile Exchange. The effect of July weather came after another solid jump in the US milk production in June, where a 2.4% lift was recorded compared to June 2009.

The US milking herd lifted numbers from May 2010 but was still 108,000 below June 2009, showing the gains from productivity that has been made in the past year. The USDA reported that hot, humid conditions in the Northeast and Middle Atlantic regions are causing significant production cuts and causing milk plants to run on reduced schedules.



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.

Brazilian yoghurt growth for Danone

Danone set to dig deeper in Brazil with massive expansion plans.

Danone Brazil says it is experiencing steady growth and is now looking at acquisitions, with the main goal to increase revenues in the Brazilian market to BRL2 billion by 2012. Danone revenues in Brazil increased from BRL1bn in 2008 to BRL1.2bn in 2009. The latest estimates indicate that Danone's revenues in 2010 could even top the expected BRL1.3bn.

This month the company opened its second production plant in Maracanaú, in Ceará state. It is now looking at a possible third plant in southern Brazil, the country's second largest yoghurt consuming region after São Paulo state. Danone has around 35% of the yoghurt market in Brazil.

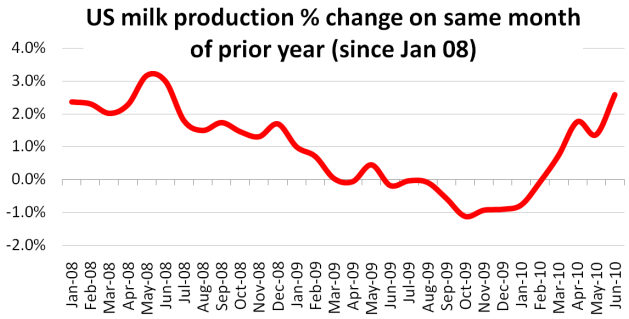
Half of Yoplait up for grabs?

Yoplait market a shade more complex, as acquisitions and mergers remain the latest fad among global dairy giants.

Here is a move to make yoghurt market ownership and licensing arrangements even more complex. French private equity fund PAI Partners has said it is open to potential offers for its 50% stake in French yoghurt maker Yoplait.

The other partner in the yoghurt brand, Sodiaal, might also be prepared to sell part of its 50% stake in Yoplait to reduce debt tied to the acquisition of Entremont.

Nestlè is reported to be in the running to acquire the stake in Yoplait, along with US food giant General Mills and three financial operators, AXA Private Equity, Permira Advisers LLP and BC Partners, Inc. Nestle may have a few issues with EU competition regulators if they go after yet another major brand in the category.



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