

DAIRY REPORTER

Weekly Dairy News for Members of DFMC



27 September 2011

La Nina weather patterns developing

Brewing La Nina to bring another wet summer for eastern Australia.

The Australian Bureau of Meteorology said the steady cooling of the central Pacific Ocean since early winter has increased risks of another La Niña weather pattern developing in the southern hemisphere late 2011. However, the brewing La Niña is expected to be weak and not match the intensity of last year. This year, it is expected to bring above-average rainfall and a cool and wet summer to eastern Australia and have little or no impact on Tasmania, Western Australia, or the southern parts of South Australia and Victoria.

Council approves TDP plant

Preliminary work commences at site, as council lends million-dollar support.

The Circular Head Council last week approved a \$70 million dairy development by Tasmanian Dairy Products (which has financial involvement of Murray Goulburn) to produce powdered milk products on the former Gunns sawmill site at Smithton. The Council support comes as the project plans to secure 150 jobs to the region and boost milk production demand for the north west of the state.

Metal shard prompts recall

Co-op takes immediate action as metal shard detection raises alarm.

Fonterra Brands announced a precautionary recall of more than 200,000 blocks of Mainland cheese products in Australian and New Zealand, following the discovery of a metal fragment in one pack earlier this month. The recall was of 500g, 700g and 1kg Mainland Tasty Blocks and 250g packs of Mainland Cracked Pepper Processed Slices with varying best before dates that stretched from January to May 2012.

Bega chairman wins leadership award

Bega's Barry Irvin bags Rabobank's Agribusiness Leadership 2011 award.

Bega Cheese chairman, Barry Irvin, was awarded the Rabobank Leadership Award 2011 for his outstanding contribution to the food and agribusiness industries. Irvin is also chair of Tatura Milk Industries (which Bega aims to wholly own), a director of Warrnambool Cheese, a director of the Gardiner Foundation, and is well known for his charity work with Giant Steps in Sydney. Mr Irvin is a fourth generation dairy farmer deemed by Rabobank to have shown "great leadership" in and outside business".

McLeod's pay stirs dairy farmers

McLeod's hefty bonus triggers a backlash from unhappy farmers.

Wesfarmers' supermarket boss Ian McLeod has been awarded an \$11.1 million bonus, in recognition of his role in improving Coles, which boosted his total salary package to \$15.6 million for the 2010-11 year. The pay packet is almost double of his pay package a year ago and significantly more than his boss, Wesfarmers managing director Richard Goyder. Western Australian Farmers Federation said this bonus paid under an incentive plan linked to the performance of Coles will inflame tensions between farmers and the supermarket group.

Last week's newsletter from the QDO said "It is disturbing to see the MD of Coles being rewarded millions of dollars for strategies which are delivering higher sales and profits for Coles but at the expense of the dairy industry and dairy farming families, which was avoidable if they truly wished it to be.



Headlines

- Dairy product prices fall at auction
- La Nina weather patterns brewing
- US milk flows up 2.1% on last year
- Record profit & payout for Fonterra
- Arla's mega dairy plant gets approval

Indicators	
Dairy export index	Index surges as dollar plunges to 10-month low
World dairy prices	Cheddar and SMP fall
US cull cow prices	Prices firm
Grain futures	Wheat futures slide

Heart takes tick away from McDonalds

Fast food loses the healthy tick as Heart Foundation changes direction.

McDonald's will lose the right to display the National Heart Foundation's healthier foods tick on products marketed as healthy options, as the foundation ends its Tick licensing program in the takeaway food environment. McDonald's pays about \$300,000 for the right to display the tick and has been using it for the past five years.

Together with McDonald's, a number of other smaller takeaway chains, including gourmet pizza group Crust, will also lose the tick. The symbol will continue to feature on many grocery items.

CHOICE starts label - naming and shaming

New campaign to highlight misleading nutrition labels at work.

CHOICE has launched a national campaign – "Shame the Claim" – against food product labels which feature misleading nutrition claims. It has urged consumers to identify and send product samples with misleading claims about "reduced fat", "low carb", and "high in fibre". These examples will be compiled by CHOICE to create a "Wall of Shame" to present to Australia's governments. CHOICE has also selected some supermarket products that feature some of the more common nutrition claims and analysed them against the Traffic Light nutritional criteria.

Carbon tax will damage competitiveness

Carbon tax claimed to be not workable for the NZ agricultural industry.

Fonterra states applying "carbon costs" to the NZ agricultural industry will damage the dairy competitiveness of dairy firms and might shift production offshore to less emission-efficiency countries. Under the NZ Trading Emissions Scheme, companies must buy "New Zealand units" (NZUs) from the government to offset emissions. A beneficial two-for-one arrangement is expected to be applied to the agriculture sector from 2015-17, which is to allow ETS participants to spend only 1 eligible emissions unit to offset every 2 tonnes of carbon emissions, rather than 1 tonne under the normal arrangement.

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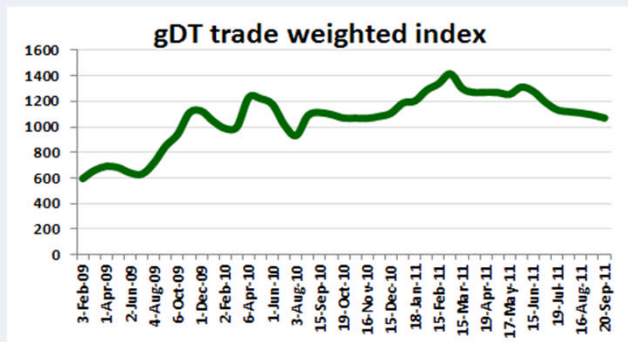
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Index of export returns

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 surges as dollar falls to 10-month low. Spot prices for cheddar and SMP fell this week, but the dollar is the big influence on the index. The \$A closed the week significantly weaker against the US dollar at **\$US0.9815**, while the index of spot returns surged by 5 points to **128.16**. However, last week, the \$A plunged to a 10-month low in over a year, as commodity prices fell prompted by renewed fears about slowing Chinese demand and worries that the US economy was headed back towards recession. However, with the RBA signalling no rate cuts in foreseeable future, NAB economists forecast the \$A will bounce back in the first quarter of 2012.

Dairy prices fell 2.1% at online auction. Average dairy product prices posted their seventh straight decline to reach a 13-month low at the latest online auction. The latest *globalDairyTrade* weighted index fell 2.1%, compared to the previous auction held a fortnight ago. The biggest loss was again recorded in AMF for the second consecutive time, which led the decline at an average of US\$3,846/t, down 11% compared to the previous auction. SMP also fell by 6.2% to US\$3,230/t. In contrast, milk protein concentrate rose 6.7% to US\$6,692/t, while major products WMP lifted by 1.1% to US\$3,345/t, and cheddar rose by 0.6% to \$US4,049/t.



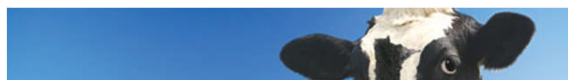
China's WMP imports slide - Trade data reveal that China imported a total volume of 263,984 tonnes of WMP during the first eight months of 2011, up 16% compared to the same period last year. However, WMP import volumes have slowed significantly during the past few months, with WMP volumes imported down 42% at 12,377 tonnes in August 2011, compared to 21,500 tonnes imported in the same month last year.

Fonterra reports record-breaking results

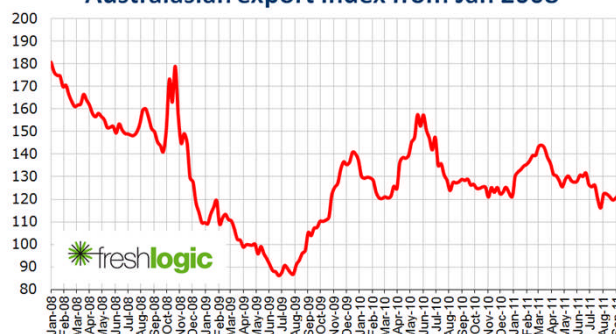
Massive gains for Fonterra as international operations deliver for the year.

Fonterra has reported a record after-tax profit and revenues, and a \$10.6 billion payout for the 2011 financial year on the back of strong growth from its international operations, particularly in Asia and Middle East. The co-op posted an after-tax profit of \$NZ771 million for the year to July 2011, up 13% on the same period last year, and a revenue rise of 19% to \$NZ19.9 billion. Fonterra also unveiled a record payout for the 2010/11 season. The total payout (before retentions) is \$8.25/kg milk solids (comprising a farmgate milk price of \$7.60/kg milk solids and distributable profit of 65c per share), up \$1.55 on the 2009 payout. Despite softening global prices, the company confirmed its forecast payout before retentions for 2011/12 of \$7.15/kg-\$7.25/kg milk solids, including a farmgate milk price of \$6.75/kg of milk solids and a distributable profit of 40c-50c a share.

...Fonterra has published **Farmgate Milk Price Statement** for the season ending 31 May 2011 which explains the factors affecting prices in the year. The statement shows that the 2011 farmgate milk price of \$7.60/kg milk solids was based on revenue of \$9.51/kg milk solids, excluding cash and capital costs of \$1.91/kg milk solids. Over the past two Seasons, net revenues have increased \$2.96, or 45%, but in the same period costs have increased by 8 cents or 4% - roughly in line with inflation.



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.

World economy slowing, Asia resilient

Global economy outlook gloomier but Asia's prospects still bright.

The latest IMF view of the growth prospects for the world economy contains lower world growth forecasts and a warning that the global economy has entered a "dangerous new phase". The IMF's cheery September 2011 update says global activity has weakened and become more unstable, confidence has fallen sharply, and downside risks are growing.

The US-based institution has cut its world growth forecast to 4% for both 2011 and 2012, down from its June predictions of 4.3% and 4.5%, respectively, and down from 5.1% in 2010. It sees Asia as the bright spot however (with the exception of the recessionary dip underway in Japan) which bodes well for increasing dairy export demand.

US milk production up in August

Milk flows rises across largest states as per cow yield increases in August.

According to the USDA figures, US milk production during August 2011 gained 2.1% on the corresponding month in 2010. The number of dairy cows in August rose 1% to 9.217 million compared to August 2010, while per cow yield increased by 1.1%. Growth in the ten largest states was positive, with six out of the ten exceeding the national rate of expansion.

The latest data also shows that the US herd is turning over more quickly than in recent years. Milk producers sent 244,600 cows to the chop during August, compared to the 5-year average for this time of year of 225,000, which was boosted in past years by CWT-funded herd retirements. Higher feed costs have not been felt on farm yet and production will continue to rise until late this year.

The higher production helped wholesale product prices take a further dive on the CME, taking cheddar blocks back to \$US3,800/t and butter to \$US3,900/t.

Arla's mega dairy plant gets approval

Arla gets the green light to build the largest dairy plant in the world.

Arla Foods' plan to build the world's biggest dairy - £150 million super dairy - on 24 hectares of land in Aston Clinton, the UK, has been approved by Aylesbury Vale District Council's strategic development control. The liquid milk dairy will process an estimated 10% of all the milk needed in England and create 700 new jobs. It is scheduled to commence operations by end of 2012.

The committee has also supported Arla's second application for a 23,226 square metres regional distribution centre at the site, subject to conditions being met.

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