

DAIRY REPORTER



Weekly Dairy News for Members of DFMC

28 June 2011

Strong opening prices for 2011/12

Good news for dairy farmers as processors offer bold farmgate prices.

Warrnambool Cheese and Butter (WCB) announced an opening price of \$4.90/kg milk solids for the 2011/12 year, up 4% from its opening price for the 2010/11 season. It announced a milk price step-up for this season of 15c/kg butterfat and 30c/kg protein, increasing the yearly weighted average to 41.8c/litre. The company will also offer suppliers a choice of two payment systems for the coming system, both with a "safety net", which guarantees the highest payment at year's end.

WCB's opening price follows Gippsland manufacturer **Burra Foods** announcement of a weighted average opening price of \$4.70/kg milk solids for the 2011/12 season.

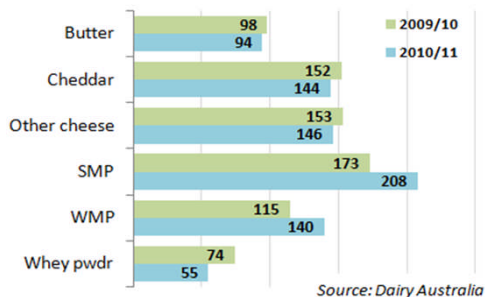
However, the highest opening price for the next season until now has been offered by **United Dairy Power (UDP)** at \$5.30/kg milk solids for the 2011/12 season.

Australia continues strong powder output

YTD butter and cheddar outputs continued to lag behind powders in May.

May production data from Dairy Australia showed that the total year-to-date SMP and WMP production volumes were up 20% and 21% at 208,348 tonnes and 140,144 tonnes respectively, compared to the previous season. Production of all major dairy commodities remained lower than last season.

Australian output YTD to May 2011 (000t)



Sungrow buys Hastings Valley Dairy

NSW dairy plant's takeover has an export flavour.

NSW-based Hastings Valley Dairy's cooperative board has accepted an offer to sell its dairy factory to Indian company Sungrow Australia. Sungrow will be injecting extra capital and resources into the dairy to increase milk production, build a milk powder plant, and add Indian dairy products to the current range of Hastings Valley Dairy products. The company also intends to export more than 50% of its manufactured dairy products to the Gulf countries. However, the sale does not include the ownership of brand names, trademarks and recipes developed by factory staff and management, which will be licensed to the purchaser for continuing manufacturing. The sale awaits the completion of an independent accountant's report and is also subject to the approval of the Hastings Co-op's shareholders.

Retail sales rebound in April

Retail sales reverses trend to spike to its highest level in 17 months.

Retail sales data released by the Australian Bureau of Statistics (ABS) showed that Australian retail spending rebounded in April 2011, up 1.1% from a year earlier, after a drop of 0.3% in March 2011. In trend terms, retail sales rose 2.7% in April 2011 compared with April 2010. Data on food sales shows that food retailing (mostly grocery) recorded the largest increase at 0.5%. The growth in money spent on eating out at cafes and restaurants continued to stay below that of food retailing at 0.2%.

Headlines

- Strong opening prices for dairy farmers
- NZ milk 4% ahead in April
- Rabo: Prices to dip not dive
- Fonterra the biggest, says IFCN
- China's milk 12% in 4 months to April

Indicators

Dairy export index	Index rises as dollar falls
World dairy prices	Cheddar prices lift
Australian cull cow prices in the US	Market stronger
Grain futures	Sharp fall in US wheat; local grain prices steady

NZ milk output well ahead of last year

Good pasture growth lifts NZ milk flows compared to last year.

According to the official data from DCANZ, YTD NZ milk production in April 2011 was 4% cup compared to the previous season and 31% ahead of production in April 2010, mainly driven by the excellent conditions for pasture growth during the southern hemisphere autumn period.

Fonterra in talks over EU joint venture

Fonterra confirms its plans to strengthen hold in the EU cheese market.

Fonterra has confirmed that it has sent letters of intent to two European dairy processors and entered into talks with eight others over a potential joint venture in cheese and whey production.

Fonterra's European general manager Koert Liekelema said that the co-op wants to increase its milk pool from 33% to 50% outside NZ and access large volumes of extra milk around the world to cope with surging demand. He also stated that Ireland had the greatest potential to expand, along with the UK, Holland, Germany, France, and Poland.

Fonterra's probe could spur new rules

Shakeup of industry rules predicted as co-op goes under added scrutiny

Competition and regulation law experts have suggested that the Commerce Commission could regulate the dairy industry and Fonterra, if official investigations into how the dairy giant sets the milk price for New Zealand conclude the method is flawed and should be removed.

The dairy industry is already subject to regulation under its own special legislation, the Dairy Industry Restructuring Act 2001 (DIRA), but experts said there is a good chance that could disappear. Another option open to regulators is to bring Fonterra under "sunshine regulation", under which entities with quasi-monopoly market positions are required to disclose their pricing calculations and mechanisms.

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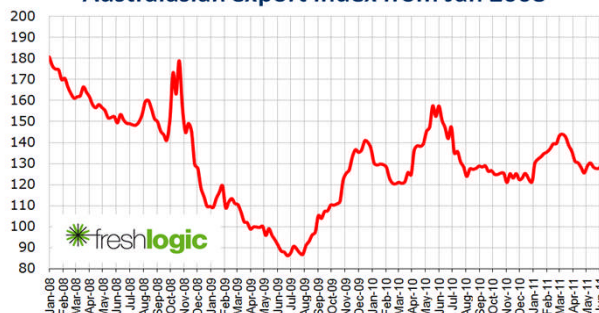


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Australasian export index from Jan 2008



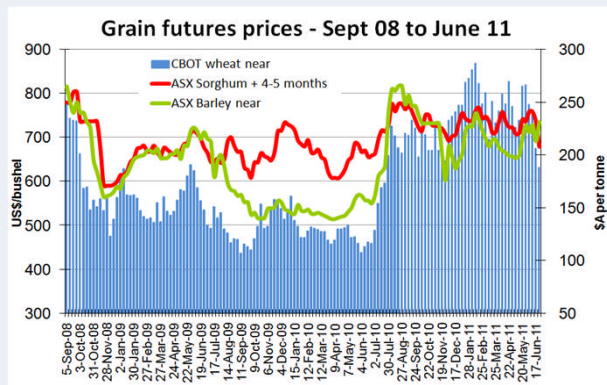
Take note: The index is an indicator of spot trends in gross export returns to the industry based on quoted Australasian export prices, movements in currency and the total milk usage in exports by the Australian industry. It was set at 100 on 1 January 2004.

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.

Dollar weaker. The index of Australia export returns posted a gain this week as the \$A lost value against the \$US. Spot prices for cheddar lifted and WMP and butter stayed firm, while SMP fell this week. The \$A closed the week at **\$US1.0493** and the index of spot returns increased by a point to **131.6**.

Wheat prices tumble. US wheat futures plunged to \$6.31 a bushel at the Chicago Board of Trade (CBOT), on speculation that improving crop weather could boost crop production this year in both the US and Europe. Wheat prices in Europe also dipped to the lowest in more than six weeks on improved crop weather and demand shrinkage in the commodity markets as concern about Greece's debt problems strengthened.



Global food prices still under pressure. The latest OECD-FAO Agricultural Outlook report has predicted that the average food commodity prices will be much higher this decade than the last. Maize costs have been estimated to rise by almost 20% on average, rice by more than 15%, and cereal by 20%. Butter prices are also predicted to increase by an estimated 45% or more. In comparison, wheat prices are projected to remain stable. Food consumption, particularly of meat, dairy, vegetable oils and sugar, is expected to expand most significantly in Eastern Europe, Asia, and Latin America.

Rabo: Dairy prices to "dip not dive". Rabobank in its latest global dairy update has predicted that global dairy prices are expected to ease from the current highs in the coming months, as world supply builds and demand in China and Russia begins to slow. However, the downward movement is unlikely to be rapid or won't occur until later this year.

However, Rabobank has not ruled out future uncertainties in terms of international dairy pricing. If weak buying from China and Russia continues into the third quarter, Rabo forecasts that prices could tumble further than expected. On the other hand, an increase in Indian purchases or a slowdown in milk supply as a result of higher grain prices would contribute to upward pressure on prices.

Surge in China's dairy outputs

China's milk output up 12% in four months to April 11.

Latest official statistics have revealed that the cumulative Chinese dairy product output was up 12.2% to 6.86 million tonnes in the four months to the end of April 2011. Imported milk powder stocks built up during the first quarter of the year, helped by the free trade agreement between the two countries which gives NZ exports some access benefits in the first 3 months of the year, with China sourcing majority of its WMP requirements from NZ. However, the volume of milk powder imports typically decreases following the initial period of the year. This was seen in volumes of whole milk powder imports in May 2011 which fell by 46% from the record volumes imported a month ago.

Russia's food ban expands to include dairy

Urgent ban as intestinal bacteria traces found in German dairy products.

Russia is restricting shipments of animal produce from almost 300 German plants, which is expected to affect at least 10 dairy plants. The decision was the result of a scheduled inspection of German food processing operations, which was conducted in connection with the spread of intestinal infection in the EU. The negative results of the inspection have also been confirmed by monitoring inspections of produce shipped from Germany, in which various species of intestinal bacteria were found.

Brussels to launch food stock database

New crops database to keep market volatility and commodity speculators in check.

EU farm commissioner Dacian Cioloş has revealed at the recently held Commodities and Raw Materials summit in Brussels that the EU will commence publication of full data on production and stock forecasts for key food commodities, including milk and milk products, meat, wheat and oilseeds, from October 2011. The data reporting will be repeated at regular intervals and involve the publication of public and private stocks drawing on information provided by all member states.

US milk product prices to increase by 5%

Buoyant export sales to lift prices of dairy products in the US.

According to the USDA, growing US export growth, particularly to Southeast Asia, could strengthen the price of domestic dairy products by an estimated 5%-6% over the course of 2011. Export sales of SMP were up 79%, cheese 68%, and butterfat 104% for the three months to the end of April 2011, compared to the same period a year ago.

Fonterra biggest, says IFCN

Fonterra tops with the largest market share of world milk production.

The International Farm Comparison Network has ranked Fonterra the top milk processor for 2011 with an intake of 20.5 million tonnes - equivalent to a 3% market share of world milk production. It is followed by the Dairy Farmers of America (with a 2.5% share of world milk production), Nestlé (2.2%), US-based Dean Foods (1.7%), Royal Friesland Campina (1.5%), and Lactalis (1.5%).

Co-op eyes the yoghurt market... again

After selling out, Dairy Crest wishes to rebuild branded yoghurt presence.

UK Dairy Crest is reported to be planning to re-enter the fast-growing yoghurt market by either developing its own business or by acquisition. Dairy Crest had been a dominant player in the UK before selling its 49% stake in UK joint venture Yoplait to Yoplait in 2009. It had also entered into a non-competition agreement that restricted it from competing in the yoghurt market for two years, which ended in March 2011.

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