

DAIRY REPORTER

Weekly Dairy News for Members of DFMC



29 June 2010

Bega & Tatura open at 35c in Victoria

Bega/Tatura opens boldly: toasts the glory of past season, infuses positivism for upcoming one.

As the final days of the old season tick over, Bega Cheese and Tatura Milk Industries have announced opening milk prices for their Victorian suppliers at \$4.70 of milk solids, which equates to about 35 cents a litre for milk, for the 2010/11 season, 25 per cent up than the opening price for 2009/10. Barry Irvin, the chairman of the two companies, has attributed this higher price announcement to be result of relative stability in global dairy pricing, good business performance, and its focus on product mix and building value in supply chain.

CowBank-WCB deal gets into the paper

Newspaper exposes private dealings.

The Weekly Times has shown its colours by publishing on its website a letter of offer from CowBank Milk to broker a milk supply deal to secure 3c/litre price advantage by supplying Warrnambool Cheese with (as speculated by the Weekly Times) more than 60 million litres. The proposed supply agreement further clarifies that CBM suppliers would gain the volume premium above the price they might otherwise receive from WCB.

Fonterra introduces an SRP-plus

Fonterra's new incentive payment spells out good news for farmers.

Fonterra Australia has launched a new incentive payment which provides returns to all Victorian and Tasmanian suppliers, gives improved cash flow through the season and enhances the popular Seasonal Ratio Payment (SRP) with up-front payments. The new SRP Plus incentive will be paid over and above the standard milk price and will mean more money for farmers, paid earlier in the season. Fonterra has written to farmer suppliers announcing it will introduce a new structured approach to pricing reviews and announcements in 2010/11, which will include formal reviews of pricing every 2 months, commencing late July.

McLean moves to WCB board

WCB board jubilant, as McLean accepts new role.

Warrnambool Cheese and Butter (WCB) managing director John McLean, who announced his resignation on May 28, has been appointed to as an associate director of WCB. McLean was reinstated as WCB's managing director in 2009 to steer the company out of crisis, and has been replaced as managing director by previously nominated successor David Lord.

US players oppose Fonterra share trading

US exporters lash out against Fonterra, term dairy's giant move as monopolistic.

The US Dairy Export Council has written to Agriculture Minister David Carter expressing "deep concern" at Fonterra's proposal for in-house share trading, saying it is an effort to lock in the dairy company's monopoly in New Zealand. Mr Carter has rejected the suggestion, saying the big farmer cooperative is not a monopoly. The US announced in 2008 it was entering negotiations for a multilateral free trade agreement known as the Trans Pacific Partnership. Other countries in the ongoing talks are New Zealand, Australia, Brunei, Chile, Peru, Singapore and Vietnam. The US Dairy Export Council, which represents the trade interests of dairy farmers, dairy cooperatives and export traders, has long lobbied Wellington against Fonterra, New Zealand's biggest company and the world's leading dairy exporter.

Headlines

- Bega/Tatura opens at \$4.70
- Rabo tips softer milk powder market
- EU HLG paper evokes a cool response
- US supply management under fire
- Yakult chooses first US production site

Indicators	
Dairy export index	5pt drop with a slight rise in \$A
World dairy prices	Moderate falls in butter and powder prices
Australian cull cow prices in the US	Prices fall as US buyers fear weak demand
Grain futures	Decreases in US wheat futures

Landcorp to make Crafar an offer

Landcorp to become the latest chapter in the Crafar farms saga.

NZ state-owned Landcorp has already valued 16 Crafar farms presently in receivership and announced that it will making a "realistic" offer for the farms soon. Landcorp's chief executive Chris Kelly has says Landcorp would not be offering as big amount as that negotiated by the Chinese backed company which has an agreement with receivers KordaMentha. Currently, Natural Dairy – which is operated by NZ-registered UBNZ – has a conditional agreement to buy the Crafar farms subject to approval by the Overseas Investment Office.

Another new plant on NZ's North Island?

It's getting crowded with new players in the Waikato region.

A Maori-owned milk processing plant capable of churning through 1.1 million litres of milk a day, creating 60 jobs, is planned for the central North Island. The facility is a joint venture between Wairarapa Moana Incorporation and Tuaropaki Kaitiaki Ltd. Wairarapa Moana manages one of New Zealand's largest farming operations with 2870ha in dairying, 1325ha in sheep and beef and the remaining 6500ha in forestry.

Yuan revaluation boost for dairy sector

Yuan flexibility weaves bright prospects for dairy sector.

China's relaxation of its exchange rate regime allowing greater "flexibility" to Yuan – leading to the currency's biggest one-day jump in five years – just days ahead of the G20 leaders summit in Canada has triggered a wave of optimism in the financial markets for greater global recovery. Analysts predict that the Yuan – which is expected to rise between 3 per cent and 5 per cent a year against its US counterpart – would lift Chinese domestic consumption and boost its buying power abroad, leading to a higher demand for Australian commodities. They have identified dairy, instant noodles, tobacco, and alcohol shares as "key winners".

Proudly sponsored by



DAIRY REPORTER

Weekly Dairy News for Members of DFMC

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 fall.

Moderate falls were noted in the spot prices this week, compared to the last weeks of stability. Currency movements were also less dramatic, but helped weaken the index of exports returns. The index was pruned more than 5 pts to **141.7**, as the \$A closed the week slightly stronger at **US\$87.48c**.

Rabobank sees powder market softening.

Whole milk powder prices are likely to drop to US\$3,500 to 3,600 by year's end according to Rabobank. Senior analyst Hayley Moynihan said demand for milk was expected to grow, but not quick to mitigate this weakening. Moynihan said global milk supplies over the next three months would likely increase with the US herd size growing and milk yields increasing from extra feeding and better genetics. Europe was in its peak milk production with rising farmgate prices likely to stimulate extra production. China continues to influence milk powder prices as importers of 35,000 tonnes to 40,000 tonnes a month, which is four times the amount imported pre-melamine crisis in 2008. India boosted the butter markets in late 2009, but has curbed imports lately. This could swing back again if its monsoon rains are less than normal and it is unable to be self-sufficient. In the US, local cheese inventories are at record high levels from lacklustre demand by domestic consumers cautious about their weak economy.

Cool response to HLG reforms

Dairy boards refuse to abide by HLG regulatory reforms.

The HLG - EU's reform review panel - dairy reform package proposed last week has evoked a rather cool reaction from the Danish Dairy Board, who are not fans of regulation and market supports of the EU. Danish Dairy Board policy director Kirsten Holm Svendsen has pointed out that the proposed reforms cater to a dairy crisis that is now history. She states that the EU dairy sector – with the help of the Commission's existing market instruments – has recovered from the crisis situation with prices now back at 2007 levels, without any of the new rules and regulations in operation. Hence, she reckons that further measures, such as longer fixed contracts, would not necessarily work in the farmers' interest.

Similarly, the UK dairy sector has expressed its doubts about some of the proposals spelt out in the final paper. Dairy UK director general Jim Begg stated that many of the recommendations, such as those on contracts and producer organisations, mainly cater to the issues in other member states, with the UK well down the track of using such devices. He has urged the Commission to withhold from imposing any "retrograde measures" that could hamper the dairy industry or "distort the market".

EU milk output stays below last year

EU milk deliveries peaked in April, but lower than last year.

April 2010 EU-27 milk deliveries were 0.8% below that of a year before, with deliveries in France, Poland, the UK, and particularly Ireland (the lowest April level since 2005 at 5.2 per cent) dipping well below last year's level. Conversely, EU countries like Germany, the Netherlands, and Austria had more milk delivered to their dairies in April this year compared to a year ago.

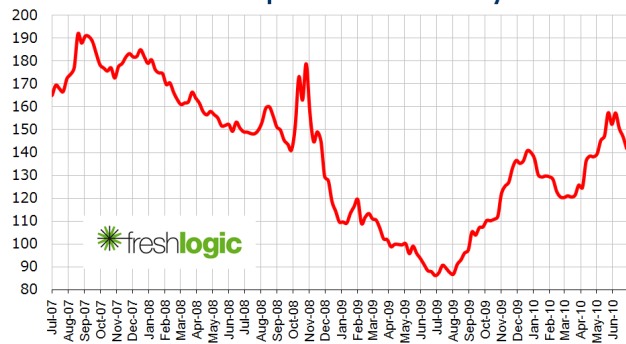
US milk flows up 1.2% in May

US production recovering despite prices moving slightly.

US production stayed in growth mode in May as California stayed in positive territory and Wisconsin jumped nearly 6% over the same month last year. Against more milk from fewer cows is the story as the average milk prices in the month moved up a touch from earlier in the year.



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.

US supply management proposal attacked

Supply restraint scheme intensifies tension, leads to clash between the titans.

A national US supply management proposal – drawn-up earlier this month recommending restraining the US milk production – has led to the clash between International Dairy Foods Association (IDFA) and California-based Milk Producers Council (MPC), the principal advocate of the proposed scheme.

IDFA president Connie Tipton, vehemently rebuking the MPC-backed scheme introduced by Representative Jim Costa, stated that the supply restraint schemes would hamper the future opportunities for the dairy industry. She added that supply management, besides stopping US dairy exports at a time when the demand was high in emerging markets, would also lift food prices, encourage non-dairy substitutes, worsen volatility, and lead to the demise of several small farms whose production rights will sought by larger and more efficient farms. It would also "create a massive new bureaucracy" at the USDA that would determine the volume of milk supply to be decreased or increased every year. In response, MPC has stated that Tipton's remarks will invoke the wrath of all dairy farmers across the country.

Nestle raises milk products price

Chinese suffer as Nestle covers mounting input costs.

In response to rising costs of raw materials, Nestle has announced – once again – that it will be raising prices of its milk powder and liquid milk products by 5 per cent from 1 August 2010 in China. According to latest customs figures for Chinese imports, prices of SMP and WMP were nearly 50 per cent higher in May 2010 than a year ago. While SMP prices rose to \$3,077/t in May this year from \$2,036/t in May 2009, WMP prices exhibited an increase at \$3,327/t from \$2,213/t in the year ago.

Yakult picks site of first US plant

Yakult builds on lingering US success, embarks on journey of expansion

In a bid to expand and strengthen its presence in the US as a probiotic specialist, besides exploring new product line extensions, Yakult USA – a subsidiary of Japanese probiotic drinks manufacturer Yakult Honsha – has unveiled its plans of building its first US factory in Fountain Valley, California, based on the location's close proximity to its biggest market Los Angeles. The facility, whose operations will start in 2012, is expected to produce 250,000 bottles of probiotic drink per day, catering to the present sales territories of California, Nevada, Arizona, Texas, Colorado, and New Mexico among others.

Proudly sponsored by

