

DAIRY REPORTER

Weekly Dairy News for Members of DFMC



29 November 2011

Bega cheese lifts stake in WCB

Bega takes a bigger slice of WCB.

Bega Cheese lifted its stake in Warrnambool Cheese & Butter to more than 16% last week and is reportedly considering buying more shares to potentially reach the 19.9% takeover threshold. Chairman Barry Irvin told the Fin Review that there was at this stage no intention to mount a takeover for WCB. In November 2010, Bega had paid \$22 million for a 15% stake in WCB's capital raising. Since then, this shareholding has grown through dividend reinvestment and on-market purchases, and is now worth \$37 million.

Price cut is a further blow to Qld dairy

Price cuts a feature of proposed new Parmalat agreements.

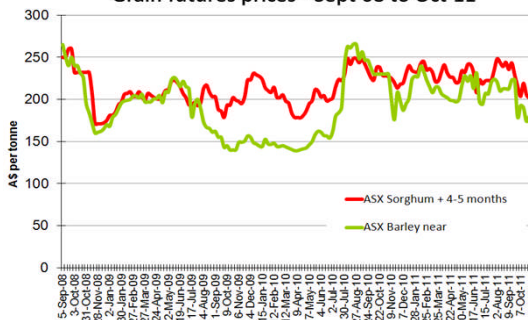
Media reports in Queensland suggest Parmalat is set to cut the farmgate prices for southern Queensland milk suppliers by 3-4c/litre, as part of offers of new three-year contracts. The new contracts are being offered a year before the termination of the current separate pricing structures available under its POPS and PDA agreements which are due to expire at the end of 2012. According to the Queensland Dairyfarmers' Organisation, Parmalat price cut follows a similar move by National Foods in the middle of 2011, and sustained their blaming of the Coles-induced supermarket price war for the cuts, claiming retailers are pressurising processors to reduce their prices as a result of the impact of the price and market mix that has ensued in 2011.

Feed grain glut is likely

Severe weather will trigger a glut in feed grain.

Australia could face a wheat export challenge, as extensive rainfall has suspended the harvest in the main wheat-growing regions of NSW and Victoria and threatens to downgrade crops to feed quality wheat with below-par protein content. This has sparked expectations of a glut of feed grain on the global market, which will slash prices, even if yields are high. The Bureau of Meteorology has also forecast that Western Australia's main grain-growing region has a 60%-75% possibility of receiving above-median rainfall from December to February. Currently, grain prices are down, due to an oversupply of feed quality grain worldwide, and softer commodity prices amid the increasing EU debt crisis.

Grain futures prices - Sept 08 to Oct 11



US yoghurt Chobani on sale in Australia

US best-seller hits Australian retail shelves.

US-based Agro Farma's leading Greek yoghurt brand Chobani, which accounts for 57% of the Greek yoghurt sales in the US, has been launched in Canada and Australia. The launch in Australia is the first international expansion for the brand. Seven flavours are being retailed by Woolworths in its stores in New South Wales, before being rolled out nationally, and distributed through Bead Foods, a wholly owned subsidiary of Chobani.

Headlines

- Bega strengthens stake in WCB
- Wet will cause a feed grain glut
- NZ milk flows up 11% on last season
- US dairy plans stuck in budget gridlock
- Price rise to help struggling UK farmers

| Indicators | |
|--------------------|---|
| Dairy export index | Dollar falls to lift index |
| World dairy prices | Powders stronger |
| US cull cow prices | Prices continue to rise |
| Grain futures | Wheat futures fall, local grains steady |

Basin draft plan changes little

Basin authority chief urges an end to the historic tug-of-war.

Murray-Darling Basin Authority chairman Craig Knowles has unveiled the long-awaited basin's draft plan to secure 2,750 billion litres for the environment by 2019, in a draft that hasn't changed a lot since from the earlier "guide", and remains slim on implementation details. The authority contends that the rivers and wetland of the basin will be endangered in future droughts if its plans to return water the system is scaled back any further than the level proposed. The cuts, to be phased in by 2019, will be achieved through voluntary water buybacks and water-saving infrastructure upgrades.

The authority will also propose a review of the plan in 2015 to consider new research, new works, and rule changes that could ultimately change the final water cuts to farmers. The authority has however failed to include an environmental watering plan, showing how the water would be used and which wetlands and other sites would be prioritised.

However, the draft has reignited the divisions between farmers, environmentalists and government, despite the plan falling short of the authority's recommendations in the "guide" to the basin plan controversially released amid furore last year when it proposed the return of 3,500-4,000 billion litres a year.

Fonterra aims to double China sales

Co-op unveils plans to capture the strengthening dairy market in China.

Fonterra plans to double its sales in China by 2020 by increasing exports and expanding its domestic production in three of its existing dairy farms in China and to-be-constructed "world-class" farm in the Hebei province. The farms alone will increase Fonterra's milk production in China to about 90 million litres a year. The co-op expects China's dairy market to lift by more than 10% a year in value in the next few years, spurred by increasing demand for food commodities, including dairy, as incomes improve and sales of protein-rich meals rise. Fonterra's sales in China amounted to approximately \$2 billion last year.

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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.

Dollar weaken to push up index. The index of Australia spot returns posted another gain this week, as the \$A lost strength against the \$US. Spot prices for powders were stronger again, while others stayed steady this week. The \$A closed the week at **\$US0.9773** and the index of spot returns rose by 5 points to **127.09**.

Australia can benefit from Indonesian dairy agreement. Indonesia's ratification of the ASEAN Australia New Zealand Free Trade Agreement has provided a boost for Australia's dairy farmers. Under the FTA, Indonesia will not be able to increase tariff on imports without warning, providing a high level of security to the Australian dairy market. Australian dairy exports to Indonesia amount to about \$170 million every year, making it Australia's most valuable dairy export market in the region.

Australasian export index from Jan 2009



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.

NZ milk flows up 11% on last season

Good pasture growth helps NZ milk flows stay ahead of last season.

DCANZ reports that milk production during the first four months of the 2011/12 season (June to September 2011) was 11% ahead of the same period last year, mainly driven by the good conditions for pasture growth in South Island this year. **However**, the increase in milk flows in Oceania, together with a strong US dollar has been deemed as bad news for the US dairy exports by US dairy expert Professor Jim Dunn of Penn State University. The recent exchange rate movements, in particular the weaker NZ dollar, are expected to have a negative impact on the US dairy exports.

Argentina will continue to grow in 2012

Industry back on track, as milk production tipped to hit record high.

USDA forecasts that Argentina's milk production will reach a record high in 2012, with a growth rate of 3.8% to 12.45 million tonnes, driven by good weather and high profitability. Total exports of dairy products are also expected to increase significantly in response to the anticipated lift in milk flows. WMP exports are expected to rise by an estimated 12.6% to a record 250,000 tonnes to other South American countries, as well as the Asian countries, particularly China.

EU products follow higher milk flows

Mixed growth for commodities on back of stronger milk flows.

The expansion of EU-27 milk deliveries by 2.2% in the first three quarters of 2011 has boosted milk product output. With the exception of WMP which was down, production of all other dairy products, were ahead of last year, with SMP posting the steepest rise of 14% in the eight-month period of 2011, followed by butter, up 4% on same period last year.

Price rise to help languishing UK farmers

Recent lifts in UK farmgate prices not enough for local farmers.

The NFU dairy board has urged UK milk processors to increase farmgate milk prices by the end of this year, in a bid to lift confidence and increase cash among farmers to ensure the long-term future of their business. Although UK farmgate prices rose (between 1ppl and 2ppl) during the past few months, UK producers still lagged behind their mainland EU counterparts, with the average UK farmer only seventh from the bottom of the league table and farmgate prices down 3.25ppl compared to the EU average price.

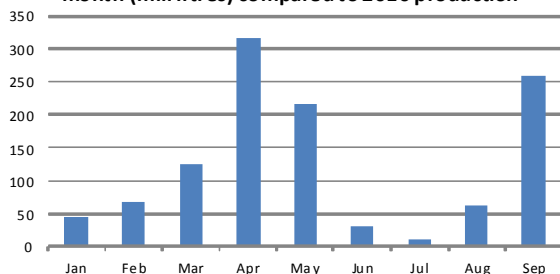
Meanwhile market analyst firm Promar has predicted that the number of the UK dairy farmers will reduce to an estimated 9,400 by 2020, and production only be partially offset by higher output from those that remain. The firm forecasts a 40% increase in the average herd size from 124 to an estimated 170 cows, with an increase in average yields from 7,400 litres to 8,100 litres a cow per year. A tightening of long-term milk supply, together with strong local competition for milk among buyers is expected to firm markets and create opportunities for efficient producers.

China Modern Dairy to add farms

Raw milk producer wants more farms to slash cattle imports.

China Modern Dairy Holdings Ltd will be adding dairy farms to meet burgeoning demand and slash cow imports over the coming years to lower input costs and improve margins. It says it will cease the imports of cows and heifers by 2015. The company plans to operate 20 dairy farms with more than 150,000 dairy cows by June 2012, and 30 farms, each with 10,000-40,000 cows, by the end of 2015. At present, it operates 16 farms with 110,000 cows.

NZ milk flows in 2011 - additional milk per month (mill litres) compared to 2010 production



\$60m dedicated to first-farm purchases

Bank launches million-dollar fund to retain New Zealanders in farming.

ANZ has launched a new \$60 million start-up package to help new farmers start their first independent agricultural business, as a first step towards raising further capital and buying a farm in future. Up to \$50,000 of each loan in the package may be unsecured. With the average age of NZ farmers now exceeding 50, ANZ analysis revealed that the amount of capital required by the next generation to buy a farm has now increased to more than \$1 million and at least \$1.5-\$2 million to buy sheep and beef farm. The bank warned that the cost of buying a farm has put ownership out of reach of young New Zealanders, now pursuing other career options.

US dairy reform plan almost dead

Much debated dairy reforms stuck in budget gridlock.

An effort to enact dairy support reforms this year reached a deadlock on November 21, as US Congress failed to reach a consensus on how to reduce the US federal budget deficit. The sudden halt suggests that this might form the starting point for debate on the dairy section of a new farm bill to be considered by Congress early next year. The committee's plan was to include a wide-ranging farm support legislation package, including a new scheme to protect dairy farmers' profit margins, in legislation aimed at deficit reduction.

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