

DAIRY REPORTER

Weekly Dairy News for Members of DFMC



2 November 2009

A big step-up from MG

A strong response to speculation current year prices were under pressure – but how much more is in the tank?

The largest buyer of milk in southern Australia backed its recent reassurance of the capacity to compete in the current year and announced a large 2nd step-up for the 2009/10 year of 30c/kg protein and 12c/kg butterfat. Managing director Stephen O'Rourke told suppliers in that the loyalty bonus reflected further improvement in world prices in recent months. "We anticipate prices will hold firm into the second half of the season, however, we maintain caution as world economic conditions remain uncertain and can change quickly. Exchange rate risk remains a serious concern with a strengthening AUD eroding some of the benefits of higher world prices."

He added that MG continued to review options to provide further incentive for milk supplied from January to June 2010 and expected to be able to increase the price for milk supplied during this period.

Other price increases last week



Tatura and Burra Foods also lifted prices

Tatura Milk announced an increase earlier in the week of 16c/kg for butterfat and 40c/kg for protein. The Tatura increase has two elements in one – it declares a loyalty payment of the above amounts applicable for the first 5 months of the year, and a base price rise of that same amount for the remaining 7 months of the year. Tatura doesn't use the principle of step-ups now that it is in the Bega fold and prefers commitments to annual prices. **Burra Foods** told its suppliers this week it had increased prices by 12c/kg for butterfat and 30c/kg for protein.

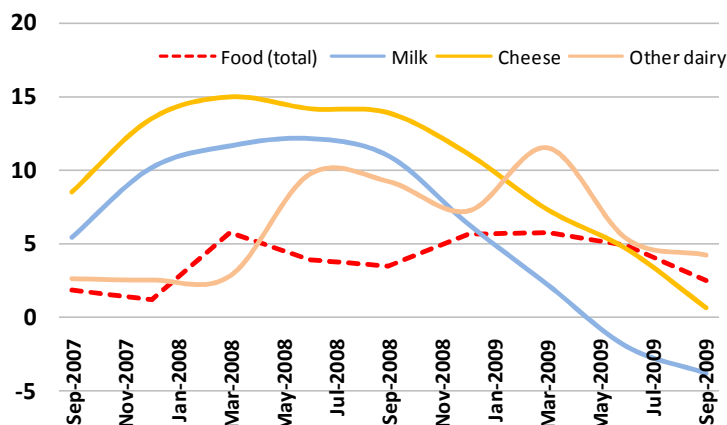
Dairy prices off the boil says ABS

September quarter sales numbers were released by the big two in food retail last week

The consumer price index rose 1 per cent in the September quarter following a 0.5 per cent rise in the previous quarter, the Australian Bureau of Statistics said. While overall CPI was presented by the financial media as a problem, food CPI has retreated now down to an annual rate of 2.5%, with the dairy category in total posting negative inflation over the past 12 months, as milk and cheese price increases stalled.

The ABS reckons milk prices actually fell over the September quarter compared to the same period in 2008. The more stable "other dairy" lines which includes such products as yoghurts and ice-creams, typically less-exposed to price movements in raw materials, has stayed ahead of last year by almost 5%.

annual CPI % dairy category 2007-09



Headlines

- MG lifts prices after posting a loss
- Export prices still on a roll
- Dairy product price rises fade
- NatFoods to go direct in Tasmania
- \$A fluctuations persist
- French bankroll their farmers

Indicators

Dairy export index	Up 10 points with the surge in prices and fall in \$A
World dairy prices	All commodities up, cheddar moving slowest
Grain futures	US futures lost 10%, local prices flat

MG shows the pain of the export market

MG's annual report has been lodged ahead of the pending AGM of the co-operative. It shows the company had a slide in margins and a \$125m fall in pre-tax profits due to the sharp slump in dairy markets.

	2009	2008
	\$m	\$m
Sales	2,406	2,635
Gross profit	(11%) 273	(16%) 413
Profit before tax	(25)	101
Profit after tax	1	93
Dividends declared	23	27

No deals in Tassie yet

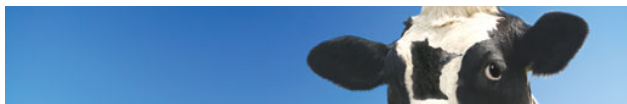
Farm organisation pleads for sanity, NatFoods goes direct

Peak state farming organisation the TFGA pleaded with dairy farmer reps in Tasmanian to accept the offered milk prices and call off the pointless dispute of NatFoods Pura milk products in the local marketplace, which the Weekly Times claimed has lopped 25% of sales.

National Foods said communication through the bargaining group had failed and it was time to deal directly with farmers as it ups the ante in the interests of solving the dispute and giving certainty to its suppliers. From this week, company reps will travel from farm to farm to negotiate prices and contracts. The company said it had been approached by suppliers interested in the offer that was made to the bargaining group.

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Index bolts with flop in the \$A

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.

Export spot prices and the \$A were very kind to the export index this week. Quotes from NZ jumped strongly this week with the biggest gains in butter and SMP, but all product groups posted healthy increases. The \$A ended the week down more than 2c against the US currency at **US89.8c** putting the export index almost 10 points up at **121.9**.

Australian prices rising while the \$A fluctuates

The monthly survey of export spot price released by Dairy Australia for October recorded the biggest gains in butter which reported a range as high as \$US3800/tonne, with a mid point up 32% over the prior month. Other major commodities posted gains in the range of 10-12%. The price movements bode well for the next round of the gDT auction process next week as the top end of spot price quote ranges for WMP now exceed last month's winning auction prices.

Erratic currency being pulled in different directions

Over the past 2 weeks the movements in the \$A against the US currency show the continued erratic nature of financial markets, with the \$A moving within a 4c range as conflicting sentiments and confusion about how to judge various indicators affected its value. The latest GDP numbers out of the US took the \$A under US90c by week's end. Worries about the substance of US growth and its implications for the world pegged the \$A, after earlier it was buoyed by the pending interest rate rises on the back of worse than expected inflation results.

Small cull for latest CWT retirement

The 4th in a spate of voluntary retirements draws muted response

Another 26,412 dairy cows will be off for early retirement from the US dairy industry, following the latest Cooperatives Working Together (CWT) herd retirement, the fourth CWT program in the last 12 months. Together with the results of previous buyouts since December 2008, 252,000 cows representing 5 billion pounds of milk will have been removed, NMPF says. CWT economists had estimated that, coming into 2009, about 250,000 cows representing would have to be removed from the market to bring supply and demand into balance and strengthen farm milk prices.

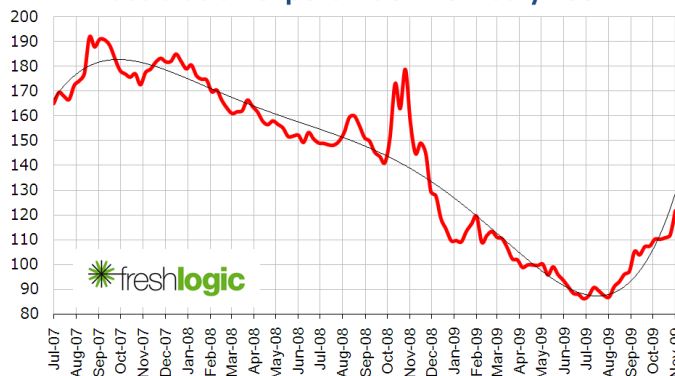
France doles out money to farmers

The EU is putting back on member states to top up support to their farmers if they can afford to. France has obliged

French President Nicolas Sarkozy unveiled €1.65 billion in support for France's struggling farmers, and called on Europe to move faster in reinforcing regulation in the dairy sector. The national plan, to be put in place before the end of the year, would include €1 billion in bank loans and €650 million in exceptional state aid, he said. The financial support unveiled for farmers would be complemented by the development of contractual agreements between farmers and the food industry to be outlined in a farm bill to be finalised by the end of the year. Sarkozy said his government will reinforce monitoring of food margins by a committee set up earlier this year, calling "unacceptable" a 20 percent drop in French farmgate prices in the year to September while consumer prices fell by just 1 percent.



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.

South Americans reducing output

More evidence that supply is responding to lower prices in some important export competitors

Deliveries to dairies in **Brazil** in the second quarter of 2009 were reported to be sharply down on the same period in 2008. After a stable first quarter, production in April-June 2009 fell about 9% below the comparable figure, taking the whole of the first half of 2009 to around 9.5 million tonnes, or 4.1% lower than in January-June 2008. **Argentina** is also recording a drop in milk output, with deliveries in July 2009 some 4.1% down on the year-before figure. USDA reckons Argentinean production will reach 10.3 billion litres in 2010. USDA is also that production is set to drop in **Chile** during 2009. Milk production in the country has been growing in recent years, and recorded a 4% rise in 2008, but is expected to fall by 12% this year.

Making a difference with ice-cream



Fonterra develops a functional food to make a difference

Clinical trials have been started in NZ to test of a Fonterra ice cream, which claims cancer patients can now get through chemotherapy with relatively few side-effects, using a product that Fonterra and the Uni of Auckland developed for trials. The strawberry ice cream reinforced with milk fat and a dairy protein, can ease the diarrhoea, anaemia, weight loss and lowered immunity, making some patients sick enough to stop their treatment.

UK co-op was naïve chasing milk market

The demise of Dairy Farmers of Britain is the subject of an inquiry in the UK. When they looked for a milk business, someone saw them coming.

The former chairman of DFOB at the time of its collapse, Lord Granchester, admitted to a Government inquiry into the collapse of the cooperative that the board had been "naïve" in its acquisition of Associated Co-operative Creameries from The Co-op in 2004 and agreed that it had paid too much. At the time there was a lot of pressure mounting for DFOB to get into some form of processing, and ACC was about the only thing available that offered a way into the liquid market.

Former CEO Gerry Smith revealed that it "took us some time to understand what we had actually purchased". He said that a year after the takeover of "the oldest assets in the dairy industry...a black hole was discovered," he said. "We analysed it and came to the conclusion we'd not made any profit since we'd acquired it." The company said it did not have the mechanisms in place to monitor the costs of moving milk around the new supply chain. These losses continued for three years, despite taking some £15m in costs out of the business.