

# DAIRY REPORTER

Weekly Dairy News for Members of DFMC



30 March 2010

## MG takes stake to 10%

*MG climbs to 10 per cent or 3.9 million shares in Warrnambool, with the hope of a merger coming soon.*

Murray Goulburn has raised its stake in Warrnambool Cheese to 10 per cent or 3.9 million shares, to reach the threshold that prevents its buying further. However, after the latest share buy-up, MG chairman Grant Davies said, "We still believe a merger between Murray Goulburn and Warrnambool is in the best interests of dairy farmers across Victoria and it is a goal which we will continue to pursue."

According to Davies, when the limit will be increased to 15 per cent in May, it is likely to increase its share in WCB again. He stated, "Acquiring a 10 per cent foothold in WCB is part of a business strategy, which we hope will result in a merger between the two companies."

## A2 again attacks conventional milk

*Results of studies vary as the debate on choosing A2 over A1 continues.*

In order to promote its own specialist A2 milk, a NZ-backed company is again warning consumers that unlike A2 milk, regular milk contains A1 and other caseins that might be harmful.

A2 Australia corporation's website states "studies suggest" that the A1 casein (milk protein) found in regular milk "may" put children at risk of contracting type-one diabetes and adults at risk of heart disease. It bases its claim on one of the key studies that has found consuming "A1 casein was significantly and positively correlated with ischaemic (coronary artery) heart disease in 20 affluent countries."

However, surprisingly, the same when published by NZ researchers Murray Laugesen and Robert Elliott did not find any correlation between national tobacco consumption and heart disease.

University of Sydney nutritionist professor Stewart Truswell has said while reviewing the A2/A1 research that there is "no convincing evidence or probable evidence that the A1 casein in cow's milk is a factor causing heart disease ... (or) childhood diabetes."

## The wasted feed opportunity

*Australia accurately gauges, for the first time, the wastage of feed on its farms and prescribes solutions for this waste.*

The Grains2Milk study, which was conducted in the late 2009 and involved 50 commercial dairy farms across South Australia, Queensland, New South Wales, and Victoria with a range of feed-out methods, has finally revealed that up to a third of supplementary feed is wasted on many Australia farms.

According to Dairy Australia Grains2Milk program manager Dr Steve Little, "One of the key findings is that feeding out in the paddock can result in huge levels of waste, whether you feed on the ground or through hay rings."

He added that it is possible to "achieve lower waste levels, even with low cost systems." The study has shown that some dairy farmers attain low wastage rates, on which Dr Little stated, "We can learn from their management practices."

Some of the measures to reduce wastage is by paying attention to the chop length when cutting hay/silage; protecting hay/silage during storage to reduce the dry matter and quality losses; and offering cows fresh, palatable, and high quality feed always.

## Headlines

- MG's climb gets to 10% - where now?
- The ongoing debate: A2 vs. A1
- Get wiser on wasted feed
- Futures markets planned for dairy
- Chinese NZ play draws interest

## Indicators

Dairy export index	Up more than 4 points
World dairy prices	Across the board rises of US\$50-100/tonne
Australian cull cow prices in the US	Prices stronger as US market tightened further
Grain futures	US and Australian futures prices weaker

## Victoria focus for dairy research

*Nominated as the lead state for dairy R&D, Victoria zeroes in on dairy research.*

In November 2009, Victoria was nominated as the lead state for dairy R&D by the Primary Industries Ministerial Council in its National Primary Industries Research, Development and Extension Framework. Hence, Victoria will focus on dairy research and cut back on the costs of pork R&D.

This strategy has been driven significantly by the Victorian Department of Primary Industries, which began rationalising its dairy research with the closure of its Kyabram Research Institute last June. United Dairyfarmers of Victoria president Chris Griffin said that the new framework would cause to the rationalisation of R&D resources. He said, "It's a pretty good thing for us, but it doesn't mean other states miss out."



## Domino's reports stronger profit

*Domino's experiencing huge profit jump plans to expand by more than 50 stores.*

Domino's Pizza has recently reported a net profit jump of nearly 40 per cent to \$8.7 million the last six months. The total network sales have risen by 7.6 per cent to \$353.5 million, while same-store sales are up by 2.9 per cent.

Over the past two years, Domino's share price has more than doubled, with the company delivering results in line with, or above, its guidance to the market. With 813 stores across Australia, NZ, France, Belgium, and the Netherlands, Domino's is planning to open more than 50 stores this year, a figure which is up from its previous estimate of 40 to 50.

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## Index up by 4 points

**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 better across the board...

Increases in spot price quotes this week were stronger, and across the board at between US\$50 and US\$100. The \$A value of the apparent export returns was also helped by a weakening in the \$A at the end of the week to **US90.4c**, giving the export index a sharp boost to **125.7**.

### US and European futures for skimmed milk

Launching a new world-wide futures and options contract for skimmed milk on May 9, US derivatives market operator CME claims that this will be the first exchange-listed dairy contract with physical delivery points located around the world, which will help sellers to stipulate delivery from Auckland (New Zealand), Melbourne (Australia), Rotterdam (Netherlands), the US West Coast (Los Angeles or Seattle) or the US East Coast (Newark).

A new dairy-based futures trading will be launched in Europe at the end of June, as announced by the German/Swiss futures exchange *Eurex*. This exchange will offer the trading of two futures based on butter and skimmed milk powder in Europe. Further, the futures will be based on the established reference prices from their respective spot markets and be settled in cash.

## Chinese buyers for NZ dairy assets

**NZ dairy industry keeps a close tab as Chinese dairy company plans a \$1.5 billion move.**

Many unanswered questions surround a Chinese company's plans to make a \$1.5 billion move into the New Zealand dairy industry. Natural Dairy (NZ) Holdings Ltd is being used as a shell to acquire New Zealand dairy farms and build a processing plant which will enable it to market New Zealand milk in China as coming from its own farms and being manufactured in its own plant. Its proposed buyout of the Crafar dairy empire and construction of a milk processing plant in the central North Island rests on the company raising \$1.5 billion and meeting Overseas Investment Office approval. So far Natural Dairy has raised \$150 million.

The investors are heavily targeting the markets for imported infant formula in China, which have soared since the 2008 tragedy surrounding melamine contamination of milk. Natural Dairy has noted few other New Zealand dairy companies apart from Fonterra could claim to similar ownership of their exports from the pasture to the shop. Chinese company claimed to be "highly entrepreneurial" and seeking factory sites in the North Island, within economic tanker distances from its planned farms.

## Early Chinese imports surge

**Distrust of domestic dairy products due to their higher costs and new occurrences of contaminated milk powder surge early exports for China.**

According to the Chinese customs official, dairy imports worth US\$60 million (€45m) passed through the port of Shanghai in the first two months of this year, which was 25 per cent up, year on year, with volumes up by 8.3 per cent to 27,000 tons. The imported dairy products, 90 per cent of which were collectively from the EU, NZ, and the US, were priced at an average 22 000 yuan (US\$3, 221) per ton, instead of 43, 000 yuan per ton before the global economic downturn.

This surge was attributed to the distrust of domestic dairy products caused by the new occurrences of contaminated milk powder and higher costs of domestic products.

## 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.

## Over-ambition sank DFB, say MPs

**MPs say over-ambitiousness and poor decision-making led to the collapse of the DFB**

The panel of MPs who examined the collapse of the UK co-op Dairy Farmers of Britain (DFB) have launched a report that states that the collapse was caused by the triumph of strategic ambition over financial reality. According to the panel, poor decision regarding the pace and scale of the expansion of the agricultural co-operative and a substantial loss of confidence led to the failure of the business.

## McDonald plans 500 new Chinese stores

**McDonald caters to Chinese love for fast food.**

McDonalds, which already has a total of 1,135 outlets in China, is planning to open 500 new Chinese stores and increase investment in China by 25 per cent in 2010, cashing in on China's fondness with fast food. This follows after the company recorded a 10 per cent rise in sales in Asia in February 2010, with China among the company's three biggest markets in the continent. Rabobank dairy analyst Tim Hunt has described McDonald's plan of expansion as "encouraging".

## NZ North Island milk production sapped

**The worst drought in 60 years is sapping North Island's production.**

Northland's milk production is down by 40 per cent due to its driest period in about 60 years. Usually receiving plentiful rain, this year, Kaitiaki located in the country's far north, has experienced a prolonged drought leading to critical level of water supplies and affecting the milk production. The drought also appears to be seeping into the greater Waikato region, responsible for about one third of NZ's milk supply. Dry weather over the past six weeks is impacting on pasture cover and herd drying off intentions which will further impact on both late season milk supply to dairy processors and farmer cash balances.

## Fonterra sticks with price outlook

**Interim results show strength but give no more to suppliers.**

The key highlights of an interim report from the big Kiwi included a lower revenue (down by 3.7 per cent), the forecast milk price for 2009/10 that will remain at \$5.70 per kgMS, an interim dividend of 8.0 cents per share that will be paid to shareholders on 20 April 2010, and an increase in the investment in advertising and promotion to grow and defend market share in Fonterra's regional consumer brands businesses.

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