

DAIRY REPORTER

Weekly Dairy News for Members of DFMC



31 Aug 2010

NatFoods reviews cheese operations

The focus will be on site viability and the removal of duplication.

National Foods says it plans to streamline nine of its cheese manufacturing plants throughout the country by February 2011. The plants to undergo review include Simpson and Campbellfield in Victoria, Jervois and Murray Bridge in South Australia, Kings Meadows, Burnie, King Island and Heidi Farm in Tasmania and Malanda in Queensland. It could affect up to 660 employees and is also likely to bring about some plant closures and redundancies.

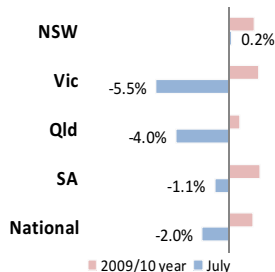
The company said its cheese manufacturing business has substantially evolved through brand acquisitions over the past 10 years, and that it needs to invest in operations so that it would "continue to lead" in everyday and specialty cheese categories. The review aims to overcome the existing duplication in NatFoods' network, underpin long-term viability and sustainability of its sites and examine innovation, technology and environmental requirements. The Allansford cheese manufacturing business in Victoria that recently underwent a review will not be included in the latest auction.

Milk sales start 2010/11 badly

National milk sales are sluggish

Latest data from Dairy Australia show that national packaged milk sales were down by 2% in July 10, after revised full year sales were up just 1.8%. DA said in the release that problems with sales numbers have now been solved which affected 2009/10 numbers. There was the continuing shift to reduced fat/no fat milk from full cream. Fresh flavoured continued to bounce back with a 3.3% gain month on month. UHT saw a large drop of 27% but this is expected to recover in the next month.

Packaged milk sales volume
Year to June '10 v July '10



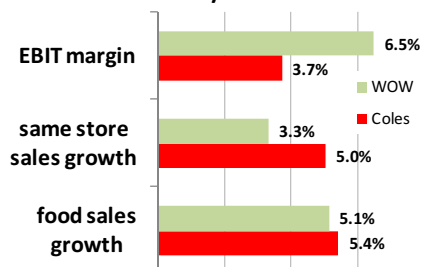
Woolworths soars to record profit

Woolworths books strong results under challenging circumstances...

Woolworths Ltd booked a 10.1% increase in net profit in 2009/10, going past \$2 billion for the first time, its 11th straight year of profit growth of more than 10%. The food and liquor supermarket division reported a 5.1% increase in sales which was attributed to its fresh food success in the first few months of the new financial year and a growth in its private-label or "exclusive brand" goods, and a strong trend towards health-related products such as organic, gluten-free, and free-range products. However, CEO Michael Luscombe warned that although the prevailing low level of inflation enabled it to slash the prices of 4400 of the 25,000 items on its shelves, it cannot promise a repeat of it this year, as it was already absorbing cost increases in dairy products.

Despite the recovery in sales by Coles, it has a long way to catch its bigger rival in margins, which allows Woolies greater leeway if there needs to be a resumption of deep discounting. Analysts hope we've seen the last of that for a while!

How the big two compared in 2009/10



Headlines

- NatFoods to review cheese business
- Woolworths boosts food margins
- ACCC happy with Premium's bargaining
- NZ South Island financier on the brink
- Date set for NZX futures launch

Indicators	
Dairy export index	A small improvement with a small lift in \$A
World dairy prices	Rise in butter and powders spot prices
Australian cull cow prices in the US	Prices higher in \$A as US beef supply trails demand
Grain futures	Decrease in US wheat prices, local grains steady

ACCC says Premium arrangements OK

ACCC gives Premium arrangements the green light for another 10 years.

The ACCC has provided an interim ruling that the collective contract negotiation processes used by Parmalat and its Southern Queensland suppliers are working well for its Premium Milk dairy farmer members and intends to re-authorise the arrangement. Premium's members have been collectively negotiating contracts with Parmalat under an ACCC authorisation, and with Parmalat's support, since 2001. The ACCC proposes to re-authorise the arrangements for a further 10 years.

Fonterra wants supply rethink now

Fonterra reluctant to supply milk to competitors, urges Govt to keep up its re-think promise.

Fonterra chairman Sir Henry van der Heyden has urged the Government to implement its promised rethink of the obligation on Fonterra to provide millions of litres of milk to competitors which already have their own supply.

Although Agriculture Minister David Carter has promised to re-examine at who should be eligible for regulated milk under the Dairy Restructuring Act, he will not be looking at it until late next year, as the timing would fit Fonterra's stated desire to have ministry staff first work on the legislative changes required for the introduction of share trading between farmers next year, an outcome of the company's recent major capital restructure. Mr Carter has also announced that there would not be any adjustment to the cap until next year's planned review is finished and the final capture of the competitors would be under the forecast 583 million litres judging by last season when demand fell short of the original estimate by 70 million litres.

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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.

Prices head up.

Export spot prices for butter and both milk powders rose this week, the first positive movement in SMP for 6 weeks and in the case of WMP the first rise in spot quotes since the first week of May. The \$A again rose slightly over the week to limit the gain in the export index. The \$A closed at **US\$89.9c** and the index just ahead at **127.6**.

Oct launch for WMP futures contract.

The much-awaited Global Whole Milk Powder (WMP) contract – the global dairy industry's first derivative product for WMP – will be launched by the New Zealand Exchange (NZX) on October 8. The global WMP would enable manufacturers and dairy trading firms, to manage price volatility as they can lock in prices in the WMP market up to 18 months in advance.

According to NZX derivatives manager Kathryn Jaggard, this contract would also help farmers by providing them a view of the future market sentiment. The NZX contract will be cash settled and will be traded on the NZX electronic platform GlobalVision and centrally cleared through the new clearing house operated by NZ Clearing Ltd. A range of futures and options products could be added to the market through 2010 and 2011, including skimmed milk and anhydrous milk fat futures, as planned by NZX.

The latest in "tainted" milk

Milk seized in Indian tainted milk raids...

Food safety officials in India have seized 50,000 litres of lethal synthetic milk bound for the country's capital New Delhi and fear that this could only be the tip of the iceberg. The milk adulteration is thought to have potentially intensity similar to that of the melamine crisis in China and could upset India's booming dairy industry. The seized milk has found to have been thickened with caustic soda and urea and has prompted serious health concerns. Other contaminants include vegetable oil, detergent, and formalin. When these contaminants are blended with milk fat, the resulting milk appears identical to the thick, rich, creamy natural milk. A further worry for the dairy industry is that the illegal milk suppliers are using fake packages of well-known brands. Although there are indications that the quantity of tainted milk being supplied to Delhi is rising, officials are yet to ascertain the precise volumes.

...as the horrors of the melamine scandal resurrect in China...

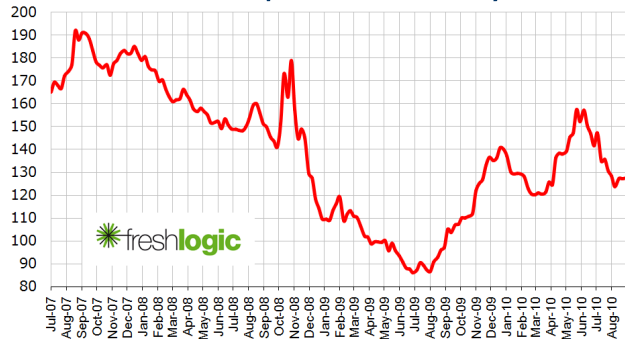
The horrors of the melamine scandal have resurrected in China, with a total of 227 tonnes of melamine-contaminated milk powder being seized by the police in the latest national crackdown in July. In the recent turn of events, the Chinese police have arrested six people for allegedly distributing melamine tainted milk powder. The dairy materials are believed to be belonging to the same batch that should have been destroyed following the 2008 scandal and tests on the samples of the milk powder has shown that it contained up to 500 times the legally permitted amount of the industrial chemical. Chairman of a national food safety commission, Vice-Premier Li Keqiang, has urged food inspection authorities to tighten supervision to significantly improve food safety.

New Holland HayBine™ Mower Conditioners.

New Holland offer the HayBine™ sickle bar mower conditioners, ranging from the model 488 with a cutting width of 9'3" through to the H7150N and cutting widths from 14' to 18'. All offer the legendary rubber chevron conditioning rollers. The H7150N also can be fitted with steel chevron rollers or a high contact conditioning package suitable for lucerne. Talk to your local New Holland dealer for a brochure and quote on your HayBine™ requirements.



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.

Olam raises offer for NZFSU

NZFSU asks shareholders to hold on for a better offer.

New Zealand Farming Systems Uruguay (NZFSU), which builds and operates dairy operations in South America, is continuing to advise its shareholders to hold onto their shares for now, rather than sell into a takeover bid by Olam International. Last week, Uruguay-based Union Agriculture Group (UAG) pulled out of the bidding for NZFSU, saying it had decided against making a bid above the current offer from Olam International of 70c per share. Before Olam lifted its offer to 70c, from the 55c it was at previously, UAG had been intending to make a cash offer at 60c a share.

NZFSU said it was continuing to negotiate new equity funding terms with a potential cornerstone shareholder. It was also talking to Olam to get greater clarity around funding parameters envisaged by Olam, and Olam's intended strategy for NZFSU if its offer was successful. NZFSU said shareholders should wait until further information was available before deciding whether to accept the Olam takeover offer. The NZFSU board expected to be able to provide shareholders with a further update within the next week.

Allied Farmers talking with banks

NZ South Island financier seeking a restructure of its debt facilities.

Allied Farmers, the embattled financier and rural services provider operating in NZ's South Island, will renegotiate the terms of its bank facility in the fall-out of its subsidiary, Allied Nationwide's, receivership. The company, which took on the troubled Hanover finance company loan book at the end of last year, is in discussions with Westpac and the lead manager of its rights issue after the collapse of its finance unit sparked the need for new negotiations over its restructuring initiative and debt retirement. The firm has senior debt totalling \$16.9 million, made up of a multi-credit facility of \$14.4 million and an overdraft of \$2.5 million.

Glanbia bounces back

Glanbia upbeat as nutrition drives recovery.

Irish dairy group Glanbia has announced a recovery in turnover and profits for the first six months of 2010, pinning its return to success on the strong performing nutrition and ingredient businesses. The company has booked a lift in total revenue of 9.7% on the same period last year, exceeding the €1bn mark to €1,036.4m while operating profit increased 38.7 per cent to €66.3m. The Irish business of the group (which included ingredients and consumer products) was mixed with overall sales up slightly with operating profit rising from €5.9m to €19.1m. However, Glanbia remains optimistic about future prospects.

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