

DAIRY REPORTER

Weekly Dairy News for Members of DFMC



31 May 2011

New CEO for Murray Goulburn

Ex-Fonterra man may fill the shoes of MG's CEO.

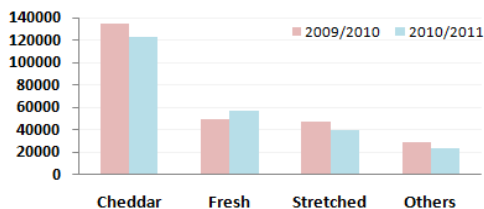
Close to a year after the spouse remuneration controversy broke at MG and long-serving Managing Director Steve O'Rourke announced his departure, the company is rumoured in the press to have found a new CEO in the form of Mark Wynne. Mark is aged 49, currently CEO of Kimberly Clark in this country (a role he has held for 4 years) and President of the group in South Asia, but has a lot of prior dairy experience. For 8 years he was the chief executive manager of Fonterra Brands, which is an interesting background given MG's desires to have a greater role in consumer products. Prior to Fonterra, Mark was Deputy CEO of Milk Products Holders SEA at the New Zealand Dairy Board for three years in Singapore after working for 12 years at the company in various senior marketing positions.

National cheese output dips

Powders lift as cheese suffers double-digit decline for the fourth month.

March data from Dairy Australia showed that Australian cheese production continued to decline with milk powder output remaining the focus of manufacturers despite the recent correction in prices. WMP and SMP production volumes are each more than 20% higher than in 2009/10. While the production of fresh cheese varieties output increased over the month, most other varieties including cheddar fell. Total cheese output for the year to March was a touch over 242,000 tonnes, down 7% compared to the same time last year. This is the 4th consecutive month where a double-digit decline has been recorded for cheese. Lower cheese output has contributed to a fall in export tonnages. Cheddar exports were down 10% in the corresponding period, but with domestic demand up, stocks have been run down.

Australian YTD cheese production by type ('000 tonnes)



Bega to use Commonwealth branches

Bega float chooses Commonwealth for its first public offering.

Bega Cheese has announced it is planning to place copies of its prospectus in more than 1000 Commonwealth Bank branches – 351 of which are in country or regional Australia – to spearhead its initial public offering, valued in a range of \$350 million to \$400 million. Bega is expected to lodge its prospectus with the ASIC within two weeks, ahead of its float in early July.

Record payout for Fonterra members

Co-op's bumper payout comes with a future forecast warning.

Fonterra has confirmed that it is on track for a record milk payout of \$7.50 per kg of milk solids for the 2010/11 dairy season. The forecast distributable profit has been increased by 10 cents per share to 50-60 cents. Farmers whose milk supply is fully backed by shares will earn \$8.00-\$8.10 per kg of milk solids before retentions and \$7.75-\$7.80 per kg of milk solids after retentions. However, Fonterra has forecast that its payout for farmers could slide in 2011/12 after a "record" 12 months, to NZ\$6.75 per kg of milk solids along with a distributable profit of 40-50 cents per share. Chairman Sir Henry van der Heyden said that the forecast for the 2011/12 financial year reflected the company's "realistic" outlook towards global dairy markets.

Headlines

- New boss for MG?
- Australian cheese output dips
- Fonterra confirms record payout
- Droughts pressure food prices
- Biggest dairy biogas project underway

Indicators

Dairy export index	Index trimmed as dollar stronger
World dairy prices	Prices unchanged
Australian cull cow prices in the US	Market stronger
Grain futures	Rise in wheat and local grains prices

Rise in NZ milk output

An excellent mix of factors prompt improved production forecast for NZ.

NZ dairy and grains analysts Agrifax has forecast a 5% rise in NZ milk output for the 2011/12 season compared with the current season. The strong opening price for next season is expected to boost the confidence of dairy producers and financiers, helping get over some current hurdles to its productive potential – especially in the South Island. Dairy farms and livestock are also in good physical condition with excellent pasture reserves heading into the southern hemisphere winter.

Olam extends dairy farmer offer

Commodities trader mops up shares to strengthen bid for dairy farmer.

Singapore-based Olam International has extended the offer date for NZ Farming Systems Uruguay until June 14 this year, and has picked up a few more shares in its bid for 100% of the dairy farmer. It has also welcomed a recommendation by independent directors that shareholders accept the offer by the Singaporean commodities giant. The offer period cannot be extended beyond August 4, 2011.

NZ parties split over emissions trading

PM John Key: NZ farmers would not be "thrown to the wolves".

The question of how soon farming will be brought into New Zealand's Emissions Trading Scheme (ETS) is looming as a major issue in the lead up to the November 26 general election when the centre-right minority government, led by the conservative National Party will seek re-election for another three years. The opposition Labour Party has stated that it would bring agriculture into the scheme in 2013, two years before the Nationals, who gave it a seven-year reprieve after forestry, which was the first sector to be included. Prime Minister John Key has slammed the idea, saying that it would raise retail prices of dairy products because the extra cost would be passed onto consumers.

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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 steady.

All spot prices were steady this week, ahead of another round of Fonterra's online auction. The index of export returns was trimmed by a stronger \$A which climbed higher against the \$US to close the week at **\$US1.0696**. The index of export returns was down by a point to **127.48**.

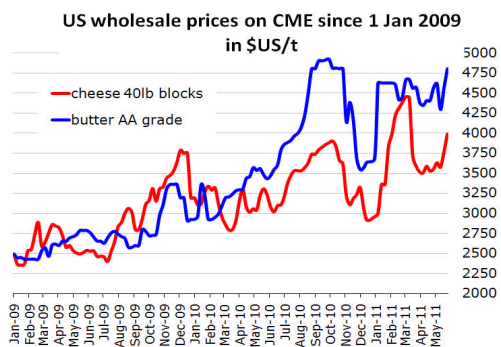
WMP volumes up at next GDT. The volume of whole milk powder (WMP) on offer is expected to be significantly higher, compared to the previous auction, at the next globalDairyTrade (GDT), scheduled for Wednesday 1 June. The majority of this increase has been previously forecast, as the delivery periods for Contracts 2 and 3 fall in the peak season for the manufacture of NZ dairy products. However, the amount of skim milk powder (SMP) on offer remains low and increased volumes are not expected for another month. Small volumes of milk protein concentrate and rennet casein will also be available at the next auction, though butter milk powder (BMP) is not expected to be available until July.

Offers for SMP face yet another rejection. The May 19 EU dairy management committee has rejected all offers for intervention skimmed milk powder (SMP), which were well below market prices. There were 21 bids, up from 3 at the previous meeting on April 20, for 4,682 tonnes of SMP at prices between €2110 and €2300/tonne. The average market prices are currently around €2372/tonne. About 53,600 tonnes meanwhile remains in intervention stores. Total private butter stocks stood at 39,089 tonnes as at May 19, compared with 25,418 tonnes on April 20.

Butter stocks tighten in the US

Cheese stocks up, as butter goes down.

US butter stocks at the end of April this year were 31% lower than a year earlier, according to the USDA Cold Storage report. However, in comparison, cheese stocks are 2% ahead from March this year and 2% above year ago. USDA surveyed butter and cheese prices are tracking at \$4,805/t and \$3,989/t at the end of last week.



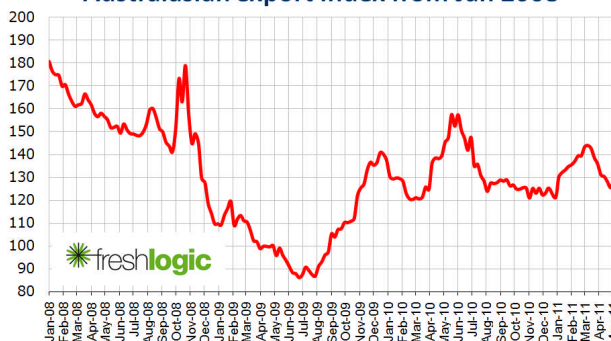
Keeping cows outside – good for outdoors

Outdoor housed cows have smaller ecological hoof print.

Computer simulation studies by scientists at the USDA suggests that a dairy cow living year-round in the great outdoors may leave a markedly smaller ecological hoof print than cows who are more sheltered. Scientists used the Integrated Farm System Model on a typical 250-acre Pennsylvania dairy farm and collected a range of field data on grazing systems, manure management and their effects on nutrient loss to the environment. Then they used their farm model, supported by the field data, to evaluate the environmental dynamics of four different dairy farms in all types of weather over 25 years. Results showed that compared to high-production confinement systems, keeping dairy cows outdoors all year lowered levels of ammonia emission by about 30% and the greenhouse gases methane, nitrous oxide, and carbon dioxide by 8%.



Australasian export index from Jan 2008



Index 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.

Droughts to pressure on prices

Droughts to trim global grain supplies and put upward pressure on prices.

World wheat production in the year through June 2012 will be less than it was a month ago, as dry weather in Europe and the US is hurting crops, according to the International Grains Council. Farmers across the world will reap an estimated 667.3 million metric tonnes of wheat in 2011-12, 4.9 million tonnes below the April outlook. Global grain production is expected to rise 4% to 1.803 billion tonnes in the year through June 2012, 5 million tonnes less than last month's outlook, while consumption will advance to an estimated 1.812 billion tonnes. The Rome-based UN food agency FAO has said its earlier hopes of a 4-5% spike in wheat and barley production in the EU have been dashed.

Meanwhile, analysts are closely watching the weather in China, as cities and provinces along the Yangtze River in central China are grappling with the country's worst drought in more than 50 years. According to Chinese state media, the drought has affected more 7 million hectares of farmland in seven provinces in central China. Many other farmers in Hubei have lost their existing crops or given up on planting summer rice, fearing the emergency water supplies will be inadequate to sustain their fields, with more hot and dry weather forecast.

Fair deal for farmers moves closer

Strong push on ombudsman as UK plans retail shakeup.

The UK's coalition government has unveiled a draft bill to establish a new independent adjudicatory body Groceries Code Adjudicator to oversee the implementation of the code that governs relations between suppliers and retailers and police the existing *Groceries Supply Code of Practice* (G-SCOP). The code is designed to curtail "abuses of power" in the supply chain and protect consumer interests. The draft bill has been welcomed by the *National Farmers' Union* (NFU), having campaigned for an adjudicator for the best part of a decade. On the other hand, the *British Retail Consortium* (BRC) has attacked the plans, insisting that the ombudsman would push up costs and result in higher prices for consumers. The grocers have also criticised the UK coalition government's insistence that the ten largest supermarket operators would fund the body.

Biggest dairy biogas in the US

Largest farm waste to biogas project gets underway in the US.

Construction is now underway for the largest dairy biogas project in Idaho. The project which will install anaerobic digesters to convert cow manure into enough biogas to produce 4.5MW of power is expected to be completed in the first half of 2012 at an estimated cost of around \$25 million. The Idaho project, operated by the consortium *AgPower Group LLC*, qualifies for a federal grant, under which 30% of eligible construction costs will be reimbursed.

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