

DAIRY REPORTER

Weekly Dairy News for Members of DFMC



4 May 2010

NatFoods streamlines Qld assets

NatFoods makes an inevitable decision about the future of its Booval plant.

NatFoods has announced a plan to close its Booval processing plant in Ipswich (acquired from Dairy Farmers in 2008) and consolidate processing volumes by investing \$55 million in an expanded existing site at Crestmead on the southern edge of Brisbane. This investment will increase the Crestmead plant's capacity from 140 to 250 million litres by early 2012. The plan was inevitable and allows the group to eliminate duplication and create a better basis for growth from the Crestmead site, which was established just prior to farmgate deregulation in 1999. NatFoods' supply chain director Arthur Murphy said that the decision would not impact the local milk supply.

Woolworths' sales show slow growth

Woolworths lowers full-year sales forecast anticipating impact of ongoing tough conditions for retailers.

Woolworths has recorded a 4.7 per cent improvement in its third quarter sales, including petrol sales, but has lowered its full-year sales forecast due to inflationary pressures. Same-store food and liquor sales were only up 1.6% in Australian stores - well below the growth rates of recent quarters, as second-quarter sales rose 3.8 per cent and the first quarter sales were up 5.8 per cent. Sales for the overall supermarket division increased 4.6 per cent to \$11.2 billion for the quarter.

Woolworths has taken a dimmer view of prospect for the rest of the year. Given the greater than anticipated impact on sales of low food and liquor inflation and the cycling of stimulus effects, it sees the second half of the year to continue to be impacted by low price inflation. "Discretionary spending levels will continue to be influenced by macro economic factors such as interest rates, petrol prices, confidence around employment and consumer attitudes to spending," Woolworths said.

Retailer "same store" sales v food inflation



Dairy CPI falls further

CPI for dairy products records the 3rd decline in a row.

A decline in the CPI for dairy products was a highlight in the ABS inflation numbers released last week – the 3rd decline in a row. Across the dairy category, the ABS reckons prices fell 2.3% in the March quarter compared to the same period in 2009, with all groups falling in price. The chart on the right shows comparative CPI numbers across the dairy category for the past 10 quarters.

Headlines

- NatFoods to streamline Qld sites
- Tightening Australian retail market
- A change in NZ milk laws
- US farmers wants to halt label misuse
- Chinese processors continue recovery

Indicators

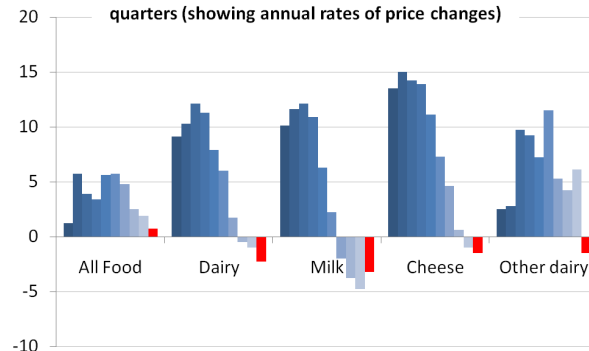
Dairy export index	Small boost with increases in prices and slight fall in \$A
World dairy prices	Rise in butter and cheese prices
Australian cull cow prices in the US	Prices hold strong at same levels as last week
Grain futures	Slight increases in US and local futures prices

Higher milk price for competitors

A change in the law will improve the fairness of how "independent processors" will buy milk in future

The NZ Parliament has passed changes to the pricing of milk that Fonterra is required to supply to "independent processors". From 1 June 2010, this milk will be the same price as what Fonterra pays its own farmers, plus a margin of 10 cents per kilogram of milk solids. Fonterra is required by law to supply up to 600 million litres of milk per year to other processors. Federated Farmers says independent processors have received an unfair advantage because they've been able to buy this milk at a cheap price, when it suits them. This has allowed them to maximise their output by only taking milk when they needed it. The biggest buyer of Fonterra milk is Goodman Fielder's New Zealand Dairy Foods company, which has access to up to 250 million litres of milk per year.

Quarterly changes in Food and Dairy CPI over last 10 quarters (showing annual rates of price changes)



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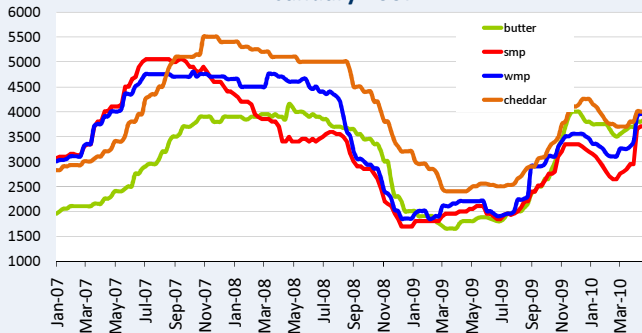
Index of export returns

Freshlogic tracks an index of the \$A value of spot returns from dairy exports as an indicator of the future southern milk prices.

Prices remain firm.

Increases in butter and WMP spot price quotas this week gave the index a small boost. The index gained a little ground to **139.4**, after the \$A fell a little to **US92.4c**.

NZ export quotes in \$US/tonne - weekly since January 2007



US farmers want to halt label misuse

The NMPF wants the US Fed Government to “crack down” on products that are labelled “milk” but contain soy and other non-dairy products.

In its letter to the Food and Drug Administration, the National Milk Producers Federation (NMPF) has stated that “the misappropriation of dairy terminology” has spiralled in the last decade. The group wants to limit the use of the terms to products that actually contain animal milk. According to NMPF, “The FDA has allowed the meaning of ‘milk’ to be watered down to the point where many products that use the term have never really seen the inside of a barn. NMPF contends that not only have the terms ‘soy milk’ and ‘soymilk’ continued to proliferate, but also other dairy-specific terms like ‘yogurt,’ ‘cheese,’ and ‘ice cream’ are now being used by products made out of a wide variety of non-dairy ingredients.”

Chinese dairy industry showcases recovery

China’s Yili signals bullish return to form...

The latest financial results showcase the comeback of Chinese dairy companies in the post-melamine recovery period. Inner Mongolia Yili Industrial Group has reported a 12.3% rise in revenue to CNY24.32bn (US\$3.5bn), and profit up 138% to CNY647.66m (US\$94.9m). Yili also aims to attain the largest share of the dairy market sales this year, in addition to earning the reputation for delivering quality through its brands.

...while Mengniu Dairy shows more remarkable results.

Mengniu Dairy has also reported a profit of 1.116 billion yuan (US\$170 million) in 2009, an improvement from a loss of 950 million yuan (US\$139 million) in 2008. The company reported a massive increase in the use of imported milk powders which allowed a lift in margins due to the lower cost of the imported product compared with locally sourced product. The company reckons it saved almost \$US1,000 a tonne through imports, but that this won’t repeat in the current year.

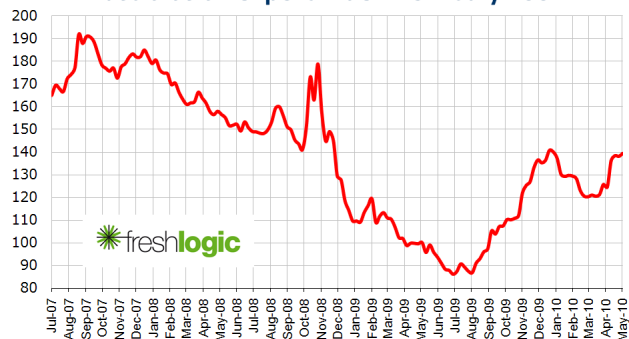
New Kit to test milk origin authenticity

Global gas supplier Picarro and US-based isotopic firm IsoForensics have developed a kit to test milk origin authenticity.

According to Picarro, this new Milk Origin Verification Solution (MOVS) is based on the fact that every country has a unique stable isotope signature comprising ratios of varied oxygen and hydrogen isotopes, and IsoForensics has been able to map stable isotope ratios of regional food and water supplied across the US by working in conjunction with Picarro.



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.

Fonterra share plan attacked by rivals

The share trading plans gain expected criticism from Open Country

Fonterra rival, Open Country Dairy is claiming that plans by the cooperative for share trading among its dairy farmer owners could wipe out \$1 billion of shareholder equity. Fonterra is currently consulting its members on its “Trading Amongst Farmers” proposal. A brochure by Open Country Dairy - delivered this week inside copies of *Dairy News* - said Fonterra’s own independent valuer forecast a drop in share value of up to 30 per cent in a restricted market. “That amounts to \$1 billion of shareholders’ equity wiped out,” it said. Fonterra’s proposal offered no share price safety net and volume would only be created at fire sale prices, Open Country said.

M&S raises dedicated supply standards

UK retailer raises dedicated supply standards which it says will enable it to pay a “fair price” that covers input costs.

Marks and Spencer will be the first UK retailer to adopt a scheme “Milk Pledge Plus”, which will pay a fair price based on a formula that covers input costs. The retailer will also take into account the M&S retail milk price and reward its farmers with agreed bonus payments based on the objectives of its eco-plan Plan A, which aims to ensure the retailer has the highest standards of animal welfare, health and sustainability.

M&S head of technology, Paul Willgoss, stated, “We have a strong history of working in partnership with our farmers to understand the issues they face so that we can work together to raise standards and drive future innovation.”



Soil Association claims organic superiority

The UK Organic farming advocate defends the “health value” of its milk.

Hitting back at recent claims of scientists at Cornell University, the UK’s organic farming advocate Soil Association has indicated that organic milk contains more beneficial nutrients than non-organic alternatives. Soil Association has noted six studies that suggest organic milk contains more fat-soluble nutrients, including omega-3 fatty acid, Vitamin E, and beta-carotene. Among these studies, the most scientifically robust found UK organic milk to have on average 68 per cent higher levels of fatty acid omega-3 and a healthier omega-3:6 profile than non-organic milk.

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