

DAIRY REPORTER

MG steps up

More rewards for dairy farmers as processor announces latest step-up

Murray Goulburn has announced a further increase in its farmgate milk prices for the 2010/11 season 25c/kg protein and 10c/kg butterfat despite a slight softening in world markets. The co-operative's announcement suggested this gives an average price to its suppliers of about \$5.45/kg milk solids – closer to the top end of MG's season forecast.

No backdown from "Down Down"

Defiant Coles vows to continue price cuts "to help families"

Coles supermarkets' executives defended the deep discounts before a sceptical Senate committee last week, in front of a gallery loaded with dairy farmer leaders who made the trip to Canberra to witness the roasting. CEO Ian McLeod said Coles' "Down Down" campaign would continue, despite the backlash from farming groups.

Coles' managers played the "consumer saviour" card strongly in the three-hour session in front of a group of boisterous senators enjoying playing in front of faithful audience. Coles again told a Senate committee inquiry that there was no reason for processors to slash prices paid to farmers. In an "in-camera session with the Committee without any public in attendance, McLeod offered details of confidential contracts to prove it was not short-changing farmers or consumers. The merchandise director at Coles, John Durkan, took credit for the rise in milk sales since the supermarket cut its home brand milk price to \$1 a litre, and claimed that this would equate to 40 million litres in annual terms.

General Manager of Fresh Foods at Woolworths, Pat McEntee, said its share of private label milk sales had also increased since the price cuts of January. However, each supermarket chain said it was absorbing the impact of the price war and had not passed on lower prices to suppliers, and denied food industry claims of trying to squeeze out branded products in favour of home brand goods

Farmer confidence lifts

Summer rain and surging food prices boost Aussie farmer confidence to three-year high

Despite the lingering impact of widespread flooding in many parts of eastern Australia early this year, rising costs and the effect of the strong \$A on export returns, positive sentiment among farmers has risen for the fifth consecutive quarter to a three year high, according to Rabobank's latest rural confidence survey.

Overall, 52% of farmers expected to have higher incomes in the next year, while those tipping lower gross farm incomes dropped from 11%. These compare to 48% and 13% respectively last quarter. The quarterly survey found about a third of farmers were confident enough about prospects for the year ahead to plan investing more in their farm business this year, while farm production expectations for the next 18 months increased across every major commodity. Farmers who expect the agricultural economy to improve outnumber those who are more cautious or pessimistic by about 48% to 14%, with the optimists up from 42% just three months ago.

The biggest increases in rural confidence were in Western Australia, South Australia and Tasmania, which benefited from the lift in lamb and sheep prices, with WA and SA also boosted by "very strong grain prices". Rural confidence was weakest in Queensland where the impact from cyclones and flooding on sugar, horticulture, broadacre and rural infrastructure continued to be felt.



Headlines

- **MG steps-up**
- **Retailers defend price cuts at hearing**
- **NZ may have milk prices inquiry**
- **Futures hint at weak market sentiment**
- **Parmalat stalling French bid**

Indicators	
Dairy export index	Surging dollar weakens Index
World dairy prices	Prices decrease for butter and SMP, others steady
Australian cull cow prices in the US	After a pause, US cull cow prices rise again
Grain futures	Prices remain steady in local futures markets

Price war hurting Franklins

Keeping up with price cuts costs Franklins \$20,000 a week

Matching the deep-discounting pressure being applied by Woolworths and Coles is affecting viability of Franklins, its acting managing director has told the Federal Court. In an affidavit tendered in the case over ACCC's attempts to block Metcash's \$215 million purchase of Franklins, Roni Perlov said the NSW supermarket chain was "no longer viable" because "it is incapable of competing sustainably, in particular with Coles and Woolworths". Mr Perlov's affidavit said that his internal report on the August result included a forecast that Franklins would record a net loss of \$9.9 million for the six months to February 2011.

NZ may have milk prices inquiry

While Australian milk may be too cheap, the NZ government thinks theirs might be too dear!

New Zealand's Commerce Commission may hold a price control inquiry into retail milk prices, saying it will investigate whether the probe has merit. The NZCC said there are potentially three market levels involved: the supply of raw milk to milk product processors, the manufacture and supply of milk products, and the retailing of milk products.

Commerce Commission Chair Mark Berry said a number of parties have laid specific complaints with the commission about the retail price of milk, calling for it to hold a price control inquiry. The NZCC will look at the Dairy Industry Restructuring Act, legislation that aims to ensure that independent processors are able to obtain raw milk from Fonterra and would need to consider the level of competition between the two major town milk processors, Fonterra and Goodman Fielder New Zealand, and the two major supermarket chains, Foodstuffs New Zealand and Progressive Enterprises, owned by Australian Woolworths.

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Weekly Dairy News for Members of DFMC

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.

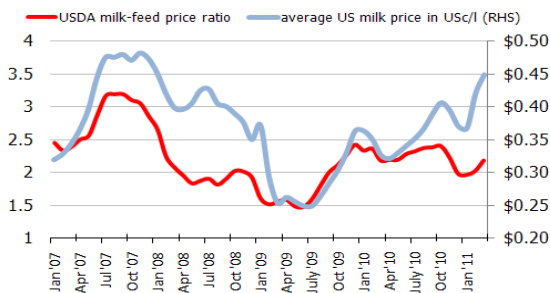
\$A's ride weakens index.

Spot prices for butter and SMP were lower this week, but again the rampaging \$A lower the benchmark for export returns as it gained strength over the week to close at **\$US1.039**. This pulled the export returns index down 2½ points to **135.7**.

Futures give hints to a weaker market sentiment - the run of strong global dairy prices may be ending given the pricing of late-2011 contracts on the NZX's Dairy Futures market. Prices for whole milk powder (WMP) contracts for delivery in June and July on the NZX futures market were below US\$4,000/tonne, while down to \$3 880/t in September and \$3 855/t in October. Skim milk powder (SMP) contracts, however, are rising from \$3 730/t to \$3 960/t over the same period while anhydrous milkfat (AMF) is also falling from \$6 075/t in May to \$5 900/t in August. The NZX's head of derivatives, Kathryn Jaggard, said that at current pricing, the futures market believes prices will decline until October. There have been around 350 trades in whole milk powder contracts since the launch of Dairy Futures in October, she said, well ahead of trading on rival markets such as the Chicago Mercantile Exchange, the New York Stock Exchange's Life and the Eurex market.

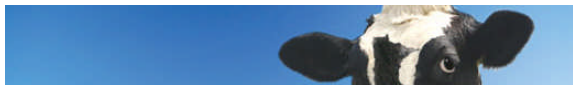
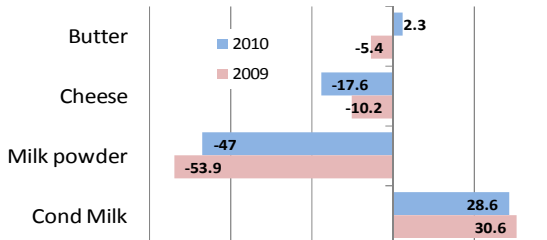
Despite higher milk prices, US dairy farm profitability is not good. In spite of higher milk prices, US dairy profitability is still not good, according to the profitability ratio published by the USDA. The latest barometer – albeit crude – of that situation is the milk-feed price ratio which is 2.18 for March, exactly the same as the one posted in March 2010 when the dairy industry was still steeped in recession. The ratio has, however, improved slightly from February, when the ratio was 2.02. Nonetheless, high feed prices continue to put a drag on profitability.

Milk-Feed Price Ratio since 2007

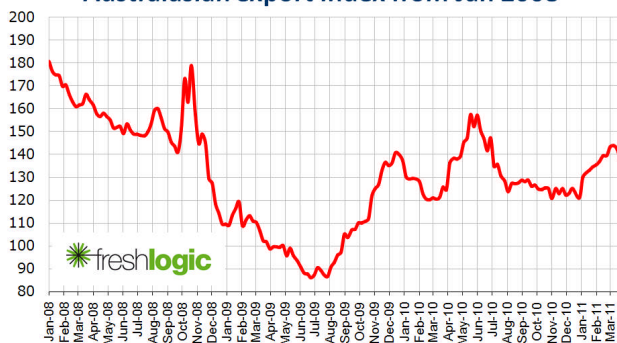


Brazil set to remain a net importer - The Brazilian dairy industry is struggling to meet its own needs, remaining a net-importer according to data for the 2010 year with slight changes in the net position for powders and condensed milk, while cheese imports increased. Analysis suggests that the rate of internal consumption growth will stay ahead of the expansion in supply in coming years, despite significant investment by Nestle and its competitors.

Brazil's net trade in 2010 (000t) (net exports = positive)



Australasian export index from Jan 2008



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.

Chinese crackdown

Half of Chinese dairy producers halted in quality crackdown

Nearly half of Chinese dairies inspected in a government safety audit have been ordered to stop production. Out of the total 1,176 dairy companies inspected, only 643 had their licences renewed, while 426 failed the quality criteria set by the audit and 107 had already stopped production to bring themselves into compliance, stated administration spokesman Li Yuanping. And of the 145 companies producing milk powder for babies, 114 had their licence renewed. In a bid to restore consumer confidence in dairy products, China's product safety watchdog, the *General Administration of Quality Supervision, Inspection and Quarantine (AQSIQ)*, had ordered branches to re-inspect dairy firms that had already obtained production licences.

Update on Lactalis v Parmalat

Crucial shareholders meeting delayed as takeover tensions intensify

Parmalat SpA's board has postponed its shareholders meeting to the end of June as the cross-border friction between the rival camps heated up. Parmalat's shareholder meeting was originally slated for April 12, but an Italian decree promulgated in part to keep Parmalat in Italian hands, allows for general meetings to be held as late as June 30. Parmalat said that the shareholders meeting could now take place between June 25 and 28.

Italian state-controlled lender Cassa Depositi e Prestiti SpA (CdP) may make an investment in Parmalat and may team-up with a number of Italian banks and private equity players that have offered financial support for a Parmalat long-term industrial plan. No front-runner food or beverage players have emerged to champion the scheme.

Lactalis, the French dairy company, has defended itself from political and populist criticism over its acquisition of a 29 per cent stake in Parmalat. Antonio Sala, chairman of Lactalis in Italy and deputy general manager for the Lactalis Group, said Italy could not "change the rules halfway through the game". He added that he feared the impact on foreign investment into Italy from government steps to ring-fence companies it considered strategic. Lactalis said it would keep Parmalat's headquarters in Italy and develop its distribution into more countries – along the same lines as Lactalis' strategy for Galbani.

Scottish cows are most flatulent

Scottish dairy herd have the biggest carbon bottom-prints on earth

Scottish dairy herds have bigger carbon impacts than any other cattle on the continent, according to new figures. A Government study found that the Scottish dairy herd pumped out the equivalent of 142kg of methane each, blasting past our whiffiest EU rivals - Sweden (129kg), Holland (125kg) and Denmark (123kg).

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