

# DAIRY REPORTER



Weekly Dairy News for Members of DFMC

5 July 2011

## Strong opening prices for 2011/12

*Bold farmgate prices on offer by dairy processors*

**Murray Goulburn** has matched **Warrnambool Cheese and Butter** in raising its opening price to \$4.90/kg milk solids for the 2011/12 year, up 3.2% from its opening price for the 2010/11 season. MG forecasts its end of season price to range between \$5.30-\$5.50/kg milk solids.

In terms of opening farmgate prices for the new season, **Bega-Tatura** trail closely behind MG and WCB, followed by **Fonterra** and **Burra**. In addition, it has been reported in the media that **United Dairy Power** has offered an opening price of \$5.30/kg milk solids.

Claimed weighted average opening prices (2011/12)

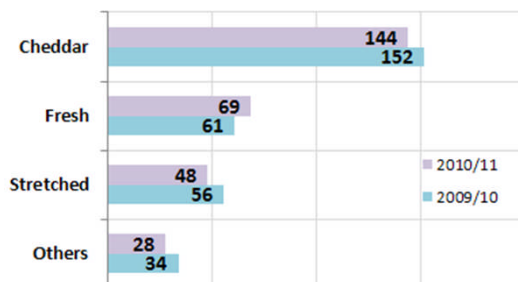


## Australian cheese production

*Powders lift as cheese output declines for the fifth month this year*

May data from Dairy Australia showed that cheese production continued to decline, with milk powder output remaining the focus of manufacturers. While the production of fresh cheese varieties increased over the month, other cheese varieties, including cheddar fell. The total cheese output for the year to May 2011 was 290,480 tonnes, down 5% compared to the same period last year.

Australian YTD cheese production by type ('000 tonnes)



## Major dairy investment in Tasmania

*Multi-million dollar plant set to boost milk production across the state*

Tasmania Dairy Products will begin construction of a multi-million dollar milk processing plant at Smithton in Tasmania by the end of the year. The company has reached an agreement with Gunns to buy its sawmill site in Tasmania's northwest, where the plant will be located. Dairy farmers have the option to buy in to the site as part of a co-op. The plant is expected to process between 100 million and 150 million litres of fresh milk into powder for the export market in Asia and the Middle East.

The Tasmanian Department of Economic Development had contributed \$50,000 towards the cost of the feasibility study for the dairy project.

## Headlines

- Strong opening prices for dairy farmers
- Australian cheese output dips again
- Milk prices to boost NZFSU's profits
- Lactalis wins control of Parmalat Board
- New code of practice for farmers

Indicators	
Dairy export index	Surging dollar curbs index
World dairy prices	SMP prices fall, WMP strengthens
Australian cull cow prices in the US	Market weaker
Grain futures	Sharp fall in US wheat; local grain prices steady

## New yoghurt plant for Victoria

*Platform established to produce the first fresh dairy product by the co-ops*

Danone-Murray Goulburn has opened a \$20 million yoghurt factory, replacing MG's former cheese factory at its Kiewa site in northeast Victoria. The plant is expected to process nine million litres of fresh milk a year and produce Activia yoghurt, the first fresh dairy product made by Danone-Murray Goulburn in Australia. Danone's general manager Ignasi Carne said that three million litres of fresh milk had been sourced from northeast farmers to date, and another eight to nine million litres will be used next year.

## Dairy firm Bead Foods sold to Agro Farma

*Agro Farma acquires dairy firm to tap into the Australian yoghurt sector*

US company Agro Farma has acquired Australia's Bead Foods for an undisclosed sum, in a bid to expand into key international markets. Bead Foods was established in 2001 and makes dairy products including Gippsland Dairy yoghurt and Rowena choc-tops.

## Fonterra buys back RD1

*Fonterra looks for future opportunities as it regains control over RD1*

Fonterra has acquired 100% of rural supplies chain RD1 in a move that will provide fresh opportunities for its shareholders. Fonterra sold a 50% stake in RD1 in 2006 to Australian rural supplies chain Landmark, owned by AWB. As part of that agreement, Fonterra had a pre-emptive right to buy back RD1, if Landmark or AWB were sold.

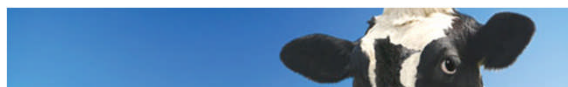


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Australasian export index from Jan 2008



**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.

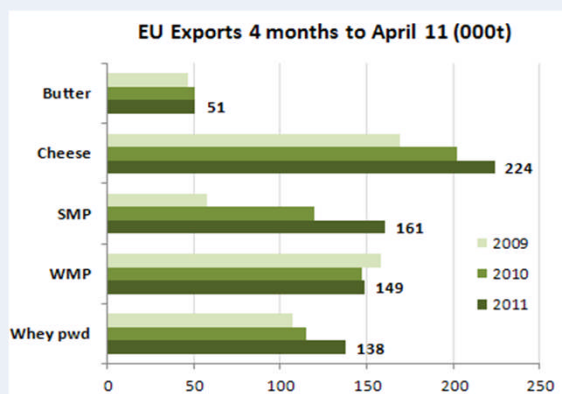
## Index of export returns

*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.*

**Dollar stronger.** The index of Australia export returns fell this week as the \$A gained strength against the \$US. Spot prices for WMP lifted and SMP fell, while butter and cheddar stayed firm. The \$A closed the week at **\$US1.0773** and the index of spot returns decreased by five points to **126.5**.

**NZX dairy futures record trade volumes in June.** NZX Dairy Futures has recorded the highest trade volumes executed in a single month since launch, with 255 lots being traded in June, surpassing the previous record of 175 lots in May 2011. The total number of trades executed since the NZX dairy futures platform was launched in October 2010 stands at 953 lots.

**EU SMP exports up 34%.** The latest trade statistics have revealed that there was significant growth in the EU dairy exports in the four months to the end of April 2011. SMP exports increased 34%, whey powder 20%, and cheese exports 10.5% over the same period last year. In comparison, exports of WMP lifted 2%, while butter exports were unchanged compared to the same period in 2010



## China looks to NZ for dairy cattle

*NZ cattle exports rise as China gets tensed about Australian export policies*

Australia's exporter of dairy breeding cattle Landmark will be sending four ships with NZ dairy cattle to China this year, compared with only one vessel a year ago, while shipments of Australian cattle will reduce from four, to one. This switch by the rural service group to sourcing more cattle from NZ comes in response to concerns from its major Chinese customers that the Australian government's export policies are "unstable".

## Olam fails to grasp NZFSU

*Olam fails to gain 100% control of NZFSU*

Singapore's Olam International has failed to get the 90% of shares it needed in NZFSU that would have enabled it to compulsorily buy the remaining shares. When the offer closed on Wednesday, Olam's stake in NZFSU had lifted to 85.9%. A group of NZFSU minority shareholders had been urging the rejection of Olam's 70c per share offer, saying the price was too low, as NZFSU's net asset value was nearer 85c.

## Processors attack fixed price amendments

*Fixing prices would mean bad news for farmers, EU processors claim*

According to the European Dairy Association (EDA), an amendment to the EU dairy rule proposals requiring prices to be fixed for a year will weaken the dairy industry, which could struggle to adapt to changes on the world market. EU processors also claim that giving farmers a year of price visibility is not in the interest of processors or the farmers, as when processors are under an obligation to fix prices for an entire year, they would set prices at conservative, low levels to minimise risk.

## Milk prices to boost NZFSU profits

*NZFSU hopes for better results as milk prices strengthen*

South American dairy operator NZFSU has reported that it could achieve an estimated net profit of \$2.9 million in the 2012 financial year, on the back of higher-than-expected milk prices. The company has upgraded its Earnings Before Interest and Tax from the previous forecast of \$3.3 million to \$8.9 million.

## Lactalis wins control of Parmalat Board

*Lactalis takes control of rival board in a bid to create world's top dairy*

At a meeting of Parmalat shareholders on 28 June, Lactalis won nine out of 11 seats on the board of directors, which consolidated its control of the Parmalat board and strengthened its position to buy its rival Italian company. Lactalis will now be able to effectively vote on its €3.4 billion takeover bid for Parmalat.

The new shareholder assembly signals the departure of Enrico Bondi, former Parmalat CEO, who oversaw the company's revival after it fell into bankruptcy in 2003. Under the new incoming board which is set to sit for a year, Francesco Tatò will be appointed as Parmalat's chairman, and Antonio Sala, chairman of Lactalis's operations in Italy—where the French group garners more sales than Parmalat has domestic revenue—is expected to succeed Mr Bondi.

## Glanbia records good performance

*Positive global dairy markets help Glanbia stick to its 2011 earnings forecast*

Glanbia has reported that it expects to deliver a strong first half for 2011 and restates its 2011 full-year adjusted earnings per share growth forecast of 11%-13%, on the basis of constant currency, positive global dairy markets and higher volumes. In a six-month trading update to 30 June, the Irish group has stated that growth had continued to improve in its nutritional business and highlighted a good performance by its Dairy Ingredients Ireland division, supported by "a solid performance" by its agribusiness unit.

## Tesco unveils code of practice for farmers

*Absolute standards to help farmers understand the needs of customers*

The Tesco Sustainable Dairy Group (TSDG) is launching a new code of on-farm practice for its producers. The code has replaced its familiar lists of standards with a more simple set of measurable targets and absolute standards which have to be followed by the supplying dairy farms. A total of 17 absolute standards and 15 measures for improvements can be recorded on all TSDG farms to help review progress. The captured data on measures such as lameness, cleanliness, and carbon reduction targets would be loaded into a group database, which farmers can use to benchmark their performance against other TSDG members.

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