

DAIRY REPORTER

Weekly Dairy News for Members of DFMC



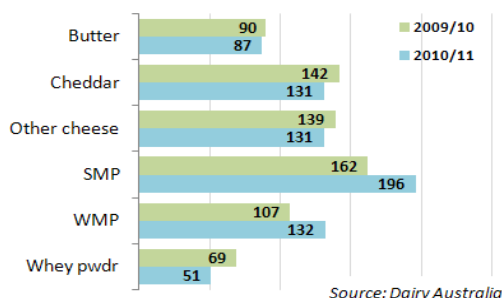
7 June 2011

Strong SMP output continues

Year-to-date SMP output up 21% on last season.

April production data from Dairy Australia showed that the total year-to-date SMP and WMP production volumes were up by 21% and 23.9% at 196,466 tonnes and 132,628 tonnes respectively, compared to the previous season. Production of cheese and all other major dairy commodities remained lower than last season with the focus on high-returning milk powders.

Australian output YTD to April 2011 (000t)



Norco's prices start better in 2011/12

Strong lift in seasonal "manufacturing" prices.

Norco Co-operative announced milk pay rates for the period July 2011-June 2012 for suppliers in Southern Qld and Northern NSW. A comparison with last year's opening milk pay rates shows Norco's base milk prices remain almost unchanged from last season, but for a lift by 1 cent per litre for the period July-September this year. Manufacture milk prices (which apply from August to January) have been increased by 3-12 cents per litre in 2011/12, with the higher end of those prices applying in December and January. Individual farmer payments will depend upon base allocations, and the company may pay step-ups if affordable.

Paying for the deep discounts

A snapshot of how Coles will pay for the revenue sacrificed.

An investor presentation from Wesfarmers has helped paint a picture of how the retailer says it will pay for the revenue sacrificed in the price discount war with Woolworths. The retailer claims – amongst other things – that it has:

- added 1-2% in trading area with new format stores
- saved more than \$100m in waste
- saved \$150m in annual supply chain savings (presumably these include some lower wholesale prices for products)
- gained sales from a better performance in fresh food, with \$300m in incremental fresh produce sales, \$400m in bakery & deli and \$700m in meat & seafood. Contributions from those units will be mixed.

Heinz pays out on retailers

Aussie retailers blamed for making our food market "worst" in the world.

HJ Heinz, one of the world's largest food companies with a presence in most developed and developing markets, has described the Australian food market as the "worst" in the world, with the root cause of the state of the market being the intensity of the battle for market share between Coles and Woolworths. Heinz chairman and chief executive Bill Johnson predicted Australian consumers would be the "biggest losers" as Coles and Woolworths forced suppliers to cut prices and expanded their private label ranges. Supermarket suppliers generally don't criticise major customers for fear of having their product space shrunk or delisted altogether.

Headlines

- Australia continues strong SMP output
- GDT prices up 4.5%
- A cut-down Plan B for WTO
- USDA forecast for 2011 gets larger
- NZFSU expansion likely

Indicators	
Dairy export index	Index unchanged as dollar stronger
World dairy prices	Powder prices lift
Australian cull cow prices in the US	Market weaker with fears of US slowdown, high \$A
Grain futures	Fall in wheat and local grain prices

Fonterra moves on West Coast

Fonterra promises more security as it tries to lure Westland suppliers.

Fonterra has approached a large number of NZ West Coast farmers, asking for expressions of interest in switching supply from Westland Milk to Fonterra and stating that it was interested in providing them with a competitive option for their milk supply. Fonterra's move comes weeks after Westland Milk Products invaded Fonterra's territory, firming plans on building a concentration plant at Rolleston by 2012 and a \$100 million value-added product factory in Canterbury in 2013. Farmers surveyed about Fonterra's move have stood by Westland, stating that the latter's payout would have to be poor compared with Fonterra for them to shift.

Farmers set up Chinese investment plan

Kiwi-style model grazing dairy farm to be emulated in south China.

A group of Taranaki farmers has announced plans to set up a Kiwi-style model dairy farm in the south of China. Accountant John Wilson said the group wanted to emulate Fonterra and set up a 1800-head herd in Guangxi province to supply fresh milk to the local market. A limited issue statement shows Golden Harvest is looking to raise \$5 million from Kiwi dairy investors, with a minimum investment of \$10,000. In about two years' time, once the farm was established, the company hoped to set up another 20 farms, funded by a listing on Hong Kong's GEM index.

NZ bank lending to farmers falls \$1bn

Farmers pay down debt, as fear of impending interest rate rise grows

The Reserve Bank has revealed that lending to farmers declined to \$47.249 billion in April from \$47.480 billion in March, and a peak of \$48.262 billion in September last year. It is down 0.1% from a year ago. This is the first ever annualised fall in farm lending since the series began in December 1990 when farm debt was \$5.07bn.

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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.

Powder firmer. Spot prices for milk powders moved higher this week, with NZ quotes for both WMP and SMP at US\$3900/t. The \$A climbed higher against the \$US to close the week at **\$US1.071**. The index of export returns stayed almost unchanged at **127.94**.

SMP stars in GDT results. Dairy product prices rose at the first Fonterra's online auction event of the new dairy production season in NZ on 1 June, with the gDT weighted index up 4.5% from the previous event on 17 May. The biggest movement came in SMP, where prices rose 12.4% to \$4,372/t, after months of little major movement in the commodity. The price was even higher for agreed shipments this year at \$4,548/t for delivery by August and \$4,556/t between September and November. There was also a 6.2% increase in prices for AMF to \$5 669/t, while contracts to August averaged \$5,741/t.

In contrast, there was a small dip in prices for WMP by 3% to \$3,780/t. Buyers securing delivery by the end of August paid \$3,760/t. MPC and Rennet Casein were sold for an average of \$6,430/t and \$10,252/t this auction.

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.

A cut-down Plan B for WTO

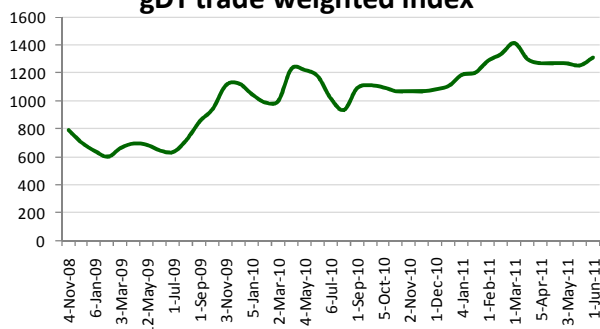
A scaled-down proposal conjured as countries clashed in trade talks again.

The ambitions of the proponents of the WTO Doha Round of negotiations were seriously clipped last week when the talks again broke down. The head of the WTO, Pascal Lamy, has quickly conjured a Plan B, or a "Doha Lite".

The 153 members of the WTO agreed that a full deal is now not possible in 2011. The WTO has therefore agreed to a less-ambitious scope for the global trade talks, putting aside into the hard basket the contentious issues. A deal now theoretically appears feasible to finish by the end of the year. The Plan B largely deals with the impacts on cutting barriers (tariffs and quota-free access to goods and services) that disadvantage less-developed countries. The hard issues which have been deferred include most of the outstanding challenges in agriculture – which are considerable.

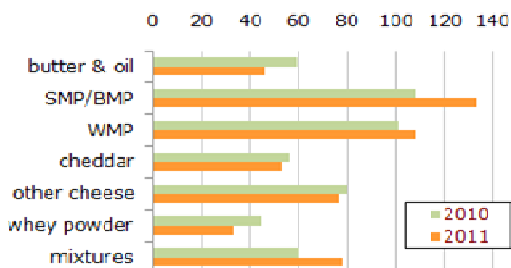
Protectionist pressures are increasing globally. The WTO itself reports that the G-20 developed and developing countries have introduced more trade barriers in the past six months than in previous periods since the financial crisis began. The barriers don't amount to much – just 0.6% of total G20 imports are affected by the measures but this is an increase of 0.3% over the previous six months. Lamy says that the focus on a partial outcome by the end of 2011 shouldn't mean the remaining work should be ditched.

gDT trade weighted index



Australian SMP and WMP lift higher. April data from Dairy Australia shows that YTD SMP exports were up by 23.3% to 133,411 tonnes from 108,158 tonnes in the previous season. Similarly, YTD WMP exports were 6.9% up to 108,074 tonnes from 101,054 tonnes in the same period last year.

Australian dairy exports – YTD April 2011 v same period last year ('000)



Source: Dairy Australia

USDA raises export forecast

US dairy production boom lifts export forecast high.

The USDA has raised its 2011 export forecast by US\$300 million, due to better than average dairy production. USDA's Economic Research Service (ERS) in its quarterly Outlook for US Agricultural Trade report is now projecting exports of an estimated US\$4 billion for the year to the end of September 2011, up from the agency's February forecast of \$3.7 billion and a step-up from \$3.37 billion in the previous year.

NZFSU expansion likely

Olam stays focused on operations than physical developments for now.

Olam International has announced that it will be tripling its milk production over the next 3 years, and possibly undertake a further physical expansion of landholding by the NZ Farming Systems Uruguay operation in 3 years time. Olam global head of coffee and dairy, Vivek Verma, said that the company planned to inject capital into the Uruguayan operation whether or not the company reached 100 per cent control of NZFSU. Some NZFSU shareholders have voiced dissatisfaction with Olam's offer of 70 cents a share but Verma has stated that is a fair value given the company was still in an evolution to becoming an efficient producer of milk.

Milk output in Brazil plunges

Rising prices and inadequate pasture curb Brazilian milk flows.

According to the ICAP-Leite index, calculated by the Centre of Advanced Studies on Applied Economics (CEPEA), Brazilian milk output fell by 2% in March compared to a year earlier, driven by rising feed prices and lack of sufficient pasture.

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