

DAIRY REPORTER

Weekly Dairy News for Members of DFMC



7 September 2009

Warrnambool books bad news

WCB exceeds it's earlier estimate of the 2008/09 losses

Warrnambool Cheese and Butter (WCB) booked a net loss of \$19.9 million for the 2008/09 financial year, down from a \$44.4 million profit the previous year. WCB has previously foreshadowed a loss of \$16-18m a few months ago. The company said revenue slipped 16% from \$525 million to \$441 million with the fall in commodity prices, while milk intake grew by 8% to a record 922 million litres in the year, including milk sourced from 3rd parties. "Sales volumes increased by 16% over those of 2008, with its retail milk brand revenues growing by 44% over the year," the company said.

WCB said its continued milk intake growth allowed it to increase production volumes by 17% whilst maintaining operating efficiencies with costs below those of 2008 on a cents per litre basis.

Cheese JV is officially dead

WCB calls time on efforts to achieve the ACC joint venture

WCB also announced it had formally scrapped attempts to form a cheese joint venture with National Foods, and will revert to a bulk cheese supply agreement, broadly similar to that which it formerly had with Dairy Farmers prior to the NatFoods purchase late last year.

July and August have seen below average rainfall across much of eastern Australia, with particularly dry conditions through Queensland and northern NSW. Grain crops in Queensland and NSW remain on a knife-edge with forecast rains over the next few days a chance to reverse sentiment regarding a poor outlook for regional grain crops.

Choice stirs up dairy with product review

The consumer advocate focuses on price in a review of the milk cabinet

A study by the increasingly radical consumer advocacy group Choice of more than 80 different brands and types of cow's milk has suggested the only meaningful differences between products are between full-cream, low-fat and skim. Choice's conclusions found people were better off buying generic milk from supermarkets as it had the same nutritional benefits as milk sold in specialist outlets, but at a cheaper price. It found milk products promoting extras such as calcium, vitamin D, A2 proteins, omega-3 fatty acids and other offered no real benefit to most consumers and were often sold at a higher price. But the basis of its lack of support for the products offering added functionality lay purely in the fact that consumers would have to top-up the benefits elsewhere in their daily diet, lacing its assessment with simplistic examples.

Fonterra warms up for another crack

El Nino may be slowing but rainfall shortfalls are a worry for grain crops

Fonterra is widely reported in NZ media to be on the verge of unveiling its second proposal for capital structure reform within days, designed to address redemption risk and to secure capital for the Co-operative. Fonterra chairman Henry van der Heyden has said the proposed restructure would be in 3 stages, taking up to 4 years to achieve. He and shareholder council chairman Blue Read have refused to discuss the possibility of external funding through public listing of shares. By the weekend, Fonterra released a statement saying that a public share listing will not be part of the capital structure consultation to begin shortly with farmer shareholders.

Van der Heyden said the announcement addressed considerable speculation about the Co-operative's capital structure review and would allow shareholders to debate the issues without needless distraction, as the debate on the merits of public listing had flared within NZ with director elections also now underway and potential new board candidates using the issue as a platform.

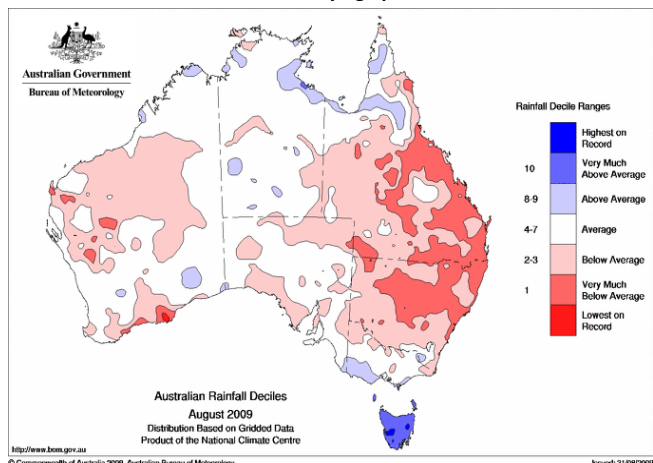
Headlines

- WCB loses \$20m
- Index rises strongly on WMP prices
- Fonterra restructure to be unveiled
- WMP auction prices bolt again
- US production stays flat

Indicators

Dairy export index	Up by 8 pts
World dairy prices	Powder, butter prices stronger higher,
Grain futures	US futures steady, local futures weaker
Cow prices (to US)	Steady

August rainfall compared with long-term averages – the north and east drying up



Dairy confidence lower says Rabo

Hardly a surprise as price/cost realities sick in

Rabobank's latest quarterly Rural Confidence Survey across all farm sectors shows a positive level of optimism for the first time since June 2008, but not in the dairy sector. A brighter outlook regarding weather was the biggest driver of positive sentiment, yet further rainfall is required to ensure a good ending to the season. Rabobank's Rural Confidence Survey questions some 1,200 farmers across a wide range of commodities and geographical areas throughout Australia on a quarterly basis. Short-term confidence about the prospects for the rural economy weakened in the dairy industry after a positive in the June quarter, with nearly 50% expecting a worsening, while those expecting an improvement just above 10%. Commodity prices are the major reason for the fall in confidence, with the weather down the list as major concerns in the September survey. The majority of dairy farmers expect to reduce investments over the next 12 months.

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Index jumps as WMP prices soar

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.

Export spot price quotes from NZ continued to climb – most notably WMP which leapt to levels in line with the short-term prices from the auction held in the week. Cheddar remains the sluggish mover. The price rises pushed the index up for the 6th week in succession but this time by **8 points to 105.1**. But watch that \$A, which again moved up this week as higher interest rates loomed closer after GDP figures pushed inflation-warning buttons for the Reserve. The \$A was a little higher at the end of the week at **US85.05c**.

Auction's positive run continues

Whole milk powder prices jumped 25% as demand rose and output growth in key producing nations slowed, said Fonterra after the September globalDairyTrade event. WMP for November delivery surged to \$2,872/t, the highest price since September last year, when short-term deliveries sold for \$3,193 a ton. Again the price rises were fairly uniform. Milk powder for delivery December through February jumped 23% to \$2,847/t; powder for shipment March through May sold 25% higher at \$2,861/t; while average prices across all contract types rose 24% to \$2,858. A resurgence in demand, reduced US output and tight supplies in Oceania were reasons for the price increase, said Kelvin Wickham, managing director of the trading platform. Wickham also said that from November 3 globalDairyTrade trading events would include anhydrous milk fat (AMF), in line with plans to offer an expanded range of products.

EU's pollies back changes but want more

The last couple of rounds of tenders for export subsidies have assisted nearly 40,000 t of SMP onto the world market.

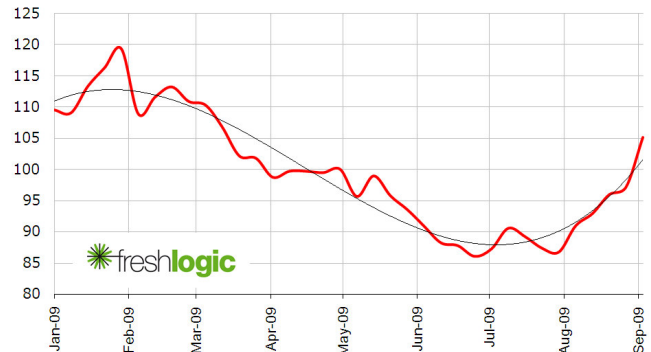
The EU Parliament has formally backed Commission plans to extend intervention buying for dairy products beyond the normal buying-in periods. The MEPs – who have only a consultative role but not yet any powers on agriculture policy - adopted the proposals unanimously at an Agriculture Committee meeting. The proposals stretch the buying-in period for butter and skimmed milk powder (SMP) to February 28 2010 and into 2011 if needed, allowing the practice to continue uninterrupted. But EU's politicians want a lot more than that. MEPs blamed the Commission for failing to take adequate action to prevent the continued slump in prices on the milk market. Radical measures such as making immediate cutbacks on quotas and taking action on retail sector imbalances were measures raised by MEPs in a fierce debate with Farm Commissioner Mariann Fischer Boel at the European Parliament Agriculture Committee meeting.

US milk output staying flat

It seems US producers are getting the message!

US milk production in July again stayed in line with the same volume for the corresponding month last year, meaning total production for the 2009 calendar year was a fraction behind where it was in the same month in 2008. Intensive feed-lotting south-western producers remain those strongest at curbing production, with California again 4% below July 2008, Arizona more than 6% below, while the heartland upper mid-west still don't get it as Wisconsin is 3.4% up and New York up 3%. The milk price-feed cost ratio improved to 1.76 to reach its highest point in 2009 as the all-milk average price in the US increased to US26/litre

Australasian export index - Jan 2009 - present



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.

NZ farmers pinged for effluent failures

The Dodgy brothers of the Shaky Isles cop a fine that may not stop the rot

NZ's dairy farmer Crafar brothers have been hit with a record NZ\$90,000 in fines for dirty dairying on a Waikato farm and told by a judge they acted "simply too late" in dealing with the problems and that the judge doubted their remorse. Judge Newhook's gave his reasons in the Hamilton District Court as he sentenced *Hillside Limited* and its three directors, brothers Frank and Allan Crafar and Allan's wife Elizabeth, on 34 charges relating to the "systemic failure" of a problem-plagued effluent system on the company's 366-hectare Collins Rd farm, southwest of Hamilton.

EU pumps a lot into SMP subsidies

The last couple of rounds of tenders for export subsidies have assisted nearly 40,000 t of SMP onto the world market.

More than 15,000t of SMP were granted export refunds in this week's EU Dairy Management Committee meeting in Brussels, after 24,000 tonnes were bought last fortnight, which was more than 3 times the tender at the end of July. 5,000t of butter also secured refunds, over twice as much as in the last July tender. Offers for subsidised intervention storage of butter and skimmed milk powders had slackened off considerably, with more applications filed for EU export licences -- all indicating that demand in the dairy market was generally picking up.

The stockpiles of SMP and butter in EU bunkers have continued to build. At the end of August, there was 232,000 tonnes of SMP and 206,000 tonnes of butter sitting in stockpiles mostly purchased by Government or in the case of a large portion of the butter, subsidised in terms of storage costs.

Olam buys into NZFSU



After booking a larger loss, the NZ farming group draws a key investor

Singapore-based Olam International has acquired a 14.35% stake in New Zealand Farming Systems Uruguay (NZFSU), the operator of large-scale NZ-style dairy farming operations in Uruguay, for NZ\$14.37 million. "While Uruguay's current productivity levels are relatively lower, its climatic conditions are conducive for Kiwi-style intensive pasture management," said Vivek Verma, Olam's managing director and group product head for coffee and dairy products. "Success in adopting Kiwi practices in Uruguay would result in a powerful combination of low capital and operating costs with high productivity. Therefore, Uruguay and NZFSU fit well with our stated ambition of participating selectively in the dairy farming segment."