

DAIRY REPORTER

Weekly Dairy News for Members of DFMC



8 February 2010

NatFoods CEO: no longer private label at any cost

A fresh round of bidding for Woolworths private label milk products is underway.

The CEO of National Foods Andrew Reeves has told the Financial Review that the company might “walk away” from private label packing of milk for major supermarket chains unless it can achieve a reasonable price. Reeves said one of the key areas of focus in the strategic review he was currently undertaking is the improvement in the share of sales from higher-margin branded products and the process for continuing innovation in products such as yoghurt. Private label sales of white milk are estimated at about 40% of NatFoods milk volumes, so a departure of that business would create major upheaval in the milk value chain for the company – and its supply co-operative DFMC which is currently negotiating new market access arrangements with the group.

MG shuts Nth Victorian cheese plant

Drought takes its toll on a plant lucky to be open this long

Murray Goulburn has finally closed one of its Northern Victorian plants, announcing the closure of the Leitchville cheese plant with the loss of about 80 jobs in the town. MG’s press release said it can no longer viably continue operation across four northern Victorian milk processing sites and the Leitchville closure was unavoidable. Milk from supplier-shareholders in the region will continue to be collected as usual with MGC’s operations continuing at Cobram, Rochester and Kiewa in northern Victoria.

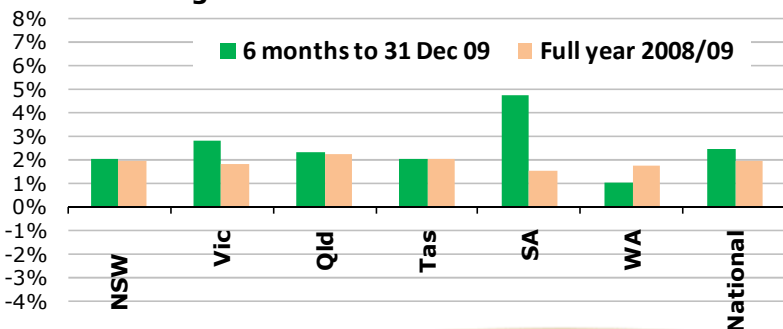


Murray Goulburn reviewing its WCB bid

After last week unveiling its failed offer, the Murray Goulburn bid for WCB may not be dead yet

Murray Goulburn Co-op, is reviewing its \$156 million takeover proposal for Warrnambool Cheese & Butter and plans to present an improved offer to the board in “the next few weeks”. Murray Goulburn chief executive Stephen O’Rourke said the co-op was reviewing its original offer price, bid conditions and longer-term plans in an attempt to secure the support of the WCB board, which last week rejected Murray Goulburn’s unsolicited approach. The acquisition would double Murray Goulburn’s milk volumes in the western district of Victoria, from 900 million to 1.8 billion litres.

Packaged milk sales volumes to 31 Dec 2009



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Headlines

- NatFoods CEO flags focus on brands
- MG shuts plant; reviews WCB bid
- World market weakens further
- Fonterra auction sees 2nd price dip
- Fonterra: more \$\$ into Chinese farms

Indicators

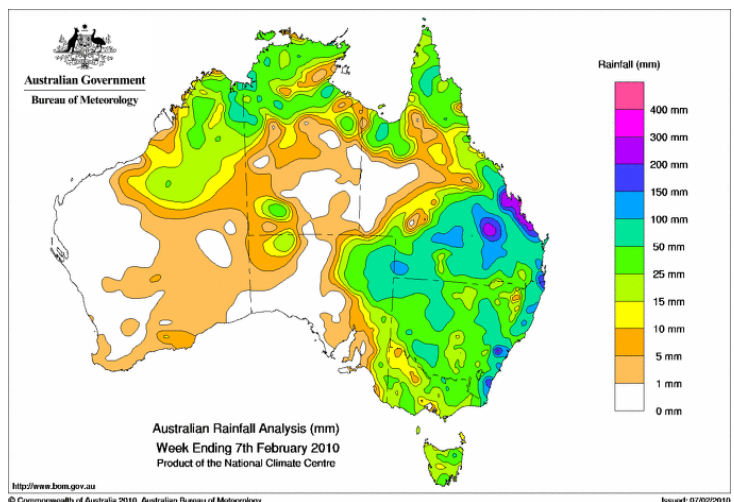
Dairy export index	Down slightly again this week
World dairy prices	Further declines in powders and cheddar, butter holds
Grain futures	US wheat and Australian feed steady
US prices for Australian cull cows	No change this week

East Coast gets a big drink

Rain after the demise of TC Olga sweeps the eastern seaboard

The rain depression that resulted from the weak Tropical Cyclone Olga that blew through Far North Queensland last week has given the eastern states a decent drop of rain, although in some parts there were reports of patchy coverage.

Northern Victoria and Southern NSW including the Bega district got some welcome relief, but coastal dairying areas of NSW got a lot more than they bargained for, with flooding affecting many areas. In terms of the grain crop, the rain has some benefits for the future sorghum crop in Central Qld. The rain won’t alter the dynamics of the grain market which is weaker (than grain growers would like) due to abundant stocks in the world.



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World market prices weaken further

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.

There was a further softening of spot prices according to NZ quotes as butter again held its own while falls of US\$100/tonne hit the 3 other commodities. Again, the softening in prices was offset to some extent by a weakness in the Australian currency, which responded to the surprising decision of the RBA for interest rates to remain where they are - that was surprising until the retail sales data for December was released and a few of the retailers started talking about how flat post-Xmas business has been.

The \$A finished down 1.5c at **US86.86c**, shaving a point off the index to leave it at **128.2**.

Auction prices fall again

Whole milk powder prices fell at Fonterra's internet auction on February 3, providing the second successive monthly drop. The average price across all contracts and contract prices for WMP at the auction was US\$3 256/tonne FAS, down 1.6% from the January level of \$3 309/t, while prices \$3 175/t to \$3 355/t FAS. WMP for shipment in April fell 2.5% to \$3 200/t, powder for delivery from May-July rose 1.6% to \$3 308/t, while powder for shipment in August-October dropped 6.7% to \$3 287/t.

Fonterra's global dairy trade manager Paul Grave said the result was within the range of price movements expected in the current market environment and signalled that the market was in reasonable balance. Prices will probably "bounce back" in coming months as buyers adjust to demand from their customers and the production outlook, Grave said.

Fonterra has said it will introduce skim milk powder to its monthly internet auction globalDairyTrade next month, which would mean 400,000 tonnes, or 20 per cent of New Zealand's milk, would be sold online. Prices for skim milk powder had weakened in the US and Europe in the past month, as Europe milk production headed towards its peak for the year, and supply exceeded demand.

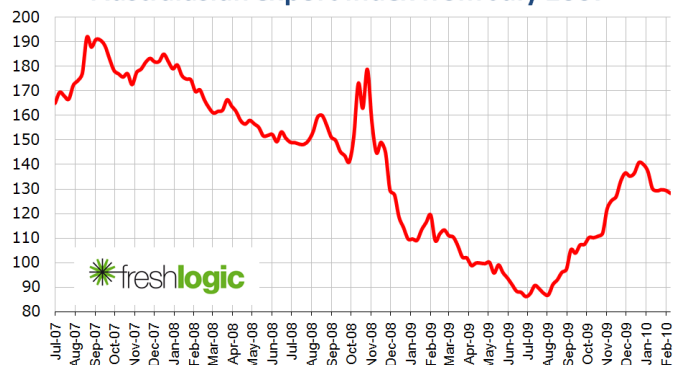
Fonterra to invest in more Chinese farms

With the extent of the melamine scandal still yet to be fully uncovered, the Kiwi co-operative says it will build more farms to control an important supply chain to its local presence

Fonterra is to invest in two more dairy farms in China. The China dairy market is set to become the world's largest dairy market in the next few decades and is forecast to experience double digit annual growth over the next 10 years. The Chinese Government has acknowledged that the development of the dairy farming industry is not only crucial for meeting the growth in demand, but also for developing rural communities and their livelihoods.

Philip Turner, Managing Director for Fonterra China said Tangshan Fonterra Farm, a pilot farm in Hangu established in 2007, had succeeded in demonstrating that Fonterra can successfully produce New Zealand standard milk in China. It has reached target production levels ahead of timetable and is producing record levels of milk for China. Each of the new farms is planned to be of similar size to Hangu, with around 35 hectares of land and around 3300 milking cows, creating employment and training opportunities for 350 people in Hebei Province.

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.

Kraft wins Cadbury

After a long and hostile takeover battle, the UK confectioner falls

Kraft Foods announced this week that its bid to acquire control of Cadbury has been accepted by shareholders in the UK confectioner. As anticipated, the US food company's revitalised £11.7bn (US\$18.6bn) takeover offer was approved by Cadbury shareholders, with 71.7% of shares having been tendered. Both companies have a significant presence in the Australian industry, although Kraft has in recent years pulled out of primary manufacturing in this country in preference for cheaper locations and toll-supply arrangements with local manufacturers. The implications of the merger for Australia's Cadbury operations, which is the 3rd biggest buyer of milk in Tasmania for its chocolate crumb manufacture remain to be seen.

No agreement on cheese definition

CODEX fails to agree on how to define "processed cheese"

Representatives of 60 dairy-producing nations on the *Codex Committee on Milk and Milk Products* gave up trying to reach agreement on what constitutes "processed cheese" when it met in Auckland over the past week. They agreed to stop work on an international standard specifying the exact content of cheese in processed cheese and revoked the existing standards drawn up since the committee was established in 1993. The revoked standards said at least 51% of the content of processed cheese to be derived from cheese. The leader of the New Zealand delegation Ann Hayman said before the meeting that failure to agree could mean "high cheese" countries like the US would seek to impose higher tariffs on "low cheese" products (called "analog cheese" as the products are essentially made as cheap imitations of colour and taste) to protect their own producers.

New Holland Rebate Scheme

Reminder

Just a reminder that if you are looking to purchase a new tractor, hay or forage equipment do not hesitate to contact your local New Holland dealer. All these items carry a New Holland company rebate to the purchaser. Apart from selling a wide range of products suitable for the dairy farmers, CNH Capital can tailor a suitable finance deal for your purchase.

Please do not forget to complete the Crop Protection Group entry form for the chance to win a New Holland Discbine.

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