

# DAIRY REPORTER

Weekly Dairy News for Members of DFMC



9 November 2009

## Fonterra steps-up

*More good news for suppliers to southern manufacturers*

Fonterra Australia has retaliated against increases from several of its competitors in the past 2 weeks and announced a milk price increase for Victorian and Tasmanian producers of 20c/kg protein and 8c/kg butterfat. The price increase keeps Fonterra well ahead of Murray Goulburn in Victorian pricing based on number announced to date.

## WCB sees even more milk than last year

*A great season is helping the company recover*

Stand-in Warrnambool Cheese CEO John McLean said the "tremendous" season shaping up in 2009/10 could see WCB overtake last season's record milk intake of 922 million litres. McLean told the company's annual general meeting last week that 24-hour shifts had been set up to process the milk.

## More water in Nth Victoria and Riverina

*Continuing good rains take more pressure off allocations*

Goulburn-Murray Water released November allocations, with the Murray System rising to 53%, up from 37%, while Goulburn irrigators are now receiving 40% allocation, up from 33%. The Murray allocation announcement now means the 100 per cent allocation rule comes into effect for a small number of irrigators who carried over the maximum allowable volume against their high reliability water shares. The 100 per cent allocation rule means that water carried over against a water share, plus allocations in the current season, cannot exceed 100 per cent of the water share volume. However, the Broken, Campaspe, Loddon and Bullarook systems are yet to get off the mark, remaining at zero allocation.

## Fonterra puts money into yoghurt



*The new maker of Ski is trebling plant capacity*

Fonterra announced an investment of \$21 million to expand and treble capacity at its Echuca manufacturing site in northern Victoria to move the Ski yoghurt brand production from NSW and to meet increased consumer demand for its existing brands. In September 2008, Fonterra acquired the licence to market, manufacture and sell Nestlé's yoghurt and dairy dessert brands as well as its Echuca manufacturing site and in January this year, acquired the license for the Ski yoghurt brand. Fonterra expects to commence construction early next year, with the project scheduled for completion by January 2011.

## Farmers innovating, but not always well

*A new study by ABARE shows a bit of change is being forced by the elements*

ABARE reports after a survey published last week that most Australian dairy farms introduced at least one new farm management practice or technology over the two years ending 2007-08. Innovations included new cropping equipment, improved irrigation and water management practices, and changed fertiliser and soil management practices.

The key facts from the work showed:

- 35% of dairy farms introduced new innovation to a great extent, while another 55% made some partial changes. Only 9% didn't change at all.
- Irrigation and water management practices were the most popular changes, next came pasture types, and thirdly fodder conservation and use
- The track record of applying innovation was however not good! On average, those not applying innovations in the major types identified did better than those that made changes.

## Headlines

- The EU slashes export subsidies
- Fonterra auction prices up 14%
- Fonterra steps-up southern prices
- New work queries greenhouse effect
- EU and US milk prices recovering

### Indicators

Dairy export index	Up more than 3 points despite 2c rise in \$A
World dairy prices	All commodities up, cheddar price spurts
US market for Australian cull cows	Up 5% in the last 2 weeks
Grain futures	US futures flat, local barley prices up

## Livestock emissions erroneous: NSWFA

*Assumptions made by the United Nations studies into the effects of intensive livestock overstate the impact on the atmosphere says some new analysis*

New research shows the contribution of livestock to greenhouse gas emissions has been grossly exaggerated. The peer reviewed study by scientists at the University of California has been seized upon by NSW Farmers' Association. "The study concluded that direct livestock emissions only account for 3pc of global emissions, showing claims currently being made about livestock are farfetched," Association President Charles Armstrong said.

"This report identifies numerous errors in the previous analyses of livestock emissions, including the use of elevated Global Warming Potential conversion factors for methane, and including livestock CO2 respiration in the account but not including CO2 fixation by pastures. "The report also makes the important point that the major emissions associated with livestock are from land clearing for farming land in developing nations and not from the cattle themselves.

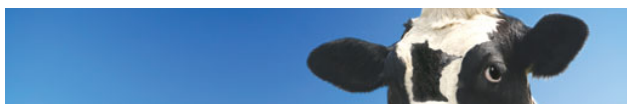
## No details of Rudd drought relief plan

*Despite talking about it since 2007, Tony Burke has yet to deliver*

Agriculture Minister Tony Burke says he is still working on crafting a shake-up that will shift the focus of drought policy from disaster relief to risk management, ending the spectre of perpetually drought-stricken farmers spending years requiring government assistance. Burke claimed in 2007 that he'd begun working on reforming the Exceptional Circumstances drought relief system. Reviews of drought policy by the Bureau of Meteorology, the Productivity Commission and a panel that examined the social effects of drought, have been done, all questioning the efficacy of the EC scheme. But since Burke responded in February 2009 vowing the government wanted to change drought-assistance requirements to help farmers adapt to climate change, there is still no clearer picture of what he has in mind.

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## Index stays on an upward trend

*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 prices stayed on course this week but the \$A reversed the weakness of the prior week. The confused state of the currency markets saw the \$A end the week up 2 cents against the US currency at **US91.8c**, but the strength of the dairy market putting the export index 3 and a half points up at **125.3**. The index has now gone past where it was last December, when it spent past this point on a very slippery path.

### Australian prices rising while the \$A fluctuates

The internet-based sales platform, globalDairyTrade, saw a 13.7 per cent increase in the average price for whole milk powder for its November session. The US\$415 per tonne rise to US\$3437 gave the auction system its fifth average price rise in a row. Whole milk powder for January delivery rose 11 percent to \$3,352/t; whole for delivery from February through April rose 13 percent to \$3,393/t. Powder for shipment from May through July sold at \$3,684 a ton, a 21 percent gain. Nigel Kuzemko, director commercial and strategy for Fonterra trade and operations, said an increase had been expected but the 13.7 per cent was better than hoped for. Kuzemko believed the jump was a reflection of customers refilling their supply chains amid growing consumer demand and confidence.

## EU slashes export subsidies...

*The buoyant market causes the EU to cut support after helping its exporters for most of 2009*

EU export subsidies for WMP, condensed milk, fresh products and cheese were cut to **zero**, following the reduction of SMP refunds to zero on 22 October. Butter and butteroil refunds, now the only products to retain an export subsidy, were reduced from €375/tonne to €145/tonne, a cut of 62%. The moves reflect surging prices for dairy commodities on world and EU markets in recent weeks, following very low prices in the first half of this year.

Export refunds were reintroduced for all dairy products on 22 January 2009 after a gap of 18 months, reflecting the dramatic fall in world market prices in 2008. Prior to the 22 January 2009, changes to export refunds for butter and cheese had been set at zero at the management committee of 14 June 2007, reflecting a shortage of supplies both on the world market and in the EU. Putting the recent levels into perspective (see chart on the right) is important – recent levels were nothing like the past

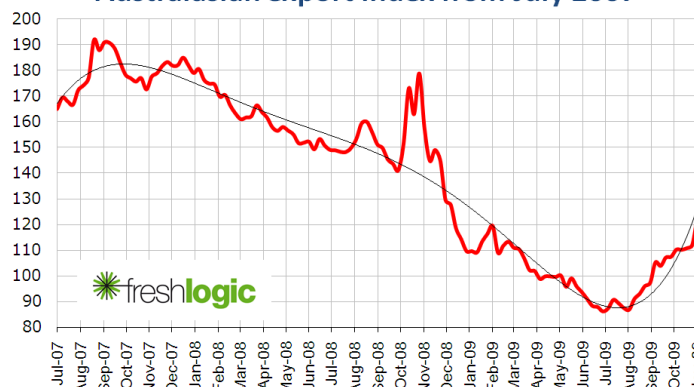
### ... but worries about pace of recovery

*The fast recovery has EU exporters very worried about how dairy's customers will react*

the massive change in sentiment within the EU over the past few weeks now sees the EU's dairy markets regulator now worried about how quickly things have turned. EU dairy trade association *Eucolait* warned that volatile prices are putting "sustainable demand for butterfat" in jeopardy, and is calling on the Commission to release the large intervention stocks of butter and SMP in order to raise supply and calm the upward price trajectory.

There have been no sales into intervention for several weeks, but as of the end of the week, some 76 449t of butter and 267 458t of SMP remained in EU stores.

### 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.

## Farmgate prices recovering in EU, US

*Things are starting to flow through to the farmgate in the major northern hemisphere industries, but it will be a while before the noise dies down*

The quick increases in product prices within the EU is starting to make its way into prices at the farmgate as the chart shows from the four biggest countries. French and Dutch prices have rebounded strongest in the data available until the end of August, but Germany even through to September remained flat. UK prices, with less reliance on commodity exports but vulnerable nonetheless to the effect of currency on their milk prices missed the peaks in late 2007 and have rallied since May.

Increases in product prices are building some momentum into US average farmgate prices, with October's number edging above US30c for the first time this year, as the supply response seen in recent months and better demand for cheese starts to underpin some stability.

## Kiwis see gains from Gulf

*Another free trade agreement in the bag for the Kiwis*

Fonterra is looking for major trade gains in its already burgeoning business with the states of the Arabian Gulf, following the near completion of a free trade deal. The Free Trade Agreement (FTA), concluded between New Zealand and the Gulf Co-operation Council (GCC), after six rounds of talks, needs legal and technical work before a final signature in the first half of 2010. Fonterra exported NZ\$686 million of dairy product to the Gulf in the year to last May. That was up from \$498 million in the 2006/07 year.

### EU Export Refunds in €/t since 2000

