

Fortnightly Update

Issue 03 – February 17, 2012

February Update of the Dairy 2012: Situation & Outlook

- **The stability of the international dairy market has been remarkable** given the on-going turmoil in global financial markets and the deteriorating outlook for the world economy.
- **Supply has increased in all major exporting regions** as farmers respond to the positive price signals of the past two years. **Nevertheless, demand for dairy products has absorbed the strong growth** in global milk production.
- **The outlook for the international dairy market is dependent on demand continuing to absorb additional milk supplies.** While further deterioration in the world economy may test demand, the resilience of consumption, in both the troubled developed regions and the more robust emerging markets, has been positive.
- **Current modelling suggests a likely final average southern price range of \$5.20 to \$5.30/kgMS for the 2011/12 season.** This is an indicative estimate only since the proliferation of alternative payment systems means individual farmer payments will vary greatly around this average.
- While global dairy markets remain steady, **wider economic issues and exchange rate movements are major uncertainties in the outlook** and exporters will be more exposed to a high and possibly quite variable exchange rate in the coming year.
- **Dairy Australia is forecasting milk production to grow between 3-4% to reach 9.4 - 9.5 bn litres in 2011/12.**

Download the full report from <http://www.dairyaustralia.com.au/Statistics-and-markets/Dairy-Situation-and-Outlook-February-2012.aspx>

Current Global Issues

Average prices in Fonterra's latest globalDairyTrade auction (15th Feb) decreased 3%. The maximum volume offered in this round increased 15% to 32,375t from the previous event. However **bidder numbers decreased slightly to 144.** **Average WMP prices fell 3% to US\$3,421/t due to reduced prices for near term delivery periods** (out to July this year), but WMP prices for August-October 2012 increased almost 4% to US\$3,586/t. All WMP contract periods are trading below offer prices out of Europe which have ranged from US\$3,750/t to US\$4,000/t. No Butter Milk Powder (BMP) was offered this event, but all other product categories decreased – excluding rennet casein which increased 1.1% to average US\$7,730/t. For more information visit www.globaldairytrade.info.

US dairy organisation, **Cooperatives Working Together (CWT) accepted 35 requests for export assistance for 1,707t of cheddar cheese and 1,547t of butter.** Delivery is for Feb-June 2012 to customers in Asia, Central America, the Middle East and North Africa. This is despite US wholesale butter prices (around US\$3,335/t), already being less than export prices from other global market suppliers.

The National Front

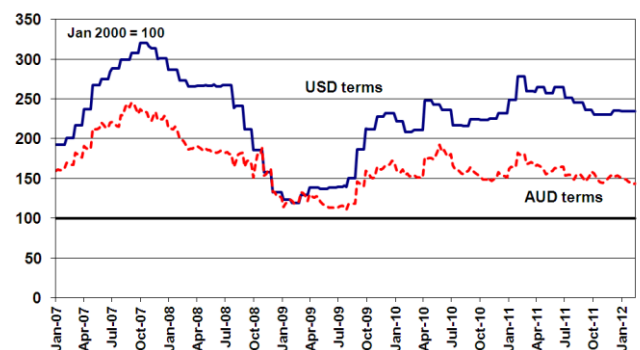
Longwarry Food Park has announced its second step-up of the season with **7c/kg milkfat and 17c/kg protein.**

Lion dairy and drinks have reported that EBIT halved to \$90m – on a 10% fall in revenue to \$2.8bn – for its year to 30Sept 2011 – with the dairy and drinks business “still a long way from achieving acceptable return on invested capital”. While the “deep discounting on milk” was held to be primarily responsible for the fall in earnings – together with low consumer confidence, poor weather and natural disasters – **it did report strong results from the iced coffee dairy beverages and specialty cheese brands** including South Cape, King Island, Tasmanian Heritage and Mersey Valley.

Bulla Dairy Foods has commenced work on its **\$8m innovation centre and office facility in Colac** – with a view to having it completed by late-2012. The facility will focus on research and development, sensory testing and pilot plant capability for new and emerging products; while consolidating Bulla's local administrative staff that are currently spread across three sites.

Export Index

Australian Export Index (Base = 100 at Jan 2000)



	This Week	Last Month	3 Months ago
Index (USD)	234.2	234.2	230.1
Index (AUD)	143.3	148.2	148.3
AUD/USD	1.0711	1.0356	1.0168