

Fortnightly Update

Issue 21 – October 28, 2011

Current Global Issues

EU-27 milk production for the year ended 31 March 2011 was 134bn litres and 5.5% below the available quota. Despite this, five countries incurred 'super levies' for exceeding their production quota limit – Denmark, The Netherlands, Austria, Cyprus and Luxembourg. Most of these countries are quite small producers within Europe, with the exception of The Netherlands which was the 4th largest producer with 11.4bn litres earning it a fine of €39.1m (AUD\$53.1m). The top producers all delivered milk volumes under quota with the largest Germany at -0.7% (28.3bn litres), France was -5.1% (23.3bn litres), the UK was -9.7% (13.4bn litres) and Italy was -2.4% (10.3bn litres). Whilst the quota system is set to end in 2015, countries must still abide by its rules until that time.

The USDA announced September US milk production was up 1.7% on same month 2010 (7.0bn litres up from 6.8bn litres). The number of cows being milked in September increased 88k over the same month last year to a total of 9.2m. The 2011 full year production forecast was revised up from 86.2bn litres to 86.3bn litres, driven by increased cows being milked and strong milk per cow productivity during the summer. On the basis of lower milk prices and fewer cows, the 2012 total production number has been revised down slightly (-50m litres).

The *globalDairyTrade* auction on 18th October saw average winning prices increase 1.7% (from US\$3,449/t to US\$3,540/t). This was the first increase since June and was driven by stronger WMP and SMP prices. The WMP price rose 5.7%, and moved up from US\$3,309/t to US\$3,503/t. SMP prices increased from US\$3,193/t to US\$3,292/t (+3%). Reversing this trend were AMF and cheese prices, with AMF prices down 1.7% from US\$3,703/t to US\$3,645/t. Cheese prices decreased 8.4% to US\$3,497/t.

Fonterra has revised its payout lower for the for 2011/12 season. They lowered the forecast payout by 45 cents to NZ\$6.70-\$6.80 from the May opening payout forecast, with a price of NZ\$6.30/kgMS (AUD\$5.31/kgMS), down from NZ\$6.75/kgMS (AUD\$5.69/kgMS). Reasons cited for the lower forecast included the stronger NZ currency and weaker global dairy prices.

A natural gas leak off the coast of New Zealand's north island near New Plymouth has affected Fonterra's processing plants. The estimated loss on Tuesday 25th October was 35m litres of milk at a cost of NZ\$20m (AUD\$16m). A secondary gas pipeline enabled all but three factories to remain in operation, albeit at reduced capacity. Until all plants are fully functional, the co-op anticipates milk collection in the affected area to be reduced by one third.

The National Front

Murray Goulburn has announced a step-up for the 2011/12 season. The change in the milk price was comprised of an increase of \$0.20/kg protein and \$0.08/kg butterfat. The company also announced the final weighted average milk price would be around \$5.30/kgMS, which is at the lower end of the \$5.30-\$5.50/kgMS range announced in July. Factors such as world market prices softening and the Australia dollar strengthening influenced the more conservative forecast.

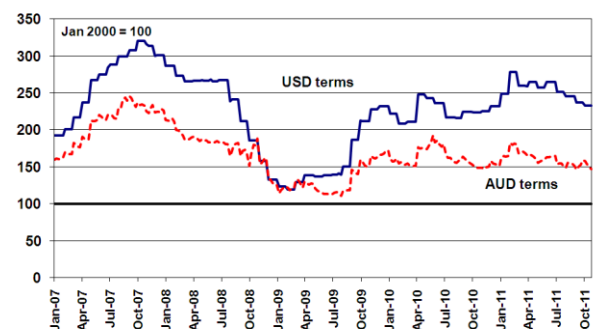
Preliminary estimates suggest Australian milk production grew strongly in Sept to a volume of 928m litres – up 6% on LY – bringing the YTD Sept11 volume to 2,317m litres – up 2% on LY.

Parmalat is reported to have secured 130m litres of milk supply from central NSW regions of the southern highlands, south coast, and north of Sydney from the Manning and Hunter River Valleys. Parmalat plans to better utilise production capacity at its Lidcombe plant – mainly to supply the Woolworths NSW private label contract worth some 110m litres. The company is also considering transferring the manufacturing of some of its Pauls-branded modified milks to Sydney to save transport costs.

United Dairy Power has acquired Lion's (Nat Foods) Murray Bridge and Jervois cheese factories in South Australia. Lion offered these plants for sale earlier this year after they were determined to be surplus to requirement after a review of Lion cheese manufacturing capacity. UDP anticipates taking control of the sites in late-November. As part of the sale, **UDP has also acquired the Caboolture brand; and will contract pack a number of Lion products at the sites.**

Export Index

Australian Export Index (Base = 100 at Jan 2000)



	This Week	Last Month	3 Months ago
Index (USD)	232.8	236.7	251.7
Index (AUD)	147.2	158.5	151.0
AUD/USD	1.0361	0.9789	1.0929