

Fortnightly Update

Issue 22 – November 11, 2011

Current Global Issues

The new European on-line dairy auction - Dairy Auctions Online - started trading in November. The first auction on 1st November sold 286 tonnes (t) of cheese, of which Gouda was 220t and Edam 66t. 110t of butter was also sold. More volume passed through the 8th November auction. Gouda sold 176t, with 110t for the earlier delivery date of December 2011 selling at US\$4.29 - 4.32. The January 2012 delivery was 66t and sold between US\$4.20 - 4.22. Edam sold 88t, with the December delivery of 44t selling at a price of US\$4.39. The Edam January deliveries also sold 44t at a price range of US\$4.18 - 4.21. 80t of cheddar was withdrawn as bids did not reach the minimum selling price, and cheddar will be offered again at the next auction. Butter sold a total of 330t, with frozen product at 220t (price US\$4.83 - 4.84) and fresh at 110t (price US\$4.87). Both butter products were for a December delivery date.

Japanese cheese & butter imports have increased to September YTD 2011. Overall cheese imports have increased 5%. Australia supplies some 40% of Japan's imported cheese and as such is the largest cheese supplier to this market. Australian cheese exports to Japan increased this September YTD 2011 (62,000t to 65,000t). Japan has also significantly increased its butter imports to September YTD 2011. Butter imports of 11,270 tonnes (t) this September YTD 2011 are much higher than the same period 2010 volume of 1,800t. The last time Japanese butter imports were this high was in 2008, when imports during the year reached 18,000t. Australia exported 256t in 2011, up from 139t in 2010 and 72t in 2009.

The latest **USDA forecast for New Zealand 2012 milk production is 18.45bn litres**, which is an **increase of nearly 2%**. Factors such as an increased number of farms (approximately 80 to 100) bringing with it increased cow numbers, as well as greater productivity per cow are contributing to the forecast growth.

Average prices at the *globalDairyTrade* auction on 1st November were slightly down by 1.2% (from US\$3,540/t to US\$3,511/t). The powders performed well, with SMP maintaining the same price of US\$3,292/t and WMP decreasing less than 1% (from US\$3,503/t to US\$3,487/t). Cheese prices reduced 3.2% between auctions with a price of US\$3,406/t. The biggest change to the last auction was AMF prices that were down 9.3% from US\$3,645/t to US\$3,309/t. The auction offered less product for sale as the seasonal production will start to decline during the period the product from the this auction is scheduled to be delivered (between January and July 2012).

The National Front

The last week of October saw **milk price step-ups from three of the major exporting processors – Tatura Milk Industries, Murray Goulburn co-op and Warrnambool Cheese and Butter.** Each was worth **8c/kg butterfat and 20 c/kg protein.** All have been couched in terms of 'loyalty payments' in an environment of strong competition for farmgate milk.

Norco has reported an 86% increase in operational profit to \$4.2m on flat revenue of \$352m in 2010/11. Milk intake was marginally down at **137m litres from 161 farm suppliers** – averaging 851,000 litres per farm – for an **average milk price of 52.04 cpl.**

Lion dairy and drinks is reported to be **forecasting a full-year loss in its milk business** – blaming the supermarkets' milk price wars as more consumer traded down from premium brands to cheaper private label milk.

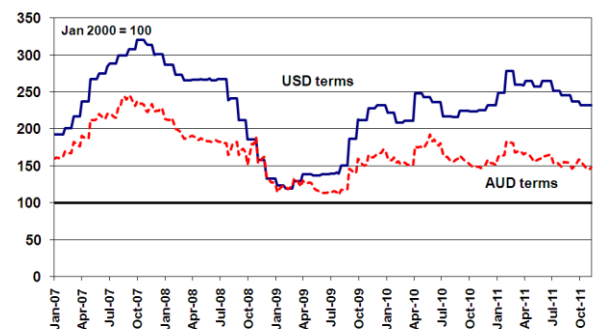
Harvey Fresh [WA] has doubled their net profit to \$5.5m in 2010/11 - on a **22% increase in sales revenue to \$125m.** They picked up the Challenge Dairy assets from the receivers early this year, the Coles private label milk business from Lion and have made strong gains in drinking milk sales overall.

Changes continue at the senior level of Murray Goulburn with last week's resignations of long-serving chief operating officer, **Paul Kerr** and company secretary, **Ian Bird.** These moves follow the retirement of MD **Steve O'Rourke** back in July - recently replaced by ex-Ricegrowers Ltd CEO **Gary Helou** - and the co-op's chairman, **Grant Davies** having earlier announced his intention to resign from the position at this month's AGM.

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Export Index

Australian Export Index (Base = 100 at Jan 2000)



	This Week	Last Month	3 Months ago
Index (USD)	232.1	232.1	245.0
Index (AUD)	147.3	152.8	155.4
AUD/USD	1.0327	0.9954	1.0334