

Fortnightly Update

Issue 24 – December 9, 2011

Current Global Issues

Prices continued to firm at the latest **globoDairyTrade (gDT) auction held on 6th December** where overall **prices were up 2.6%**. All commodity groups increased and the most marked were **BMP (up 14.4%** from US\$3,039/t to US\$3,410/t) and **AMF (up 12%** from US\$3,571/t to US\$4,013/t). **SMP gained 2.6%** and its price lifted from US\$3,354/t to US\$3,424/t. The **WMP price was up 2%** from US\$3,574/t to US\$3,637/t.

Murray Goulburn is to begin selling lactose on gDT from April 3rd next year, according to Murray Goulburn managing director Gary Helou – saying “Lactose is a product that is growing in importance in the marketplace. This is driven by increased demand for lactose for products, such as infant formula and other nutritionals”.

Fonterra exports are threatened by industrial action at Ports of Auckland with strike action planned for 24 hours from 10.30pm on the 9th, 22nd and 24th of December.

For YTD October 2011, Japan increased its total dairy imports from 325,900t last year to 344,400t this year. Australia exported 84,400t of total dairy products in the ten months, which is up from 83,300t in 2010. Japanese cheese imports for 2011 were strongly met by Australia with 72,400t (with 42% market share); followed by New Zealand (with 45,700t and 26% market share).

From December 13th, the **European Commission country of origin labelling (COOL) new rules** include meat as well as **a requirement to review origin labelling for composite products, such as yoghurts**. This would entail companies revealing the origin of each and every ingredient, from milk to fruit and sugar. Disagreement surrounding COOL has seen the Commission decide that current rules will apply for the next three years.

The National Front

At Murray Goulburn’s AGM last week, South Gippsland farmer and accountant, **Phil Tracey, has been elected the new MG chairman**. Mr Tracy has been a director since 2009 and has a strong background in agriculture and finance. **He replaces Grant Davies**, who resigned from the position after two years.

Recently appointed MD, **Gary Helou, also outlined his plans for the company** including an immediate focus on simplifying organisational structures, improving operational efficiency and lifting dairy food innovation. He told suppliers **he wanted MG to run on 25% lower input costs**. “That is **\$100m worth of savings** and we’ve already started.”

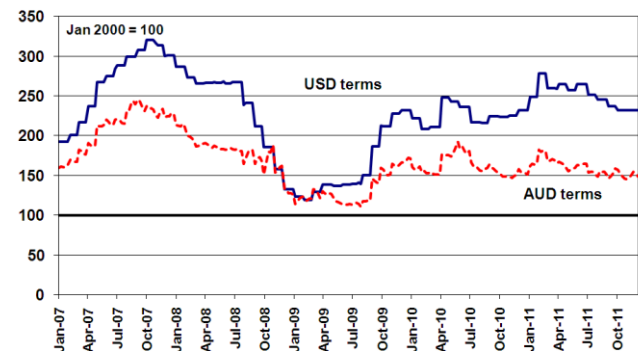
Meanwhile, **the AFR reported this week that MG “is considering taking a look at the assets of NatFoods”**. Japanese owner, Kirin, has complained recently about the effect that the supermarket ‘milk price wars’ are having on its margins and while it hasn’t said anything about exiting the sector, “a healthy offer from MG could do the trick”. **With Kirin having spent close to \$3bn for the dairy business - \$2bn for NatFoods and \$900m for Dairy Farmers – the price tag could be substantial. And the ACCC might also take an interest** as the combined market shares in Victoria in particular would be significant.

ABARES’ December Crop report says that the **total winter crop production is forecast to be around 43.4m tonnes in 2011/12 - the largest winter crop on record** and up from the Sept forecast of 41m tonnes. **Wheat** production is forecast to increase by **1% to 28.3m tonnes**; and **barley** production is forecast to rise by **4% to 8.5m tonnes**.

Hastings Co-op owners have voted 92% in favour of the sale of the Wauchope [NSW] dairy factory to Sungrow Australia - for \$2.95m including plant and equipment, land and buildings, and stock on hand.

Export Index

Australian Export Index (Base = 100 at Jan 2000)



| | This Week | Last Month | 3 Months ago |
|-------------|-----------|------------|--------------|
| Index (USD) | 231.9 | 231.9 | 236.7 |
| Index (AUD) | 148.6 | 147.5 | 146.1 |
| AUD/USD | 1.0229 | 1.0303 | 1.0615 |