

Fortnightly Update

Issue 02 – February 3, 2012

Current Global Issues

Average prices at the **globalDairyTrade** auction of 1st February were down 0.9%. AMF was down the most at -3.5% with prices moving from US\$4,084/t to US\$3,942/t. Powder prices both decreased less than 1%. SMP moved in price to US\$3,296/t from US\$3,351/t. WMP was down marginally more at -0.9% and prices moved from US\$3,562/t to US\$3,533/t. Cheese prices descended by 1.1%, with the price changing from US\$3,776/t to US\$3,640/t.

New Zealand milk production for 2011 (January to November) was 16.00bn litres which represents a **10% increase** on the 14.54bn litres of 2010. **Forecast milk production for the season is +5%.**

The National Front

Preliminary estimates of **Australian milk production in December** yield a volume of **930m litres – up 5.8%** on LY and bringing the first half of the **2011/12 season volume to 5,326m litres – up 3.5%** on LY.

The **preliminary state figs for the first six month show TAS** up a very strong 10%; **NSW** up 4%; and **VIC** also up 4% - with the regional VIC trends showing milk volumes down 3% in the east; up 6% in the west; and strongly up 12% in the north of the state. **SA** production was down nearly 3%; while both **WA** and **QLD** are down over 6%.

Immediately after the announcement of the WCB-Coles 'Great Ocean Road agreement', **WCB** announced their **second milk price step-up** of the current season – amounting to **8c /kg milkfat and 20c /kg protein** – with “another milk price review for suppliers due in April.”

Burra Foods has announced a second step-up of **10c /kg milkfat and 25c /kg protein** – lifting their “average annual price to over \$5-05 /kgMS” – and reporting that their “**key markets of Japan, South East Asia and the Middle East are performing well and reflecting firm demand.**” Burra are also planning upgrades to the Korumburra site to increase production capacity for next season.

And **Fonterra Australia** has announced a third step-up – of **8c /kg milkfat and 20c /kg protein** – following its regular bi-monthly price review. GM Milk Supply, Heather Stacy, said that “the outlook for the rest of the season is good and we see further upside still to come” and “we expect to close well within Dairy Australia’s forecast price range of \$5-10 to \$5-50 / kgMS.

UDP has also stepped up - by **20c /kg milkfat and 40c /kg protein** – lifting their “season average weighted price up to \$5-42 /kgMS” according to GM Darryl Cardona.

And **Murray Goulburn** announced a **10c /kg butterfat and 20c /kg protein step-up** this week – its second of the current season – determined as a loyalty bonus to MG suppliers in 2012. MG has been quoted as saying that their latest step-up “takes MG’s weighted average available price” to \$5-22 /kg MS; and has maintained its forecast end-of-season price of \$5-30 /kgMS.

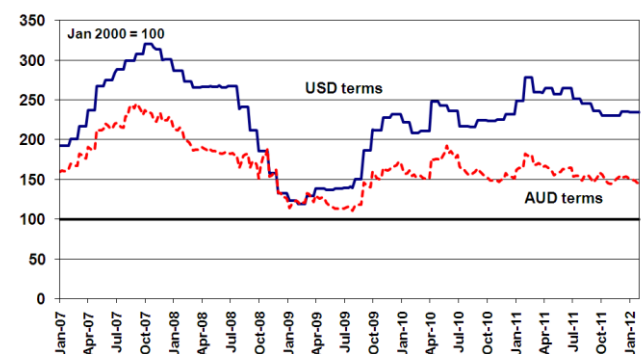
Harvey Fresh has announced a **year-round milk production growth incentive** - for the next two years - of **3 to 5 cpl** “for milk supplied in excess of each farm supplier’s monthly production in 2011”. The company wishes to increase milk volumes throughout the year “**to meet growing domestic and export demand for Harvey Fresh product**, at a time when milk production is falling.”

Lion dairy & drinks has written down the value of its **dairy business by a further \$1 billion** – following a write-down of \$832 million in 2010 – citing “low consumer confidence and increased saving activity in Australia”, “poor weather and natural disasters”, “high input costs”, and a “**challenging price environment**” for its **white milk business** – where “continued discounting activity has caused a transfer of sales from higher-margin branded products into private label and from the non-grocery channel to grocery”.

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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)	144.4	150.0	144.1
AUD/USD	1.0630	1.0237	1.0468