

Fortnightly Update

Issue 19 – September 30, 2011

Current Global Issues

For YTD July, milk powder imports for Algeria increased with WMP up 39% over the corresponding period of 2010. The top three suppliers of WMP - New Zealand, Argentina and the UK all increased their volumes year on year. Poland and Ireland also increased supply from 2010 to 2011, whilst France decreased. For SMP, imports increased by 70% from 2010. The EU was the major SMP supplier to Algeria, which is one of the largest global milk powder importers.

August 2011 Chinese imports of WMP were down 42% from August 2010. **Continuing the usual seasonal import pattern**, volumes have been declining each month since May. YTD to August however shows WMP imports up 16.5% on the same period from the prior year, influenced by a large peak in April.

Fonterra announced its 2010/11 season payout (year ended 31 May 2011). The payout (before retentions) was NZ\$8.25 - a farmgate milk price of \$7.60/kg of milksolids (MS) and a distributable profit of 65 cents per share. This was the highest in the 10-year history of the co-op and is \$1.55 ahead of the previous season's \$6.70 and higher than the previous record of \$7.90 in 2008. Fonterra collected a record 1,346m/kgMS of raw milk in the 2010/11 season, 5% higher than the previous season. The company reported a 13% rise in after-tax profit to \$771m (year ended July 31, 2011) on a 19% increase in revenue to a record \$19.9bn. The current 2011/12 season forecast - farmgate milk price of \$6.75/kgMS and distributable profit range of 40-50 cents per share was confirmed.

At the latest *globalDairyTrade* auction on 20th September, average weighted prices dropped to their lowest level in more than a year driven by large declines in AMF and SMP. The trade-weighted average price for all products was down 2.1% from the previous auction, the seventh straight decline. AMF price was down 11.2% (US\$4,353/t to US\$3,846/t) – its lowest price since appearing on the auction in November 2009. The average price for SMP was US\$3,230/t, down 6.2%. The WMP price was US\$3,345/t, up from US\$3,314/t at the previous auction, but the second lowest price for 2011 which has so far peaked in March at US\$4,619/t. Cheese was down slightly by -0.4% and prices shifted from US\$4,066/t to US\$4,049/t.

The National Front

Preliminary estimates of Australian milk production in August yield a volume of 749m litres – unchanged on LY – bringing the YTD August 2011 volume to 1.39bn litres – marginally down 0.4% on LY.

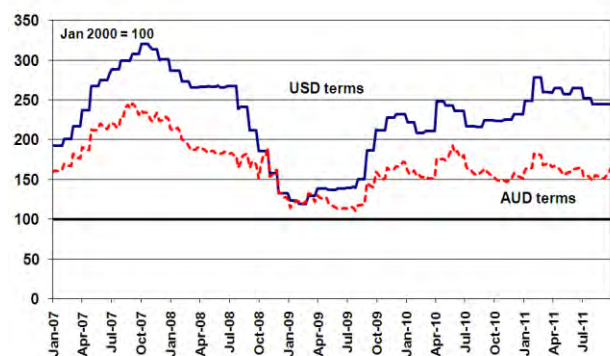
Some regions have had a slow start to the season; with flood recovery efforts still underway in **QLD [down 10%]** and very wet winter conditions in **Gippsland [down 7%]**. However, **conditions are 'just about right'** in **northern VIC [up 9%]** and **TAS [up 10%]** delivering a very strong start in these areas.

The **Circular Head Council** [north-west Tasmania] last week **approved the \$70m dairy development by Tasmanian Dairy Products** - which has financial involvement from Murray Goulburn - **to produce powdered milk products on the former Gunns sawmill site at Smithton.**

The **Australian Federal Court did *not* grant an interim injunction to ACCC to restrain Metcash from acquiring the Franklins business** until a full appeal is heard and determined. The three-day appeal will commence on 24th October. However, **Metcash has signalled it has yet to decide whether to complete the purchase of a business that is in poorer shape** than when it proposed the deal to Franklins' owners, Pick n Pay of South Africa.

Export Index

Australian Export Index (Base = 100 at Jan 2000)



	This Week	Last Month	3 Months ago
Index (USD)	244.7	244.7	264.9
Index (AUD)	163.8	151.0	164.3
AUD/USD	.9790	1.0624	1.0567