

Fortnightly Update

Issue 23 – November 25, 2011

Current Global Issues

The latest **globalDairyTrade** auction held on **15th November** realised the best average price since July, with the **gDT weighted index rising by 2.6%** - and indications that traders are becoming more optimistic about the commodity price outlook. **Six of the seven products on offer recorded an increase in value**; with **MPC** rising 11.3% to an average of US\$6,247 /t; followed by **AMF** up 8% from the previous auction to US\$3,571 /t. **WMP** rose 2.4% to US\$3,574 a tonne; and **SMP** gained 1.7% to US\$3,354.

Milk supply growth continued around the world in the third quarter of 2011. Milk production in **New Zealand was up 11%** from last year, supported by ideal seasonal conditions and strong milk pricing; while production in **Australia was up 2.2%**. Production in **Argentina rose 12.5%**, with good farm gate milk prices stimulating milk production. **EU production increased approximately 2% in Q3 2011.**

Despite high feed prices and continuing heavy cow culls rates, the **US dairy herd continues to expand** more rapidly than anticipated as cow numbers increased 9,000 head in October to 9.219m. **October milk production was up 2.1%**; with **YTD Oct11 [10 months] up 1.6%**.

NZ dairy firm, **Synlait, has opened its \$NZ100 million infant milk formula plant at Dunsandel** - south of Christchurch this week – and will produce infant and adult nutritional formulations, food ingredients and milk powder products. Chinese-owned **Bright Dairy paid \$NZ82 million for a 51% controlling stake in late-2010.**

The National Front

Preliminary estimates suggest Australian milk production grew strongly again in October to a volume of **1,075m litres – up 4%** on LY – bringing the **YTD Oct11** volume to **3,396m litres – up nearly 3%** on LY. Nth VIC, TAS and west VIC continue to power ahead this year – up 11%, 9% and 7% respectively.

In view of the many positive factors around this season, **DA is lifting its forecast for the 2011/12 season to 9.30 billion litres – for a growth of around 2.2%** - and there [probably] remains some upside at this time.

The last week saw a **milk price step-up from Longwarry Food Park of 7c/kg butterfat and 17c/kg protein.** LFP have **also flagged that a second step-up will be announced next February** and “we envisage this price increase will be similar to our first”. They went on to say that the added certainty will allow farmers to “maximise the favourable conditions that exist throughout Gippsland.”

Burra Foods have also announced their first step-up for 2011/12 of **10c/kg butterfat and 25c/kg protein** reportedly taking their average price to **\$4-87 /kg MS** – saying “we remain optimistic in the price outlook for this current season” and that **milk supply to the Korumburra site “is on target for an increase of more than 15% on last season”.**

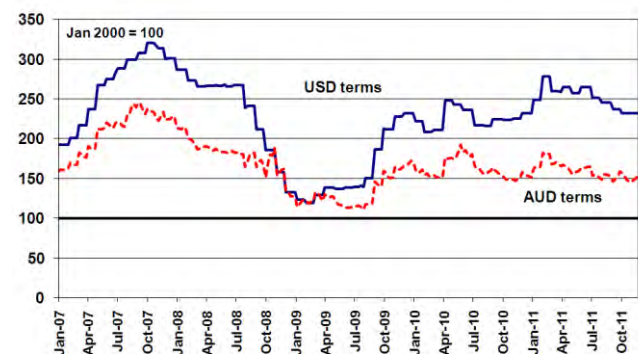
AND Fonterra announced a **step-up in Tasmania of 8c/kg butterfat and 20c/kg protein** – with an end-of-year indicative range of **\$5-10 to \$5-50 /kg MS.**

A revitalised **Brownes Dairy [WA]** has launched a new favoured milk brand [**Kick**], a new yogurt range [**West N Fresh**] and **invested \$5m in its IT systems** in recent months. It is **now looking for a return to export growth** - where customers in neighbouring Asian markets were increasingly prepared to pay a premium for quality fresh product.

Parmalat sales increased 8% [on LY] to \$830.3m during Jan to Sept 2011. However, EBITDA fell \$25.4m to \$42m; reflecting pressure on selling prices caused by milk discounting, the effects of Qld floods, higher input costs, and increased advertising costs.

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)	153.9	146.2	154.1
AUD/USD	0.9885	1.0404	1.0419