

Fortnightly Update

Issue 25 – December 21, 2011

This is the last Fortnightly Update for 2011. The Fortnightly Update will return mid-January 2012. Dairy Australia would like to wish everyone a Merry Christmas and all the best for 2012.

Current Global Issues

Overall prices at the latest **globalDairyTrade (gDT) auction held on 20December** were **down 1.6%** - the first decrease since the 1November auction. Powder prices eased - **SMP moved down 3.2%** to US\$3,312/t and **WMP decreased 1.5%** to US\$3,589/t. **AMF** achieved a higher price (**up 4.8%** to US\$4,183/t) as did **cheddar cheese**, rising 1% to US\$3,601/t. This auction saw an increase in SMP volumes available, whilst WMP and AMF volumes on offer were the same as the 6December auction.

Arla Foods will become the first European company to sell product via gDT auctions - from 3April 2012. The company will offer skimmed milk powder low-heat and medium-heat products. It joins **Dairy America** (who two months ago began selling US milk powder) and **Murray Goulburn** (who will offer lactose, also beginning in April 2012). Arla Foods chief executive Peder Tuborgh said, "The *globalDairyTrade* auction platform is one of the tools we intend to use to reach and service new and present customers in a cost effective way".

Fonterra has increased its payout forecast range for the 2012 season by 20 cents to NZ\$6.90-\$7.00/ kilogram of milksolids (kgMS) (including 40-50c distributable profit). **The revised forecast lifts the farm-gate milk price from \$6.30/kgMS to NZ\$6.50/kgMS – approx A\$5.40/kgMS.** Fonterra chairman Sir Henry van der Heyden said the new forecast **reflected a modest recovery in global dairy commodity prices** over the last two months.

The National Front

Preliminary estimates of Australian milk production in November yield a volume of **998m litres – up 3%** on LY – bringing the YTD Nov11 volume to **4,394m litres – up 125m lts or nearly 3%** on LY.

ABARES' December 2011 quarterly outlook forecast Australian milk production at **9.35 bn litres this year – up 2.7%** - driven by a 1.0% increase in cow numbers and a 1.7% increase in milk yields per cow. **National average farmgate price is forecast at 41.5cpl** this year (or about \$5.50/kgMS) – and down **4% on LY's 43.2cpl.**

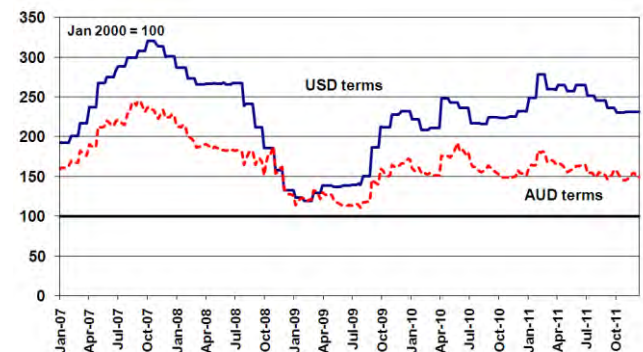
Shareholders of Tatura Milk Industries have approved a full merger with Bega Cheese. TMI redeemable preference shareholders will receive two Bega shares for each TMI redeemable preference share - resulting in the issue of 24m new Bega shares and increase the number of issued shares to over 150m for a current **capitalisation of \$250m.** **Group revenue will be about \$1 billion in 2012.**

Parmalat and Premium Milk – the south-east QLD / north-east NSW suppliers' collective bargaining group – have [re]negotiated three-year contracts from 1Jan12 at an average of **about 3 cpl lower** than the existing contracts – which are due to expire in Dec 2012 but with no certainty of renewal. Existing contracts were struck in 2007 during severe drought conditions and held for four years. **The new lower price reflects improved farm conditions and will now provide certainty of price and volume until end-2014.**

Rabobank's latest rural confidence survey shows dairy farmers' short-term confidence levels consolidating – with nearly four in five farmers expecting the rural economy to either stay the same (52%) or improve (26%) - continuing to highlight good seasonal conditions and strong commodity prices. The **strength of the AUD continues to be the main area of concern** for those expecting the rural economy to worsen (17%). **Investment intentions remain strong** with 32% intending to increase on-farm investment and 62% intending to maintain current levels.

Export Index

Australian Export Index (Base = 100 at Jan 2000)



	This Week	Last Month	3 Months ago
Index (USD)	231.5	231.5	236.6
Index (AUD)	149.7	149.7	149.3
AUD/USD	1.0134	1.0138	1.0384