

Fortnightly Update

Issue 10 – 17 May 2013

Global Developments

A modest 2.1% decrease in the Trade-Weighted Index (TWI) emerged from GlobalDairyTrade (GDT) event 92 this week, as prices of most commodities continued their widely expected correction. Overall moves were relatively gentle, and some powder and AMF contracts for July and August delivery increased due to competition for limited near-term supplies. WMP prices eased 1.7% to an average of US\$4,722/t, and although October contracts averaged US\$4,388/t, WMP for July delivery continues to attract a huge premium, at US\$6,151/t. SMP averaged US\$4,252/t (down 2.8%) while AMF dipped 0.2% to US\$4,598/t – with movement in spring delivery contracts again pulling the average down. Having fallen by less than other products at event 91, butter prices dropped 12.4% to average US\$3,846/t at this week's auction. See www.globaldairytrade.info.

Synlait Milk Limited (Synlait Milk) has announced it is considering an initial public offering (IPO) of shares and listing on the NZX Main Board. China's Bright Dairy & Food Co. (Bright Dairy) currently owns a 51% controlling interest in Synlait Milk, with the balance of shares owned by Synlait Limited. Bright Dairy has signalled it will retain its stake, purchased in 2009 after the abandonment of a previous capital raising effort. Shares would be made available for purchase by both the public and institutional investors in New Zealand as well as institutions in 'Australia and certain overseas jurisdictions,' with proceeds earmarked for debt refinancing and growth initiatives including 'construction of a new packaging plant.'

The tighter supply situation and higher prices on global markets appear to be having an effect on volumes of butter entering the EU's Private Storage Aid (PSA) program. Data to 5 May shows 34,531 tonnes of butter have been placed in subsidised storage, 43% less than the same time in 2012.

Supply management provisions look set to remain in both versions of the new US Farm Bill, with the House Agriculture Committee voting down an alternative proposal for its draft bill that excluded the measures. The supply management provisions of the 'Dairy Market Stabilisation Program' (DMSP) are particularly contentious, with nearly 150 organisations and businesses registering opposition.

The Australian Front

Dairy Australia released its flagship **Dairy 2013: Situation and Outlook** report released earlier this week. Both a summary Short Report and the Full Report are available on-line at: <http://www.dairyaustralia.com.au/Statistics-and-markets/Dairy-Situation-and-Outlook.aspx>.

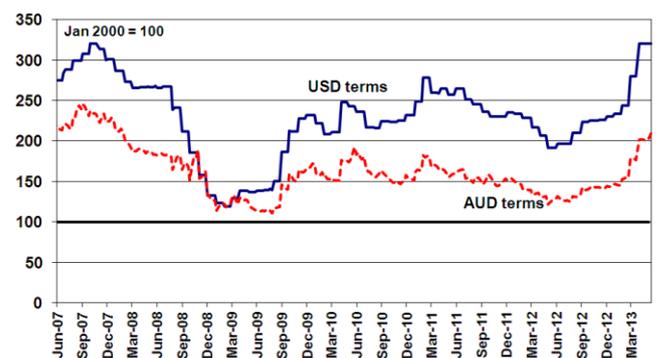
In the report DA said:

Milk production is expected to reach 9.35bn litres in 2012/13—down 1.4% on 2011/12 output of 9.48bn litres. The outlook for 2013/14 is for modest production growth to between 9.4 and 9.6bn litres, based on surveyed herd growth intentions, cow condition and assuming normal seasonal conditions provide an offset to limited fodder reserves.

The outlook for indicative southern farmgate milk prices, based on current commodity price and exchange rate expectations is for an opening price around \$5.00/kgMS, up from an average opening price around \$4.30/kgMS in 2012. This implies a potential full-year average price around \$5.50/kgMS, up from \$4.90 to \$5.10/kgMS in 2012/13. The sharp increase in commodity prices during calendar Q1 2013 suggests there is upside to a \$5.00/kgMS opening price depending on processor carryover benefits and value-added sales late in the 2012/13 season.

Murray Goulburn (MG) has been holding meetings with dairy farmers in NSW. MG is talking to farmers in the NSW's Hunter, the north and south coast regions about the co-op's plans for its planned milk processing facility in western Sydney and future milk supply for its recently announced entry into the fresh drinking milk market. MG is expected to take on NSW suppliers to fulfill requirements under its 10-year contract to supply Coles with approximately 200m litres of private label fresh drinking milk.

Export Index



Australian Export Index (Base = 100 at Jan 2000)

	This Week	Last Month	3 Months ago
Index (USD)	320.5	320.5	243.8
Index (AUD)	209.1	201.3	155.1
AUD/USD	1.0046	1.0432	1.0299