



Issue 8 – 17 Apr 2014

Global Developments

Further price declines marked GlobalDairyTrade (GDT) event 114 this week, though the declines look to be moderating: the GDT Price Index eased 2.6% - producing a weighted average price of US\$4,047/t. In a further sign that GDT prices could be bottoming out, AMF values rose 0.6% to US\$4,086/t – establishing a US\$253/t premium over butter which averaged US\$3,832/t (down 4.9%). Butter buyers will have more options from event 115, with Fonterra announcing contract period 5 offerings from that point. Arla Foods is also increasing its GDT offerings - it will offer UK-sourced BMP from event 115. SMP lost 4.4% to average US\$3,969/t while WMP held a bit more ground, down 1.6% to US\$3,990/t. Forward curves for both products are neutral to gently positive out to October 2014. For full results see www.globaldairytrade.info

US milk production forecasts have been raised in the latest WASDE report released by the USDA. Continuing strength in production margins is expected to encourage 'a more rapid expansion in cow numbers and increased milk per cow'. According to the USDA, this sums to a 2.4% increase in total milk output over the full year to reach 93.7 billion litres. Production growth is currently tracking around 1% in data to February.

European member states who exceed their milk production quotas in the 2014/15 quota year will still be fined, after the European Commission's interpretation of rules governing its milk quota regime was backed by the Council's lawyers. Several member states had questioned the legality of collecting super levy penalties for exceeding milk production quotas after the quotas themselves expire on March 31, 2015. Steady production growth in the lead-up to the end of quotas is set to result in significant fines for a number of countries this season and next.

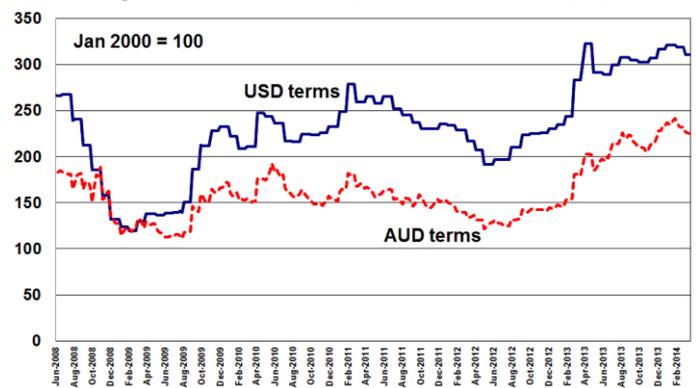
The Australian Front

The federal government's economic advisory body, the Productivity Commission, is inviting initial submissions on issues faced in dairy product manufacturing as part of a larger study, *Relative Costs of Doing Business in Australia*, commissioned by the government. Dairy industry stakeholders should take this opportunity to inform the policy debate by making submissions by 2 May: see <http://www.pc.gov.au/projects/study/business-costs/dairy-manufacturing/issues>.

The Australian Government has concluded negotiations on the Japan-Australia Economic Partnership Agreement (JAEP A). Japan remains a major destination for Australian dairy exports, receiving 16% by volume and 19% by value of Australia's total dairy exports in 2012/13, so industry stakeholders held expectations that a Japan free trade deal would offer more favourable access into

what has become an increasingly cost-focused market. Australia's Department of Foreign Affairs and Trade (DFAT) highlighted key gains for Australian dairy including 'a preferential, duty-free Australia-only quota growing to 20,000 tonnes (cheese for processing); immediate duty-free access for milk products such as protein concentrates and casein; opportunities for ice-cream and frozen yoghurt exports under growing quotas.' However, peak national representative body, the Australian Dairy Industry Council (ADIC) has expressed disappointment with the agreement, stating that the outcome fell short of expectations by excluding categories such as fresh cheese and not delivering 'meaningful benefit.' Consequently, expectations re a favourable outcome for dairy via the conclusion of negotiations on an Australia-China free trade agreement have been raised further.

Fonterra Australia has announced its revamped payment structures for Australian farmer suppliers. Fonterra has revised its existing payment structure, putting growth payment components into the base, and replacing multiple categories of seasonal incentive payments into an 'off-peak pricing' component (which varies by geography). Effective from 1 July, Fonterra's new system is expected to 'make it easier for farmers to understand their milk price and will assist them in making informed decisions for their farm businesses.' For many individual farmer suppliers this may more likely change the timing rather than the full-year dollar value of payments.



Australian Export Index (Base = 100 at Jan 2000)

	This Week	Last Month	3 Months ago
Index (USD)	310.7	310.7	321.2
Index (AUD)	216.7	224.9	239.1
AUD/USD	0.9394	0.9052	0.8805

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