

Fortnightly Update

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Global Developments

GlobalDairyTrade (GDT) event 93 on 5 June concluded with the Trade-Weighted Index (TWI) down 5.3%. Unlike other recent events, a substantial component of the general easing in prices was the erosion of premiums for near-term deliveries, as buyers showed less interest in outbidding each other for limited supplies. In the case of WMP, contracts for August and September delivery saw prices drop 15% and 21% respectively, while later November (no change) and December (+2%) contracts were steady to higher. The volume-weighted average WMP price fell by 1.7% (to US\$4,643/t)—somewhat less than the 7.1% decrease in the WMP index. The pattern was similar but less pronounced for SMP, with average prices falling 2.1% to US\$4,164/t despite modest gains in later delivery contracts. Butter prices were generally weaker (down 2.7% on average to US\$3,743/t) while AMF saw some gains for August delivery but finished 2.6% down on average, to US\$4,478/t. Full results at www.globaldairytrade.info.

Fonterra earlier forecast a farmgate milk price of NZ\$7.00/kg MS (around \$5.80/kg MS in Australian terms): the NZ co-op has confirmed that this will constitute the Guaranteed Milk Price (GMP) for suppliers that sign up for the pilot of its GMP scheme in the 2013/14 season. The GMP model allows farmers to lock in a fixed price at the beginning of the season for up to 75% of their milk production, with the initial pilot intended to involve around 200 farmers across New Zealand.

Milk intakes in major South American producers are lagging behind year-ago levels as high feed costs continue to squeeze margins, despite milk prices rebounding strongly. With the added challenge of variable to unfavourable weather conditions over recent months, Argentinean production is expected to have contracted 5.6% in the calendar year to June according to local sources, while southern regions of Brazil have seen a 5.5% contraction due to similar pressures. Product shortages have driven farmgate prices to 5 year highs in some areas, and export volumes have also been affected – down 21% for Argentina in the January-April period.

The Australian Front

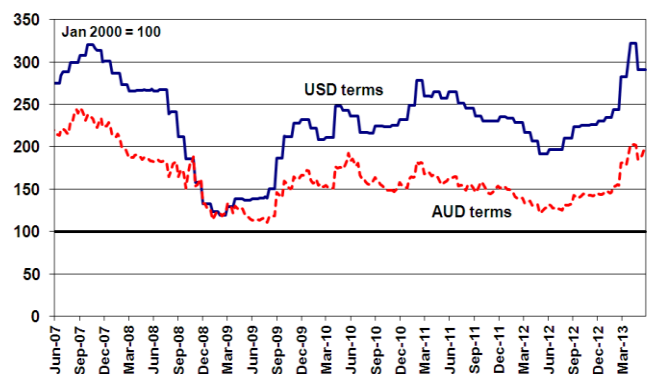
Murray Goulburn (MG) announced its 'effective initial price' for the 2013/14 season. In a departure from traditional opening prices, the \$5.60 per kg MS includes an 'option to take up the pre-payment of a special step-up.' On top of representing a significant increase (up 24%) on the 2012/13 opening price, MG's move is a timely response to supplier cash needs at a critical point; the expected higher opening price also reflects elevated commodity prices and more favourable AUD/USD exchange rate prevailing—as well as ongoing competition for milk. **MG-controlled entity Tasmanian Dairy Products (TDP) is reportedly offering suppliers the same opening price deal as MG** (including prepaid step-up option) with 'a single milk price structure' as well as incentives rewarding production growth and off-peak production.

Fonterra has followed MG's lead and revealed its opening price for 2013/14: \$5.60 per kg MS, as well as making a final step-up for 2012/13 of 4c/kg butterfat and 10c/kg protein. Other major manufacturers are expected to announce opening prices later this month.

Bega announced another step-up for the 2012/13 season: 4c/kg butterfat and 10c/kg protein.

Media reported that prospective northern Victorian suppliers to the Australian Dairy Farmers Co-operative (ADFC) met recently in Echuca. ADFC was described as mirroring Dairy Farmers Milk Co-operative (DFMC); however, unlike DFMC, which is restricted to selling to Lion, the ADFC will be able to sell to multiple buyers.

Export Index



Australian Export Index (Base = 100 at Jan 2000)

	This week	Last month	3 months ago
Index (USD)	290.9	290.9	282.7
Index (AUD)	201.9	189.8	180.7
AUD/USD	0.9443	1.0047	1.0255