

Fortnightly Update

Issue 14 – 12 July 2013

Global Developments

A 0.7% increase in the Trade-Weighted Index (TWI) reflected an overall firming—despite some mixed movements—in dairy commodity prices at event 95 (July 10th) on the GlobalDairyTrade (GDT) platform. Most products saw price gains, with butter and cheddar the exceptions, down 5.7% to US\$3,707/t and 3.7% to US\$4,395/t respectively; SMP firmed 3.1% to average to US\$4,441/t, while the WMP index was steady, on average achieving US\$4,757/t. The total volume of product sold came in just under 38,900 tonnes, representing a jump of 64% on event 94, and the largest tonnage since mid-January. Full results at: www.globaldairytrade.info

Fonterra's 'Guaranteed Milk Price' (GMP) pilot has received strong interest from New Zealand suppliers, with the scheme attracting 328 applications against a targeted 200. Consequently, Fonterra will adjust each applicant's offer volumes at the 2013/14 price of NZ\$7.00/kg MS (about \$5.80/kg MS in Australian terms) to 40% of that requested, for a total program volume of 15 million kg MS (about 1% of Fonterra's total NZ milk supply). The GMP model allows farmers to lock in a fixed price for up to 75% of their milk production.

New Zealand this week became the first developed country to sign a trade agreement with Taiwan. The agreement will result in the removal of tariffs on 98% of trade within four years—including virtually all dairy products. Fluid milk is expected to be subject to a 12-year transition during which an expanding tariff rate quota will apply. NZ already has trade agreements with China and Hong Kong.

The European Commission recently released an updated Short Term Outlook for agricultural markets: poor pasture conditions given cold and wet conditions in the western and central EU, as well as a lacklustre forage harvest and high global grain prices, led to a slow start for milk production; but improved pasture growth, lower feed prices and high milk prices are expected to support recovery in production through the second half of 2013, with year-on-year growth of 1.3% anticipated.

China's National Development and Reform Commission (NDRC) has been investigating dairy and infant powder manufacturers in connection with possible price-fixing and violation of anti-monopoly laws. Major international companies such as Wyeth (Nestle), Danone, Abbott Laboratories, Mead Johnson and Royal FrieslandCampina have been cooperating in the review—and announced reductions to ex-factory prices on infant formula in China of between 7-20%. Observers anticipate competitors following through with similar price reductions across the China market.

The Australian Front

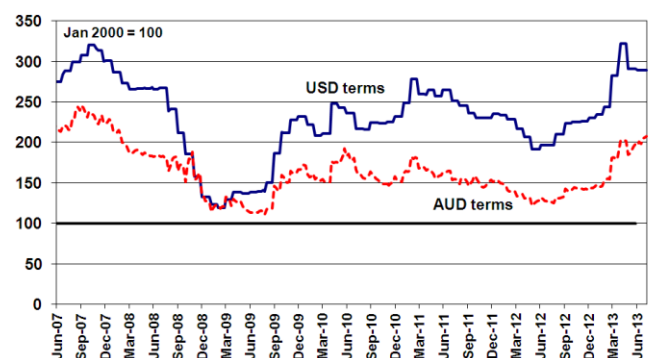
Murray Goulburn (MG) has confirmed the location for its new Sydney milk processing plant: 5-ha in Erskine Park to the city's west, purchased from CSR Limited. Construction work is expected to commence soon given MG is scheduled to supply Devondale-branded and private label milk to Coles to most of NSW from 1 July 2014.

MG has also sent a letter inviting supply from prospective NSW farmer suppliers: Pricing arrangements differing from those offered in southern regions had been anticipated given differing costs of production and requirements for flatter production in the market milk region—and confirmed: Local media quotes GM Shareholder Relations Robert Poole as stating MG's NSW 'pricing system is geared for this market. This includes flat milk supply, agreed milk supply volumes and different pricing for milk components' to supply from 1 October 2013 for 'an orderly transition to the new market.'

MG confirmed its final step-up for the 2012/13 season: \$0.04 per kg fat and \$0.10 per kg protein, taking the 2012/13 'final weighted-average price' to \$4.97/kg MS.

Bulla Dairy Foods (Bulla) has acquired makers of the Choc Top' ice cream, Rowena Foods: Bulla is expected to keep Rowena's operations at Dandenong South, retain staff and delivery of the Choc Top; the acquisition gives Bulla access to the cinema channel.

Export Index



Australian Export Index (Base = 100 at Jan 2000)

	This week	Last month	3 months ago
Index (USD)	289.2	289.2	322.4
Index (AUD)	207.4	200.7	202.5
AUD/USD	0.9139	0.9443	1.0435