



Issue 17 – 22 August 2014

Global Developments

Some measure of stability returned to the GlobalDairyTrade (GDT) auction platform this week, with event 122 producing a modest 0.6% decrease in the GDT Price Index and an average winning price of US\$3,000/t. A 2.9% recovery in the average WMP price (to US\$2,804/t) helped mask a 12% fall in the average for SMP (the latter retaining a small premium at US\$2,874/t). There was no US SMP on offer this time around, and Arla's EU offerings saw smaller 6-8% declines, though are trading similar sub-US\$3,000 levels to their NZ equivalents. On the other hand, Indian-origin product from Amul has shown remarkable price resilience, still fetching US\$3,935/t. Cheddar prices on GDT were also hit hard, losing 7.7% to US\$3,453/t. Butter and AMF both recorded gains; up 5.0% (to US\$2,940/t) and 3.2% (to US\$3,566/t) respectively, perhaps influenced by the likelihood of Russian purchases. Full results at www.globaldairytrade.info

July data from the USDA suggests US milk production has stepped up a gear, increasing 3.9% compared to July 2013. The monthly volume of 7.9 billion litres brings year-to-date growth to 1.7%, closing in on the USDA's forecast of 2.4% growth for the full calendar year. Despite a significant drop in the cull rate, the US dairy herd remains only 0.4% larger than the same time last year, so much of the growth is coming from increases in per-cow yields. Sources suggest there are likely to be further gains to come, as higher quality grains from this year's bumper crop begin to enter rations in the coming months.

The fallout from Russia's ban on food imports from various Western countries continues, though an amendment to the embargo late this week will allow imports of selected product categories, including lactose free milk and dairy products to recommence. Finnish dairy processor Valio has been the most heavily affected individual company: Russia accounted for around 20% of its net sales in 2013; mainly in the form of cheese, butter and fresh dairy products. A number of production lines have been halted in Finland, while the company's Russian plants are preparing for shutdown as they work through remaining product inventories. Meanwhile, following a flood of enquiries, Swiss authorities have confirmed that they will not be able to facilitate re-export of EU product shipped to the country to avoid the ban. Despite imposing sanctions on Russia in response to the conflict in eastern Ukraine, Switzerland has so far avoided the retaliatory sanctions levelled against the US, EU, Norway, Canada and Australia.

The Australian Front

Saputo-controlled Warrnambool Cheese & Butter (WCB) earlier in the week announced its results for the financial year ended 30 June 2014 (FY14): higher international dairy commodity prices and a relatively softer Australian dollar supported a significant increase in after-tax profit: up \$13.8 million to \$21.3 million. In outlining its outlook, WCB stated that the Western Victoria-based manufacturer 'intends to accelerate its growth activities, invest in capital projects, increase manufacturing capacity, grow milk intake and create new

opportunities.' WCB CEO David Lord confirmed that he would be stepping down from his role next year on 1 April 2015.

Saputo CEO Lino Saputo was at WCB supplier meetings in South Australia and Victoria this week to reinforce the message for milk supply growth. In response to concerns about the direction of farmgate pricing, Mr Saputo told local ABC media that he thought 'there [would] be an opportunity for step ups and not step downs.' At the same time, Mr Saputo also clarified that WCB had excess capacity and could 'take more milk without need for more factory infrastructure'; as he explained to *The Standard*, rather than pursue any factory expansion, WCB's focus would be on diverting more milk into higher value-added product.

FY14 result from Bega Cheese Limited (BGA): in its announcement this morning to the ASX, BGA flagged a \$66 million record profit, given a value-driven rise in revenue (+6.5%) and the one-off gain from WCB share sales. That translated in the CEO's report into a 'record normalised profit' of \$29+ million after removing the effects on profit of the \$43+ million windfall gain (after tax and costs) from the company's sale of WCB interest to Saputo and as well as the \$7.3 million (after tax and costs) impact of the company's 'Milk Sustainability and Growth' programme to grow sustainable milk supply in response to market demands and stimulate growth: aiming to support a 20% volume increase over the next three years.

BGA total production volume for FY14 was down 1% due to 208,120 tonnes as a result of lower intake (599 million litres) and product mix favouring lower volume (contract FMCG) over higher value (nutritionals and commodities given higher international prices). Looking ahead, BGA will be focused on 'extracting more value from...existing streams and processes (cheese, powders and proteins), on top of a new \$30m Dgo whey protein project as well as a 'bio-nutrient' platform that 'will involve dairy and non-dairy micro nutrients.'



Australian Export Index (Base = 100 at Jan 2000)

| | This Week | Last Month | 3 Months ago |
|-------------|-----------|------------|--------------|
| Index (USD) | 219.6 | 247.2 | 269.2 |
| Index (AUD) | 154.5 | 172.5 | 191.0 |
| AUD/USD | 0.9314 | 0.9392 | 0.9236 |

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