

Fortnightly Update

Issue 15 – 26 July 2013

Global Developments

Dairy commodity prices showed some unexpected upside on 16 July at GlobalDairyTrade (GDT) event 96, with the Trade-Weighted Index (TWI) up 4.9%. Contrary to broader expectations that prices would continue to drift in the lead-up to the southern hemisphere peak, WMP prices surged to an average of US\$5,058/t (up 7.7%) driven in part by a 12.7% spike in September delivery contracts (Contract 2) to US\$5,382/t as buyers looked to cover shorter term needs. At the other end of the time scale, January deliveries attracted the highest ever Contract 6 WMP price, fetching US\$5,020/t. SMP averaged US\$4,566/t (up 3.3%) despite increased volumes on offer from Fonterra, Amul and DairyAmerica. AMF (up 3.6% to US\$4,742/t) and BMP (up 4.8% to US\$4,826/t) also saw solid gains, whilst butter eased 0.3% to US\$3,693/t. www.globaldairytrade.info

Synlait Milk Ltd (SML) shares saw brisk trading following the company's 23 July debut on New Zealand's stock exchange, with the closing price of NZ\$2.74 (AUD\$2.39) representing a 24.5% jump on the offer price of NZ\$2.20 (AUD\$1.92) after more than NZ\$15m (AUD\$13m) of shares changed hands. Substantial shareholders include Bright Dairy which retains a 39% stake, Mitsui & Co Ltd and Mitsui & Co (Australia) with 8.4% between them, and FrieslandCampina with 7.5%. SML shares were priced at NZ\$2.77 (AUD\$2.43) at the close of trading on 25 July.

Still in New Zealand, West Coast based cooperative Westland Milk Products launched its new 'Westpro Nutrition' range of infant formula products at a function in Shanghai last week. According to Westland, the new products form part of a strategy to capitalise on the cooperative's smaller size relative to global competitors, as well as its flexibility and technical expertise. Work has also begun on establishing a permanent presence in China, with the first staff hired for a development office in Shanghai.

Hot June weather was not enough to stop US dairy farmers from increasing milk production by 1.5% relative to June 2012, with national output a shade under 7.7 billion litres. The USDA has increased its forecasts for 2013 full year production and exports, as the country's dairy sector eyes the opportunities on offer from continuing strong demand and reduced competitor output.

The Australian Front

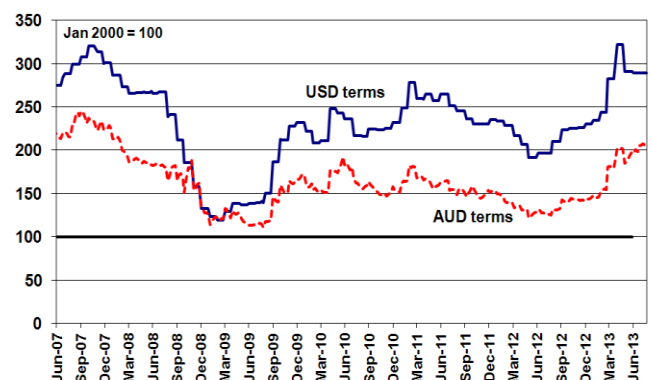
Bega Cheese has announced it will build a new blending and packaging facility at its Tatura Milk Industries (TMI) site to 'blend and package up to 15,000 tonnes of canned nutritional powders' annually. Omniblend Nourish Pty Ltd, involved with design and equipment procurement for the facility, will take up to 25% of the initial capacity under a supply and services agreement. The facility is expected to be commissioned in early 2014, providing a further boost to TMI's nutritionals business.

Burra Foods announced its first step up for 2013/14: 8c/kg fat and 20c/kg protein, with CEO Grant Crothers suggesting the lower dollar should 'make 2013/14 a marquee year for the farmgate milk price.'

Fonterra Australia declared a step-up of 8c/kg butterfat and 20c/kg protein, also reflecting favourable commodity prices and exchange rate movements—as well as ongoing competition for milk supply. The move follows Murray Goulburn's upward revision of its 2013/14 season opening price as well as the launch of Fonterra's Support Crew program offering a range of support services.

Local media reported that Murray Goulburn (MG) has been involved with the sale of 11 farms to superannuation funds for \$25 million as part of the co-operative's MG Partnerships scheme. MG's scheme is designed to grow the co-operative's milk pool while providing investors with rental income and, through subleasing, assist farmer suppliers in getting access to the farming land required to grow or start their dairy enterprises.

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)	206.0	205.2	201.7
AUD/USD	0.9200	0.9237	1.0477