

Fortnightly Update

Issue 2 – January 25, 2013

Global Developments

WMP prices continued to edge upwards at the most recent GlobalDairyTrade event (#84), with the **average rising 2.8% to US\$3,288/t**. AMF prices increased by 2.4% to US\$3,253/t. The **trade-weighted index (TWI) itself rose 1.1%**, a positive result overall but weighed down by **SMP, which retreated marginally to US\$3,552/t (down 0.3%)**. SMP contracts for February delivery took the bulk of the hit, dropping 3.3% - pricing for other delivery periods was more or less steady. The biggest loser from the event was BMP, which finished down 6.5% to US\$3,405/t. For full results see www.globaldairytrade.info.

New Zealand's milk production continues to show solid growth, with the latest data to December indicating **output for the month was 8% above 2011 levels**, boosting the **season-to-date growth rate to 7%**. Full season growth expectations factor in a slowdown in growth through the coming months on the back of dry conditions slowing pasture growth across much of the country (the west coast being a notable exception). With around 60% of the season's production collected, **our expectation is for a final growth figure between 3 and 5%**.

A different hemisphere and a different picture in Europe, where **October production data shows EU-27 milk output fell 1.4% compared to the same month in 2011** – a smaller contraction than in September but enough to drag the **year-to-date growth rate down to -1%**. Milk price rises have reduced the financial pressure on many European producers, but feed price woes continue to bite, along with poorer than usual supplies of quality fodder.

7,200 dairy cows left New Zealand this week on the largest single shipment from the South Island to date. The broker - Australian company Landmark Global Exports - exported around 12,000 head of New Zealand dairy cows to China in 2011. China's appetite for dairy livestock is driven by heavy investment in ramping up local milk production by both local and foreign companies.

The Australian Front

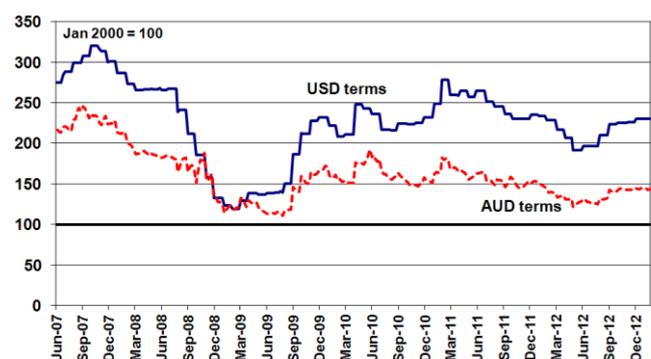
Bega Cheese and subsidiary Tatura Milk Industries have announced their second step-up for the season – the 8c/kg butterfat and 20c/kg protein increase lifts the 'available farmgate milk price' to \$4.85 per kg of milk solids. In announcing the step-up, Bega Executive Chairman Barry Irvin attributed the increase to improvements in business performance "rather than changes in the dairy marketplace."

United Dairy Power (UDP) investing \$2 million in a new cheese shredding line at its Murray Bridge factory. UDP intends to shred and pack mozzarella cheese manufactured at its Jervois site, which will be sold under the Caboolture brand to pizza and café outlets.

Recent bushfires in Gippsland and other regions around Australia have attracted international attention. Threats to human safety, animal welfare, business disruption, and asset damage remain in areas with active fire events, such as parts of the Gippsland region around Heyfield and Maffra, however **milder weather in the coming week is expected to see these threats ease**. Indirect effects to date have included road blocks, power and communication outages, which have caused localised dairy business continuity issues. **To date, direct effects on the dairy industry have been limited**.

Australia's two major supermarket chains have rolled out \$1-per-litre milk pricing (along with discounted private label bread) **throughout their petrol and convenience store outlets**. Meanwhile, available monthly supermarket milk sales data indicates that the volume share of company-branded product is close to where it was prior to the introduction of \$1-per-litre milk: **41.9% for the 6 months from July to Dec 2012, compared to 42.3% for the period spanning January 2010 to Jan 2011**.

Export Index



Australian Export Index (Base = 100 at Jan 2000)

	This Week	Last Month	3 Months ago
Index (USD)	230.2	230.2	225.0
Index (AUD)	143.3	144.8	142.5
AUD/USD	1.0525	1.0418	1.0346