



Dairy Situation and Outlook Update

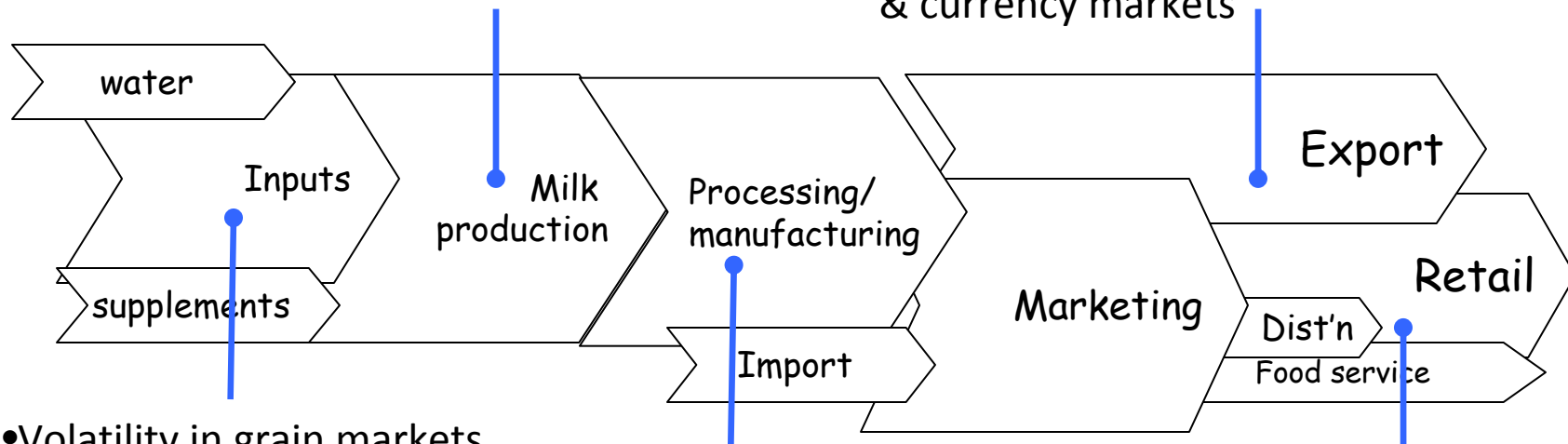
**Murray Dairy Business Forum
29 September 2010**

Australian dairy supply chain

September 2010

- Opening price and good winter rains boost
- Too much rain slowing early spring production

- Supply response
- Strong demand outlook for China
- Economic uncertainty = volatile commodity & currency markets



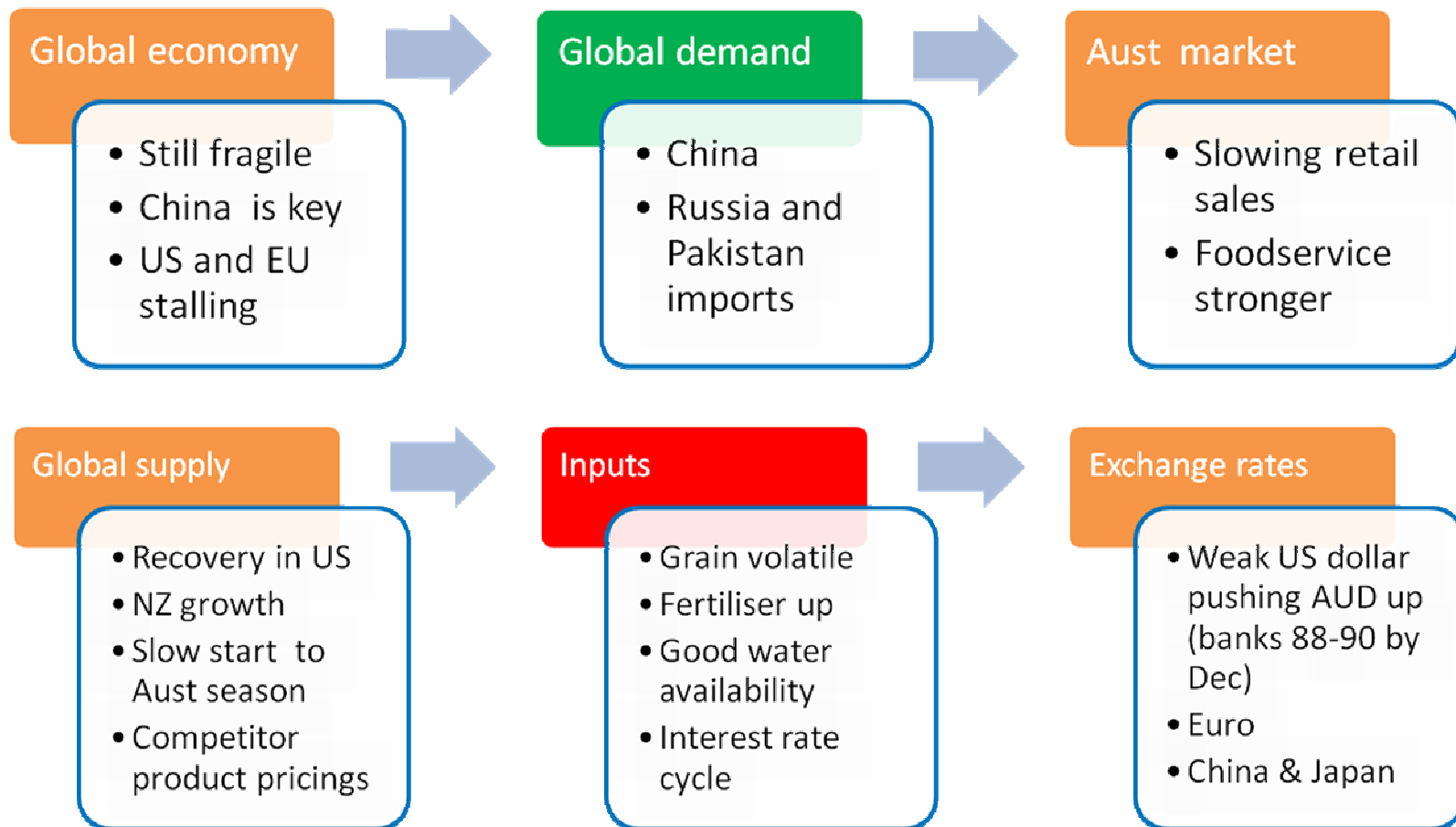
- Volatility in grain markets
- Limited supply of cows and heifers

- Product and market mix are critical

- Step-ups likely to be cautious

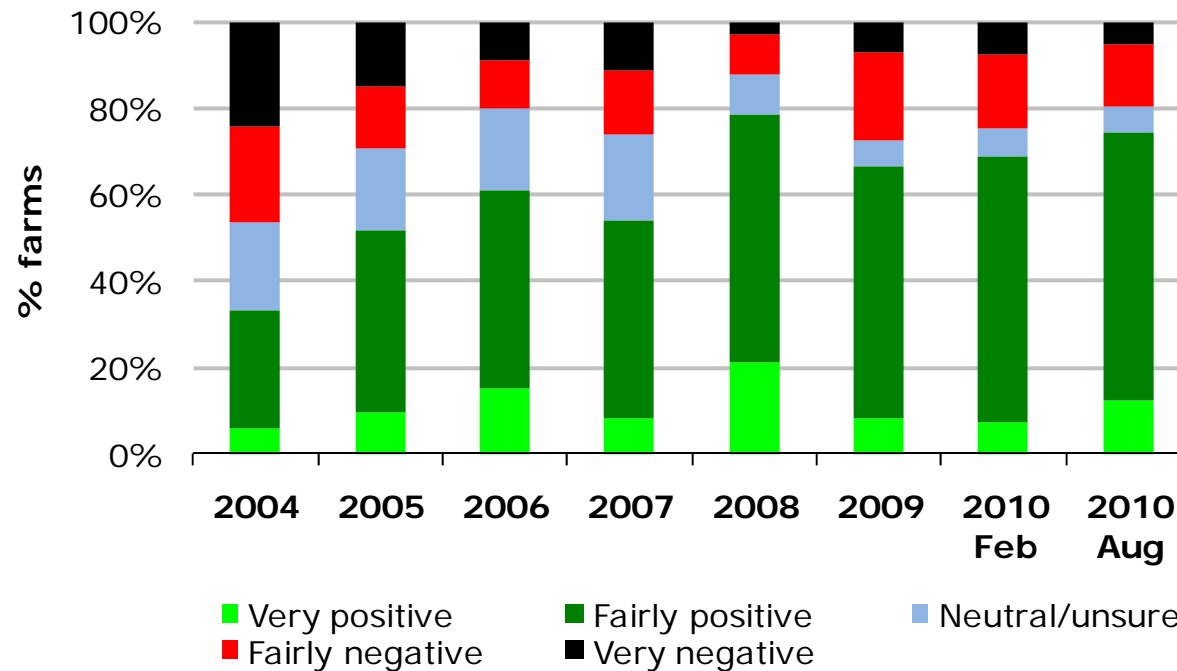
- Domestic sales volumes and value slowing

Key driver outlook - change since May S & O



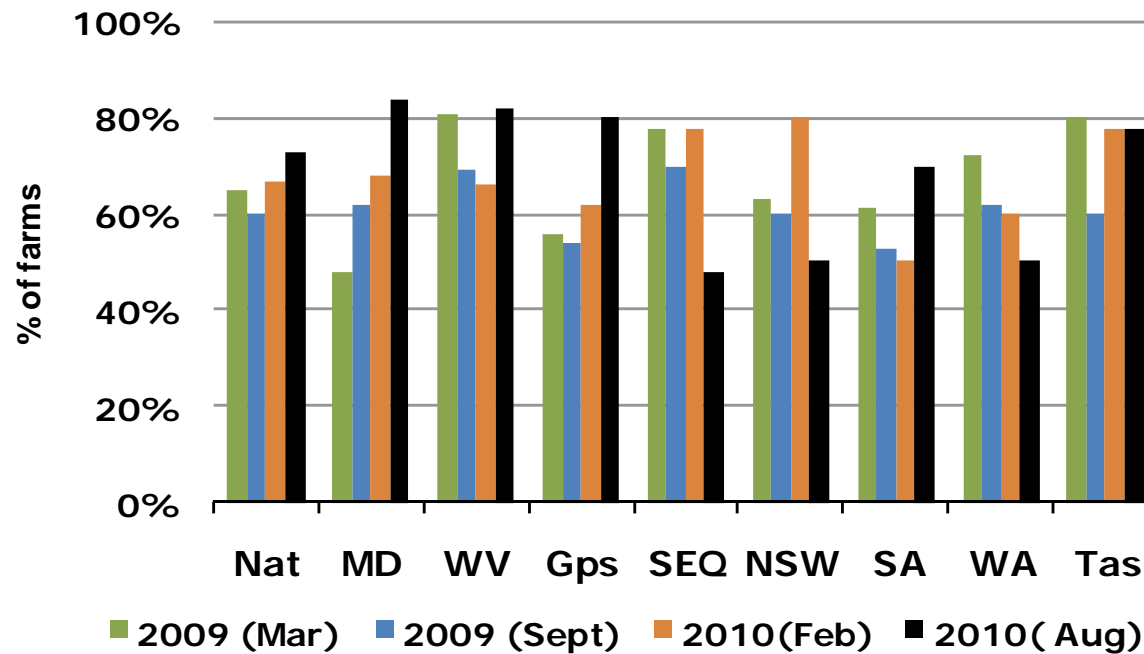
Improved farmer confidence overall....

Attitude to future of national industry



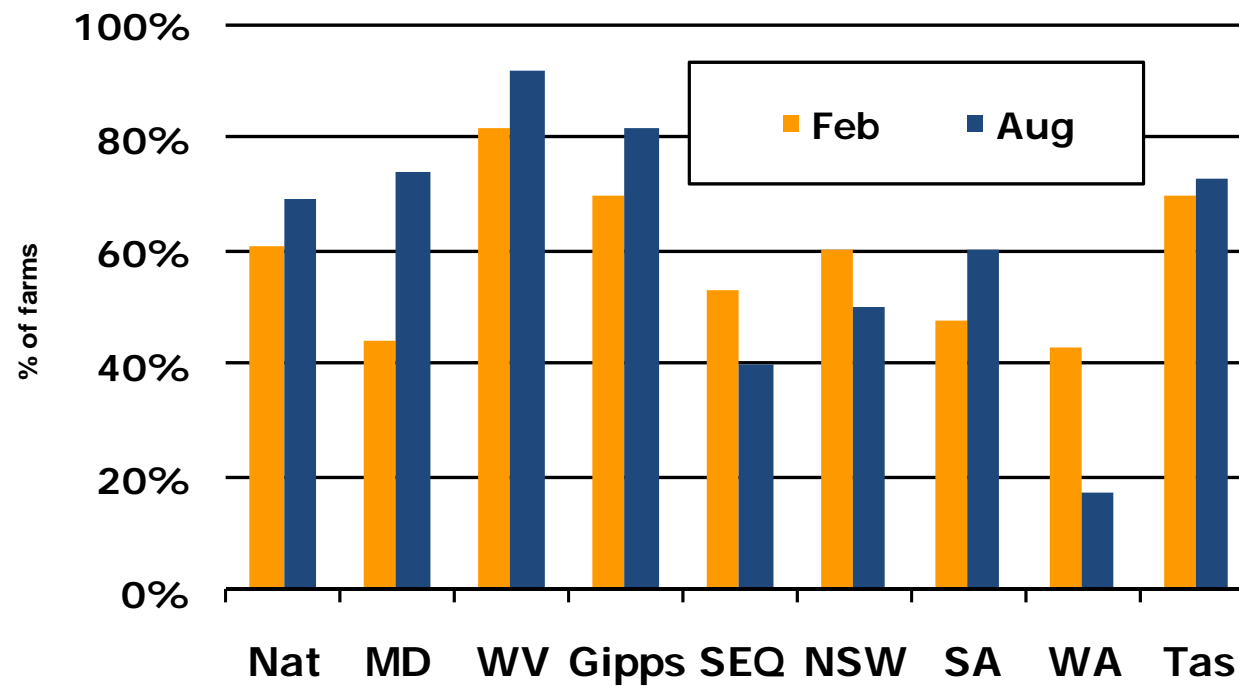
...but significant regional differences

Positive attitude to future of national industry



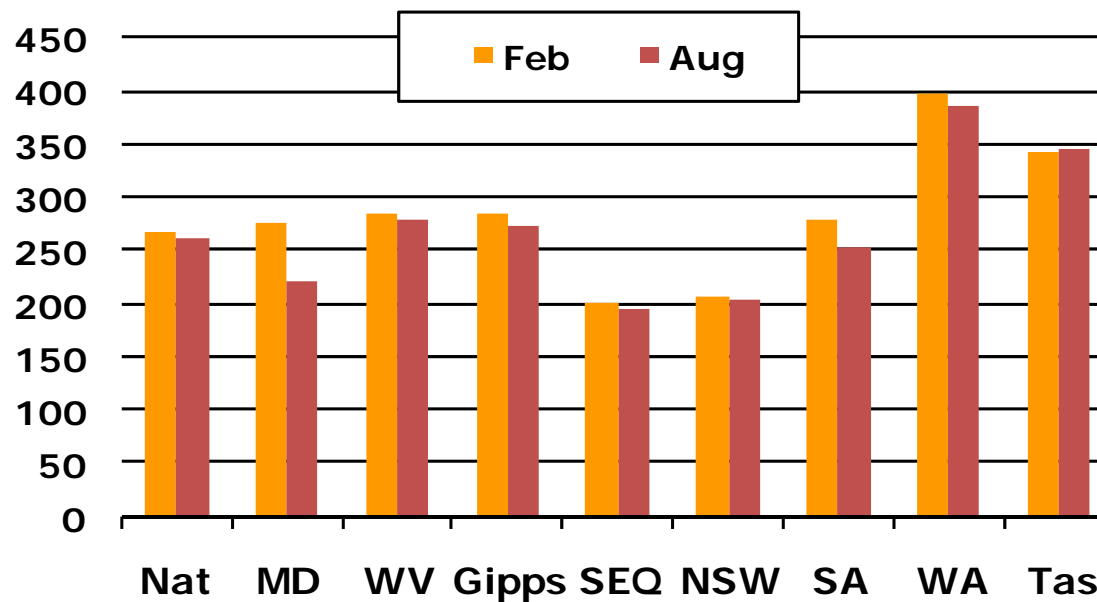
...but significant regional differences

Confidence in local dairy region



Herds are likely to be smaller than planned

Average herd size expected 2010/11



Other survey highlights

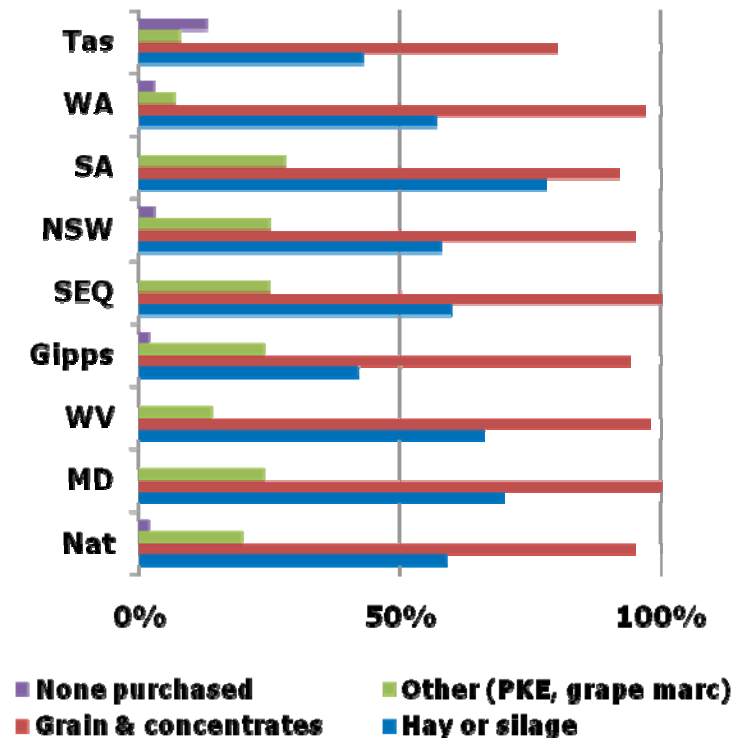
Exposure to grain market volatility

- Proportion of ration purchased
 - 33% in 2009/10 plan for 30% in 2010/11
 - 46% down to 32% in Murray Dairy region
- 82% buy as required
 - 92% in Gippsland
 - 66% in WA
- 8% of expected requirements secured

Challenges for coming 6 months

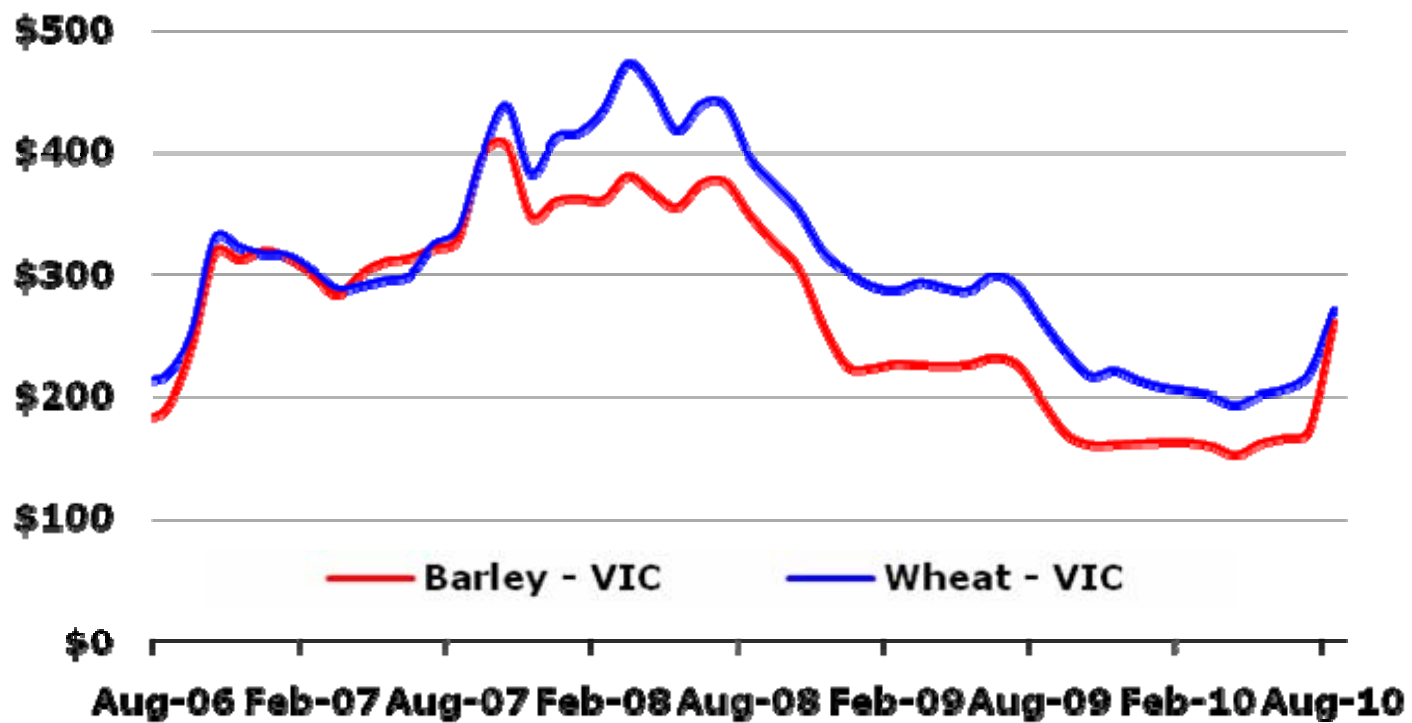
- Milk price for 25% of farmers
 - 52% in Qld
- Grain and hay costs for 16% of farmers
 - 30% in WA and 26% in Gippsland

Feed purchases – last 12 mths



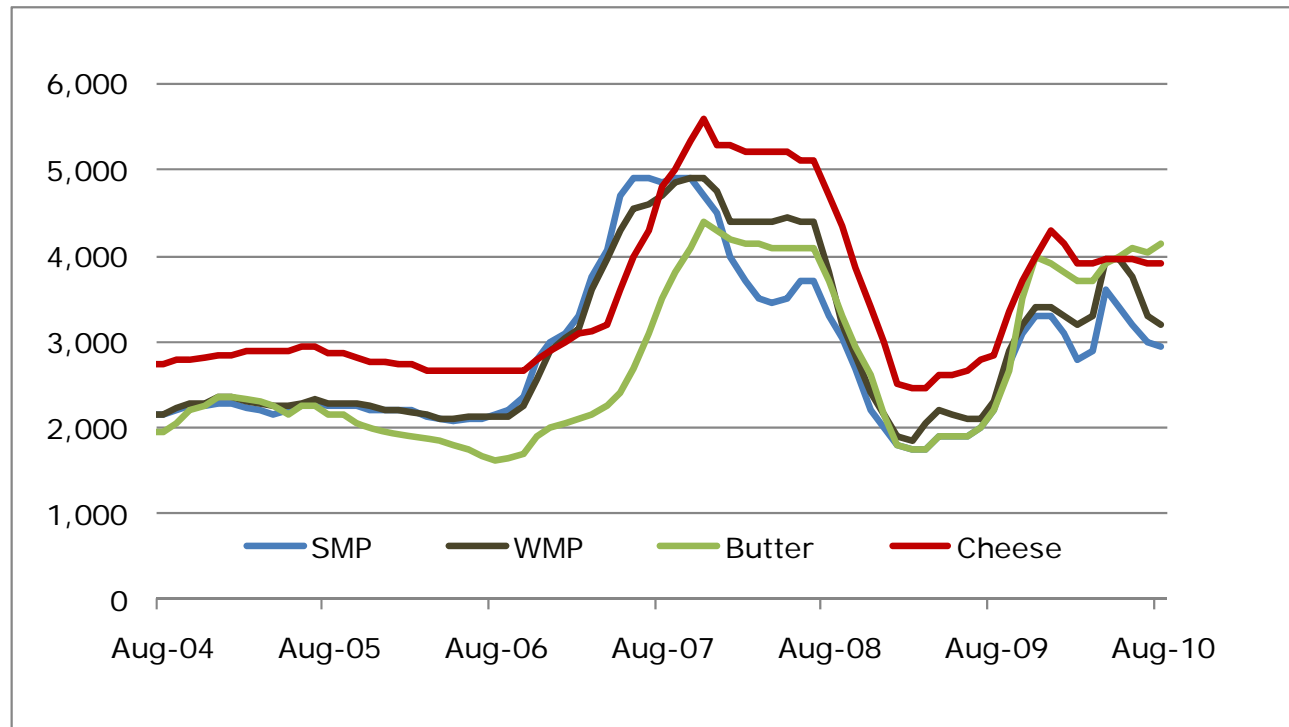
Rising grain prices

Average feedgrain prices (A\$/t)



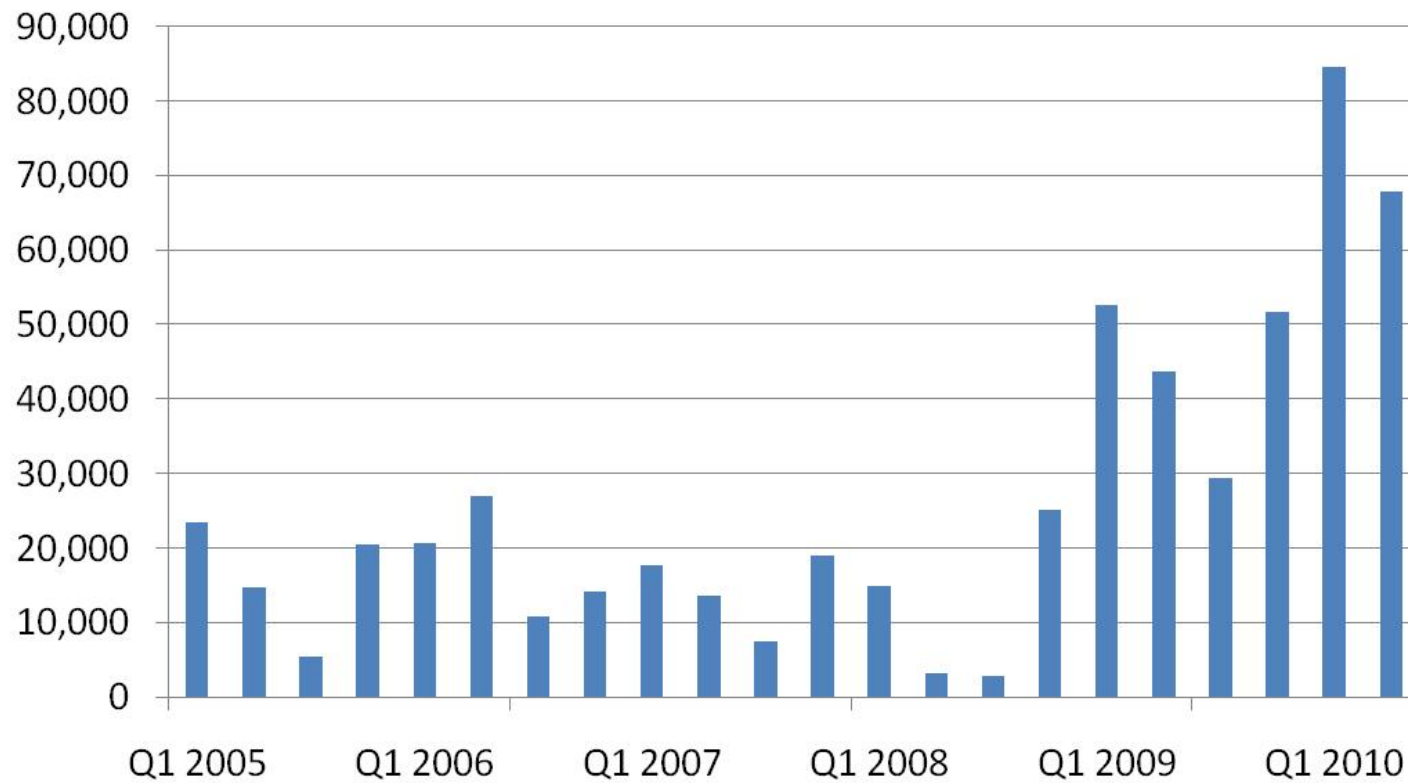
Ongoing price volatility

Spot commodity prices (USD/t)



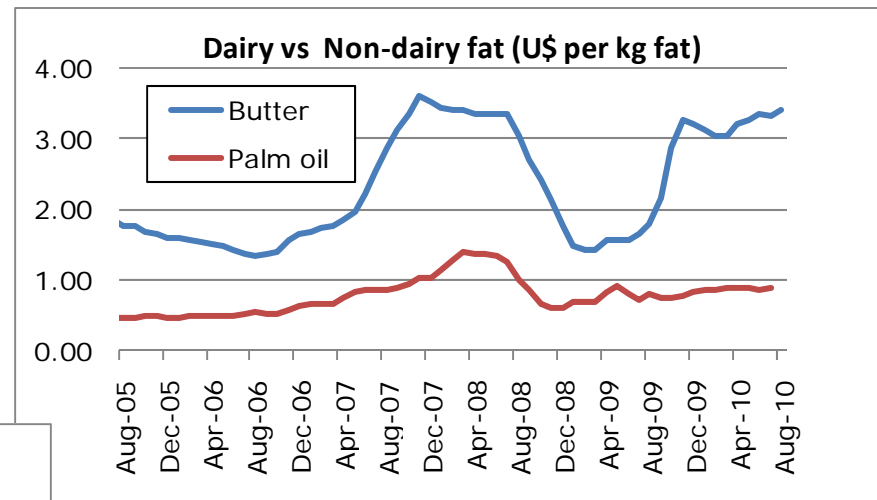
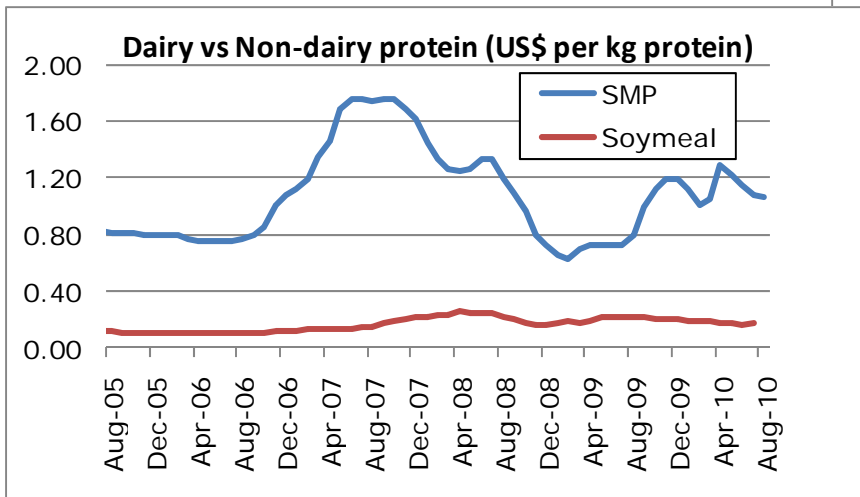
Global demand still firm

China WMP imports (tonnes)



Global demand

Competitor prices

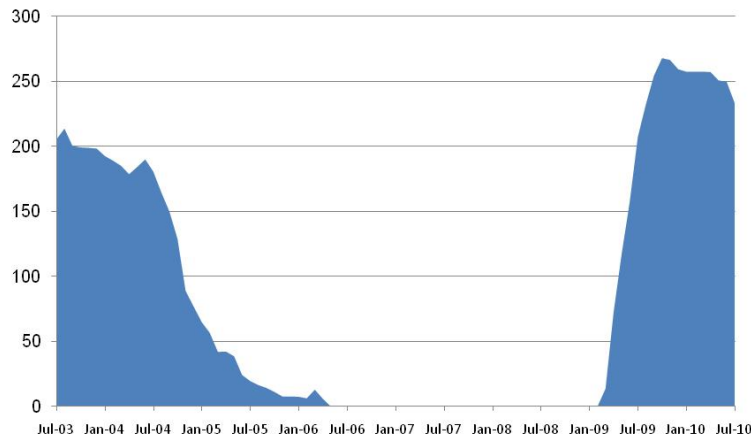


Global supply

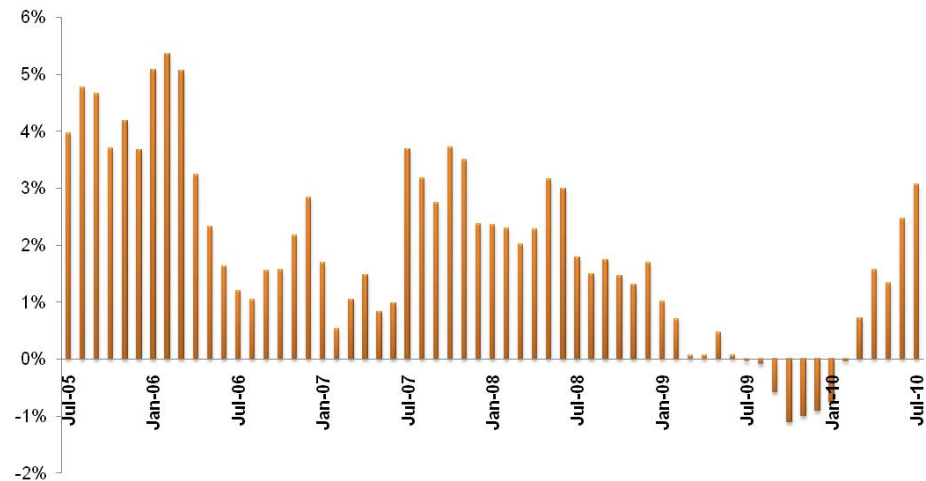
More milk than expected in May

- NZ growth 4-8%
- US faster expansion
- Australia up 1-2%
- Limited increase in Latin America exports
- EU govt stock releases – no price impact to date

EU SMP Intervention stockpile (000 tonnes)

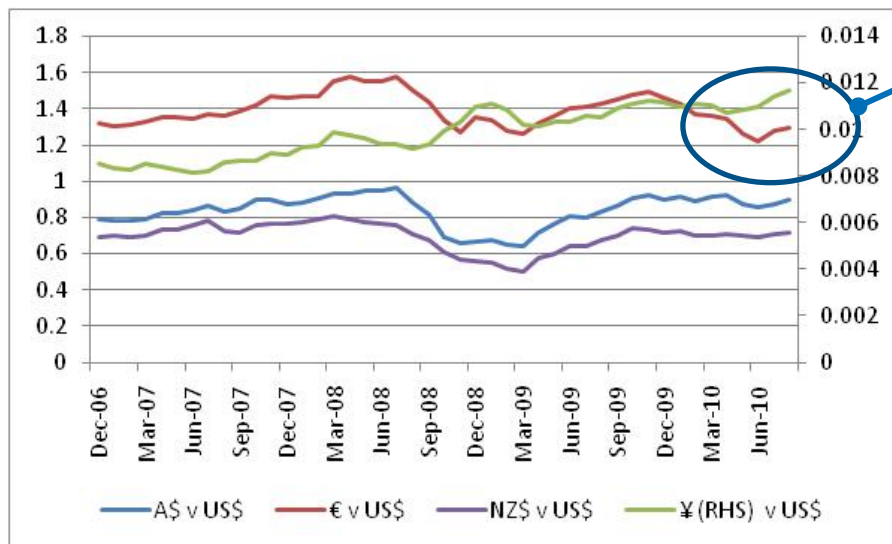


US monthly change in milk production



Currencies and market volatility...

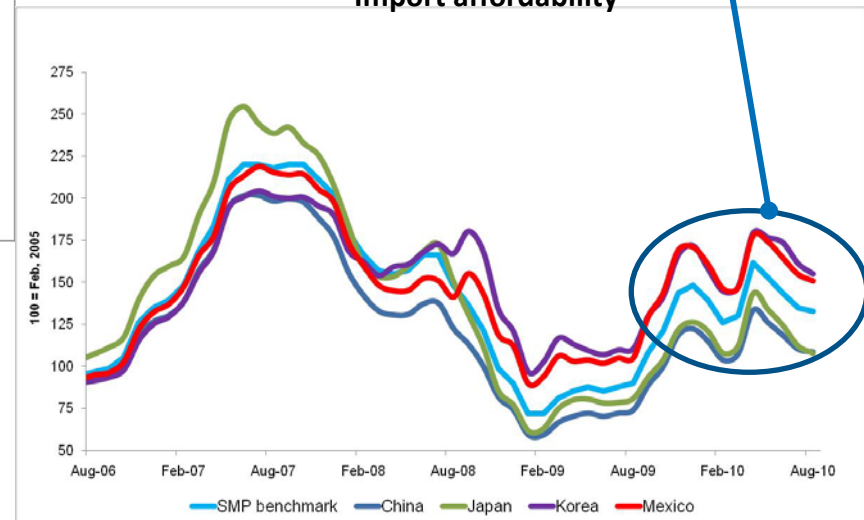
Exchange rate vs USD



Weaker Euro increasing EU competitiveness

Stronger Chinese and Japan currencies improving affordability of imports

Import affordability



Domestic Market

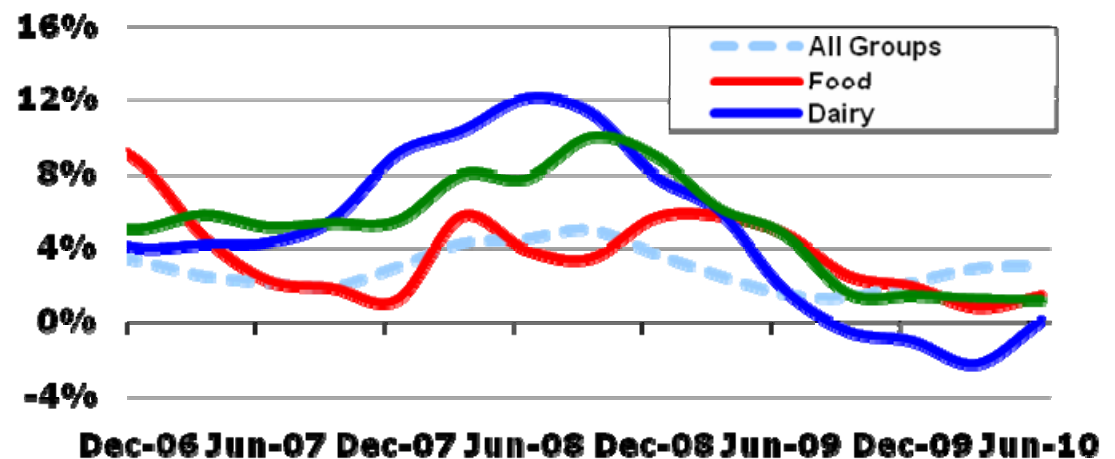
Demand holding up

- food service better than retail (takeaway sales up 11%, cafes 7%)
- overall sales growth flat for cheese butter, but still rising for milk, yogurt.

Households remain cautious – looking for value

Major grocery chains aggressive marketing campaigns – value and price based

CPI average prices (% change on last yr)



Summary

Farm situation and outlook

Farmer confidence has improved, but regional variation

- Direct relationship to price outlook
- May S & O farm gate price forecast remains achievable
- **Southern indicative price \$5.00 to \$5.40 kg MS** for the full year
- Ongoing **market volatility, exchange rates** - caution on step up payments

Milk production forecast for 2010/11

- 9.1 to 9.2 billion litres (**1 to 2%** increase)
- Limited cow and heifer availability
- Lower than expected in-calf rates

Key risks

- Market – Economic conditions, NZ & US milk supply
- Profitability – grain pricing, interest rates, access to tier one market for drinking milk suppliers
- Domestic policy factors

Domestic Policy Debates

New Political dynamic

- New Ministers, new Departments
 - Agriculture, Trade, Regional Development, Environment and Water, Climate Change, Assistant Treasurer
- New House Committees – new parliamentary reviews?
- Greens in Senate
 - new approaches to “old” consensus – e.g. Trade
 - Greenhouse committee - a price on carbon (what conditions/coverage?)

Ongoing reviews/ policy reforms

- Murray Darling Basin Plan
- Productivity Commission review of R&D
- National Foundation Foods review
- Export Certification Taskforce
- Freight Infrastructure charges (port of Melbourne)

Need to reinforce understanding of dairy's position on range of fronts

Questions

Thank You