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Australia

Dairy and Products Annual

2010

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Report Highlights:
Eastern Australia appears to have finally broken the grip of the longest and most severe drought in its recorded history. Improved dairy production conditions in CY 2010 are expected to continue through CY 2011. Post has assumed milk yields will reach record or near record levels on a per cow basis in CY 2011. Total cow numbers are also expected to increase in CY 2011.

Summary:

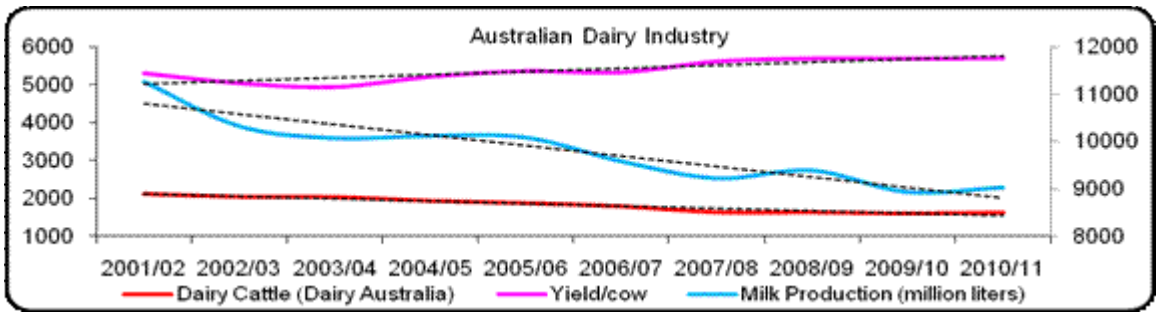
Improved dairy production conditions in CY 2010 are expected to continue through CY 2011. Post has assumed milk yields will reach record or near record levels on a per cow basis in CY 2011. Total cow numbers are also expected to increase in CY 2011 although it will take years to rebuild heard numbers to the levels experienced prior to the commencement of the big drought in CY 2002.

Eastern Australia appears to have finally broken the grip of the longest and most severe drought in its recorded history. The drought, which began in 2002, devastated countless crops and cut livestock numbers and dairy production. Widespread rainfall arrived on Christmas day 2009 and began a period of above-average rainfall which has continued throughout CY 2010 and up until the time of writing this report. At times, rainfall midway through CY 2010 caused flooding and placed constraints on dairy productivity, particularly in Victoria. These conditions remain in stark contrast to the severe drought in Western Australia.

Improved rainfall in CY 2010 greatly boosted prospects for the 2010/11 winter cereal crop (wheat and barley) which are in the process of being harvested. Perhaps more importantly, persistent rainfall at the time of writing this report is likely to cause much of the crop to be downgraded to stock feed, sharply increasing fodder supplies suitable for dairy cattle in the short-term. Furthermore, above-average rainfall has created excellent planting conditions for the 2011/12 summer cropping program (sorghum, cotton and rice) and will likely see above-average yields. Higher yield production of rice and cotton crops in 2011/12, although not fed directly to dairy cattle, will likely increase bi-product supply for dairy feed manufacturers.

The majority of Australia's dairy productive capacity resides in the state of Victoria and much of this relies on irrigated pasture and cropping. The record breaking drought, which began in CY 2002, depleted irrigation water reserves and greatly constrained dairy production. However, above-average rainfall in CY 2010 has significantly boosted irrigation water reserves which should have a prolonged effect on dairy productivity through the remainder of CY 2010 and CY 2011.

Over the longer term, the trend of increasing per cow productivity and average herd size will continue to be partially constrained by decreasing total farm numbers.



Source: ABARE Data

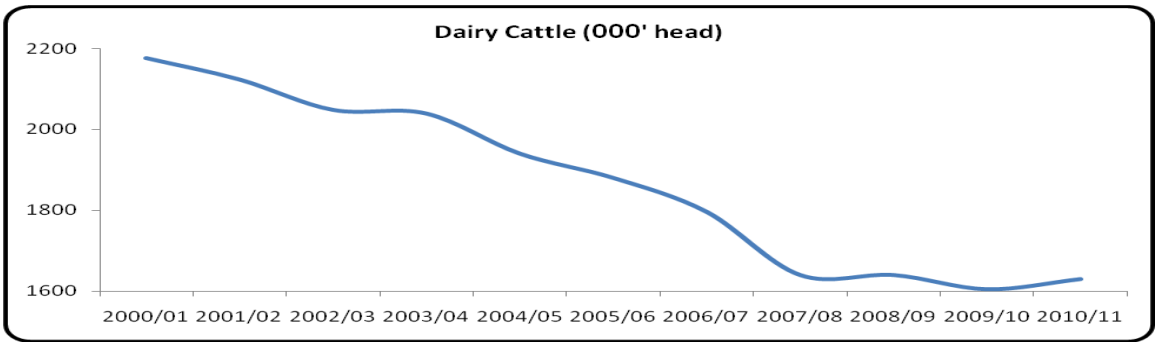
The dairy reporting period has changed to a calendar year format (January to December). Post's previous reports used a split year format (July to June).

Commodities:

Dairy, Milk, Fluid
Dairy, Cheese
Dairy, Butter
Dairy, Dry Whole Milk Powder
Dairy, Milk, Nonfat Dry

Dairy Cow Numbers

Total dairy cow numbers are forecast to increase in CY 2011 to 1.65 million head, up slightly on the 1.63 million head estimated for CY 2010. Improved seasonal conditions are expected to see dairy cow numbers increase albeit at a steady rate. Post anticipates it will take many years for dairy cow numbers to reach the levels recorded prior to the record breaking drought which began in CY 2002.



Source: Dairy Australia Data

Fluid Milk Production

Fluid milk production is forecast to increase 3.1 percent reaching 9,700 TMT in CY 2011. This would roughly equate to just under 10 billion liters of milk using a conversion factor of 1.03 to convert kilograms to liters.

Anticipated improved pasture conditions, improved irrigation water availability and improved fodder supplies will push milk yield per cow to record or near record levels. Cow numbers are also expected to increase somewhat but are likely to remain a secondary factor to milk yield per cow.

A historically high Australian dollar value, which recently rose to levels higher than the US dollar, is expected to constrain prices. However, improved operating conditions at the farm level are expected to see total fluid milk production increase despite pressure on prices due to the high dollar.

The industry believes the longer term will likely offer more opportunity for growth than in recent years. The core objectives of the industry are stated as: increased farm productivity; development of high margin markets; and promotion of Australian dairy products. In terms of projected research expenditure, increased farm productivity is budgeted for 45.3 percent, while developing higher value markets is budgeted at 31.6 percent and promoting Australia's unique benefits is budgeted at 23 percent.

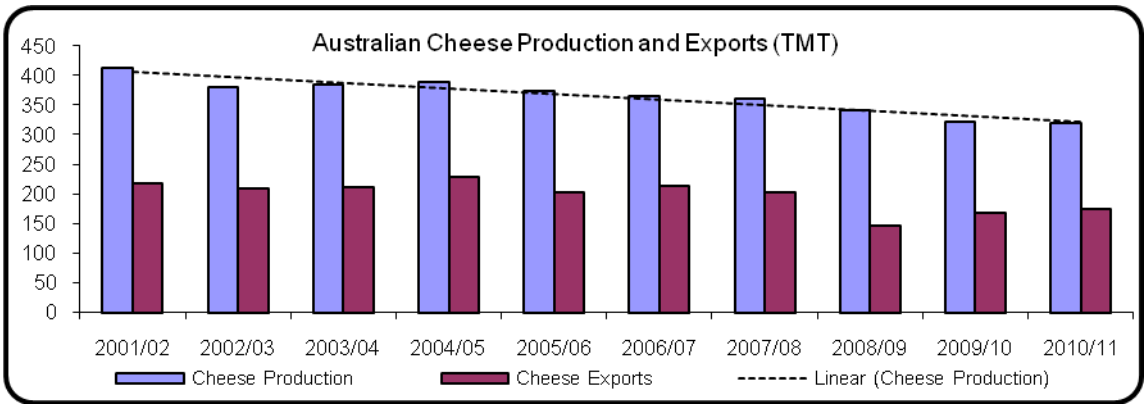
Dairy, Cheese

Cheese production is forecast to increase in CY 2011 to 345 TMT. This increase is roughly in line with the increased supply of fluid milk due to improved seasonal conditions. Increased cheese production is supported by a longer term trend towards cheese production which provides greater value adding opportunities than other dairy commodities.

Should fluid milk supply for CY 2011 surpass Post's expectations, forecast cheese production would likely also be revised upwards.

Domestic cheese consumption is expected to keep growing steadily seeing the importance of cheese production continue to improve compared with other dairy commodities. Demand for imported specialty cheeses is also expected to remain strong, despite improved domestic production in CY 2011.

Total cheese exports are expected to increase to 180 TMT in CY 2011 as domestic production increases. However, strong domestic demand and a high Australia dollar could constrain exports from increasing beyond Post's forecast.



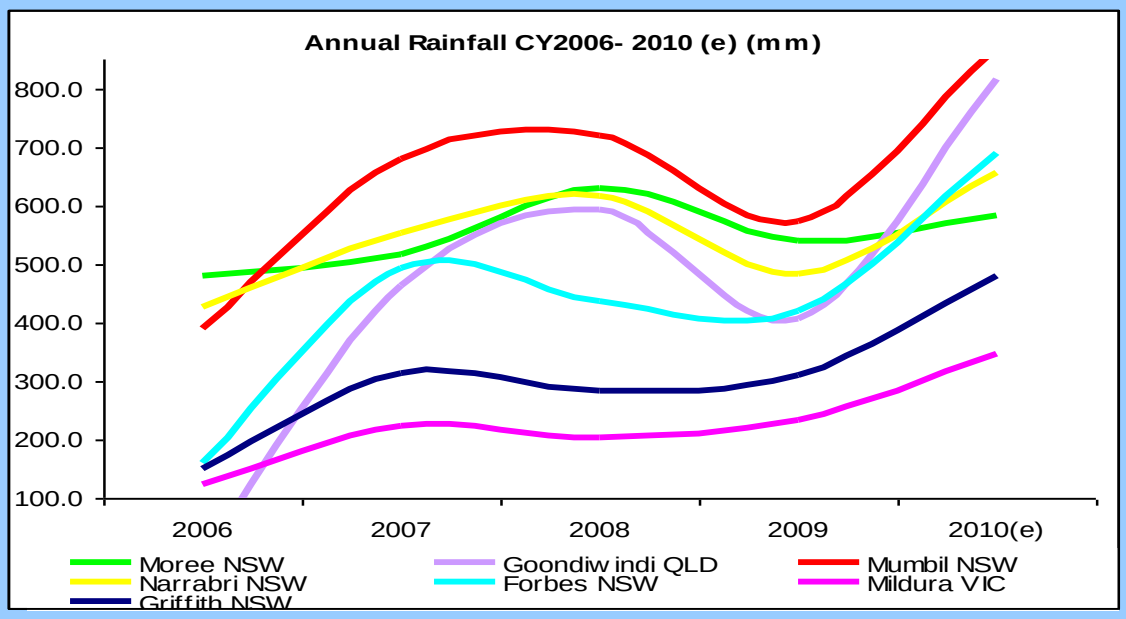
Source: ABARE Data

Cheese production is an important driver of dairy industry value in Australia, with total cheese sales valued at AU$1.7 billion (almost half of the industry total value of AU$4.0 billion). Almost half of Australia's cheese production by value is exported with the remainder being sold domestically. According to Dairy Australia data, cheddar is by far the most popular variety of cheese produced representing around 50 percent of total cheese production. The "fresh" and "stretch" cheese varieties both represent around 20 percent of total production each. All other categories account for the remaining ten percent. However, cheddar's share of production appears to be declining slowly over the longer term. Slower sales growth for cheddar (around one percent per year) compared with higher sales growth for other cheese varieties (around three percent) is the reason for the steady decline in the importance of cheddar production.

Water – Water – Water

Eastern Australia appears to have finally broken the grip of the longest and most severe drought in its recorded history. The drought, which began in 2002/03, devastated countless crops and cut livestock numbers along with dairy production. During this period irrigation water reserves (much of which are used to generate hydro-electricity) were severely depleted. Many experts feared a full recovery from drought may require three consecutive years of above average rainfall.

Widespread rainfall finally arrived on Christmas day 2009 and began a period of above average falls which, on a monthly basis, has continued up until the time of writing this report. Far western New South Wales (NSW) was the first region to experience flooding, while more recently, south eastern NSW has been flooded. In the most extreme cases, towns have been flooded and water storages, albeit minor ones, have been breached. Both the Lachlan and Murrumbidgee Rivers have suffered localized flooding as have the upper reaches of the Murray River.

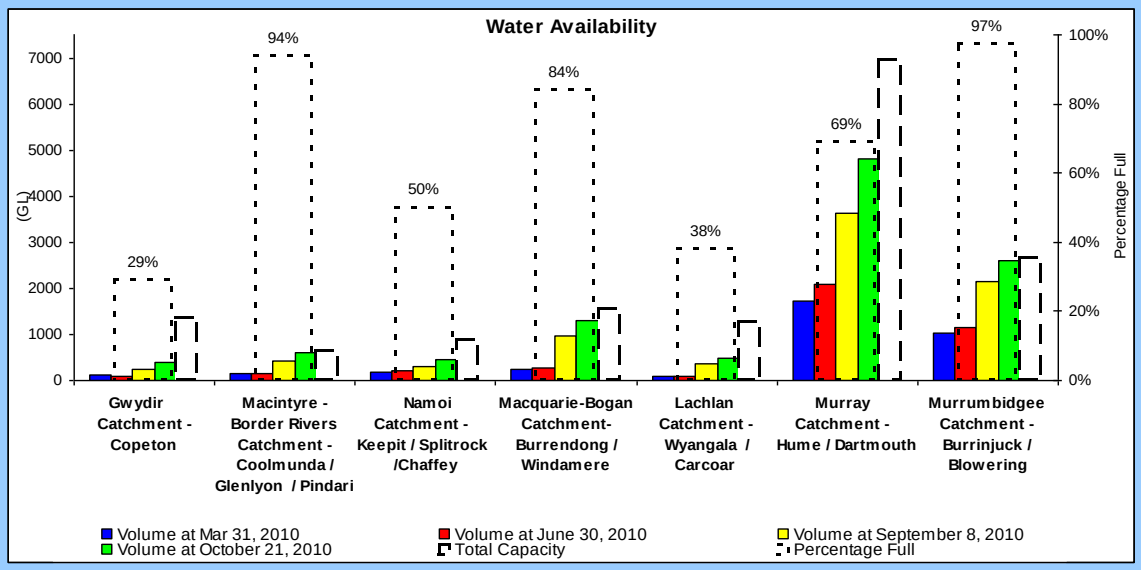


Source: *Murray-Darling Basin Authority (MDBA) data - (e) Estimate for 2010*

According to the Australian Bureau of Meteorology, September 2010 was the wettest September since 1998 for the Murray-Darling Basin, an area which includes most of Australia's agricultural production. September 2010 was also the wettest September since 2005 for the state of NSW and the coolest month since September 1998.

Wet and cool conditions in eastern Australia in September 2010 confirmed suspicions of excellent winter crops (wheat, barley, canola and pulses) in the states of NSW, Victoria and Queensland. Rainfall arrived in time for grain fill and prior to the traditional hotter weather which can occur from October onwards.

Wet and cool conditions, particularly in south eastern NSW and eastern Victoria, also created large volumes of water runoff in the catchment areas where public water storages were depleted. This has dramatically reversed the fortunes of commodities such as rice, cotton and key areas for dairy, which rely heavily on stored water for production. The graph below shows water volumes in key storage areas increasing over time. Some water storages are nearing maximum capacity while others continue to remain at levels below the historic average.



Source: MDBA data

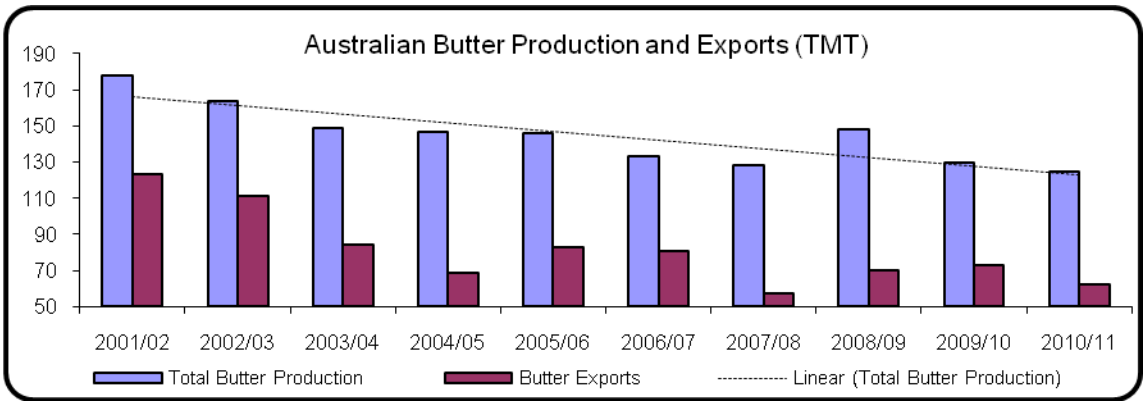
Recent sharp volumetric increases in the Burrenjuck/Blowering and Hume/Dartmouth storage systems are driving the increase in rice and dairy production forecasts. Increases in the Coolmunda/Glenlyon/Pindari systems are also driving increases in cotton production forecasts. The Wyangala/Carcoar and Copeton systems are recovering at a slower pace and should constrain cotton production forecasts from exceeding revised forecasts.

Drought in Western Australia

While rainfall and temperatures for 2010 to date have been greatly improved in eastern Australia, Western Australia has plunged further into drought. Greatly reduced rainfall and hotter than average temperatures have lead the Western Australian Department of Agriculture to announce conditions just short of "catastrophic". The record dry spell is reported to be affecting huge tracts of the southern wheat belt. Grain production forecasts for this state have been slashed. The state elevator and grain trader "CBH" has announced that it will only open around one half of its grain handling sites for the upcoming harvest. Western Australia produces less than five percent of Australia's fluid milk.

Dairy, Butter

Total butter production is forecast to increase three percent in CY 2011 to 113 TMT. This increase is in line with the forecast increase in fluid milk production. It is anticipated that over the longer term butter production will continue to decline in line with the long-term trend.



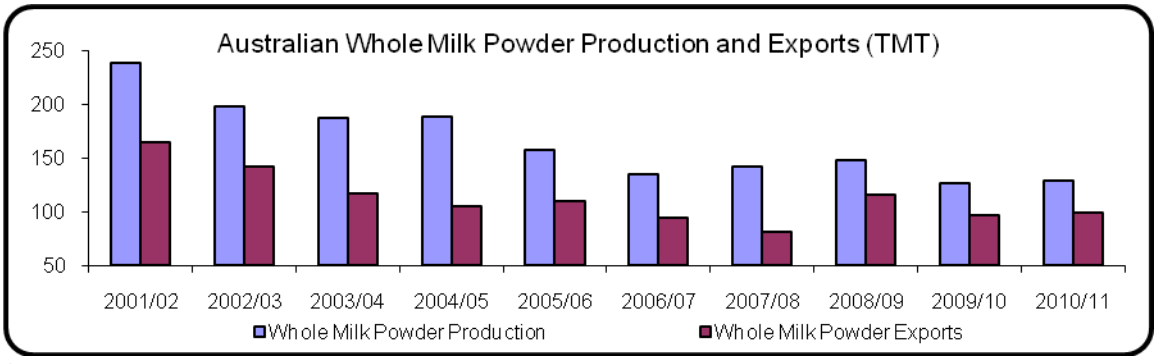
Source: ABARE Data

Total butter exports for CY 2011 are forecast to increase to 72 TMT. This represents around a nine percent increase on the estimate for CY 2010 and is expected to be driven by an increase in fluid milk supply combined with improved export demand. ABARE has forecast butter prices to increase by around six percent, the largest increase across all dairy commodities. Reduced supply from the EU and increased demand in Russia and India are expected to strengthen prices in CY 2011.

Despite this increase, this forecast represents a return to levels more reflective of the longer term average.

Dairy, Whole Milk Powder

Total whole milk powder production for CY 2011 is forecast to remain unchanged at 100 TMT. ABARE has forecast export demand to ease going forward following strong demand in CY 2009 and into CY 2010.



Source: ABARE Data

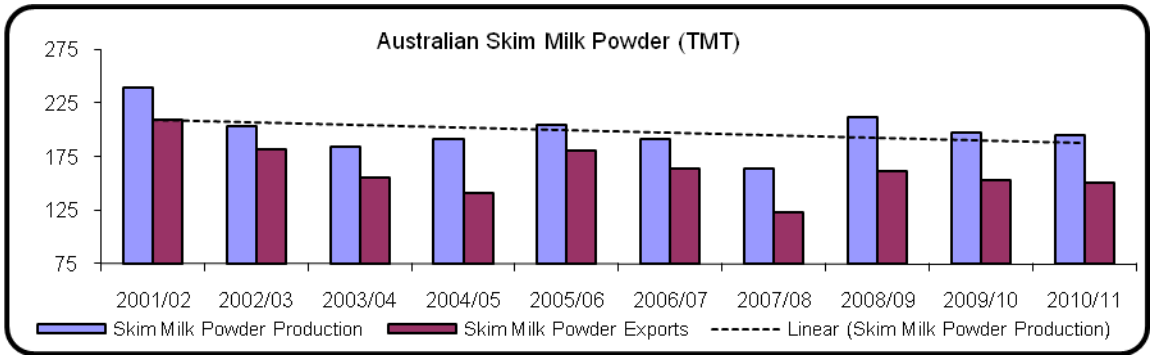
Total exports of whole milk powder in CY 2011 are forecast to decline slightly due to slightly weaker export demand. Exports of whole milk powder are expected to revert to the long-term trend following unusually high export demand in recent years which was driven by sharply

increased demand from China. According to ABARE reports, trading conditions in China have now reverted to the long-term average.

Dairy, Nonfat Dry – Skim Milk Powder

Total production of skim milk powder production for CY 2011 is forecast to increase to 206 TMT, in line with increased production of fluid milk.

Total exports for CY 2011, are expected to bounce back to 160 TMT following the disappointing 125 TMT exported in CY 2009. Despite a significant increase, this forecast remains below the 167 TMT achieved in CY 2010. Export demand for skim milk powder reportedly eased somewhat in CY 2010, however, Post expects demand to be adequate for exports to increase in CY 2011.



Source: ABARE Data

Production, Supply and Demand Data Statistics:

Dairy, Milk, Fluid Australia	2009		2010		2011	
	Market Year Begin: Jan 2009		Market Year Begin: Jan 2010		Market Year Begin: Jan 2011	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Cows In Milk	1,676	1,676	1,600	1,630		1,650
Cows Milk Production	9,670	9,326	9,200	9,400		9,700
Other Milk Production	0		0	0		0
Total Production	9,670	9,326	9,200	9,400		9,700
Other Imports	7	7	7	10		11
Total Imports	7	7	7	10		11
Total Supply	9,677	9,333	9,207	9,410		9,711
Other Exports	60	74	70	76		78
Total Exports	60	74	70	76		78
Fluid Use Dom. Consum.	2,312	2,272	2,350	2,300		2,350
Factory Use Consum.	7,305	6,987	6,787	7,034		7,283
Feed Use Dom. Consum.	0		0			
Total Dom. Consumption	9,617	9,259	9,137	9,334		9,633
Total Distribution	9,677	9,333	9,207	9,410		9,711
CY Imp. From U.S	0		0	0		0
CY Exp. To U.S	0	0	0	0		0
1000 HEAD, 1000 MT						

Dairy, Cheese Australia	2009		2010		2011	
	Market Year Begin: Jan 2009		Market Year Begin: Jan 2010		Market Year Begin: Jan 2011	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Beginning Stocks	15	15	40	19		31
Production	325	321	320	335		345
Other Imports	60	65	50	67		65
Total Imports	60	65	50	67		65
Total Supply	400	401	410	421		441
Other Exports	140	162	165	165		180
Total Exports	140	162	165	165		180
Human Dom. Consumption	220	220	225	225		230
Other Use, Losses	0	0	0	0		
Total Dom. Consumption	220	220	225	225		230
Total Use	360	382	390	390		410
Ending Stocks	40	19	20	31		31
Total Distribution	400	401	410	421		441
CY Imp. From U.S	7	0	6	0		6
CY. Exp. To U.S	5	0	4	0		4
1000 MT						

Dairy, Butter Australia	2009		2010		2011	
	Market Year Begin: Jan 2009		Market Year Begin: Jan 2010		Market Year Begin: Jan 2011	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Beginning Stocks	13	13	20	6		8
Production	132	118	114	110		113
Other Imports	14	18	16	19		20
Total Imports	14	18	16	19		20
Total Supply	159	149	150	135		141
Other Exports	71	83	70	66		72
Total Exports	71	83	70	66		72
Domestic Consumption	68	60	70	61		62
Total Use	139	143	140	127		134
Ending Stocks	20	6	10	8		7
Total Distribution	159	149	150	135		141
CY Imp. To U.S	0	0	0	0		0
CY Exp to U.S	4	4	4	4		4
1000 MT						

Dairy, Dry Whole Milk Powder Australia	2009		2010		2011	
	Market Year Begin: Jan 2009		Market Year Begin: Jan 2010		Market Year Begin: Jan 2011	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Beginning Stocks	40	40	16	60		51
Production	148	137	130	100		100
Other Imports	14	15	15	15		15
Total Imports	14	15	15	15		15
Total Supply	202	192	161	175		166
Other Exports	158	104	115	95		90
Total Exports	158	104	115	95		90
Human Dom. Consumption	28	28	29	29		30
Other Use, Losses	0	0	0	0		0
Total Dom. Consumption	28	28	29	29		30
Total Use	186	132	144	124		120
Ending Stocks	16	60	17	51		46
Total Distribution	202	192	161	175		166
CY Imp. From U.S.	1	0	0	1		1
CY Exp. To U.S.	1	0	0	1		1
1000 MT						

Dairy, Milk, Nonfat Dry Australia	2009		2010		2011	
	Market Year Begin: Jan 2009		Market Year Begin: Jan 2010		Market Year Begin: Jan 2011	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Beginning Stocks	42	42	61	32		60
Production	227	203	170	200		206
Other Imports	4	4	4	4		4
Total Imports	4	4	4	4		4
Total Supply	273	249	235	236		270
Other Exports	162	167	125	125		160
Total Exports	162	167	125	125		160
Human Dom. Consumption	50	50	51	51		52
Other Use, Losses	0	0	0			
Total Dom. Consumption	50	50	51	51		52
Total Use	212	217	176	176		212
Ending Stocks	61	32	59	60		58
Total Distribution	273	249	235	236		270
CY Imp. From U.S.	0	0	0	0		0
CY Exp. To U.S.	0	0	0	0		0
1000 MT						

Recent Reports from FAS/Canberra

The reports listed below can all be downloaded from the FAS website at: http://www.fas.usda.gov/scriptsw/AttacheRep/default.asp.

Title of Report	Date
Grain and Feed Lock-Up – November 2010	10/28/10
Ag DownUnder – Issue 6 2010	10/15/10
Sugar Semi Annual 2010	09/29/10