

## Fonterra Using Every 'Drop' of Milk as Prices Reach Year High

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By Gavin Evans

Fonterra Cooperative Group Ltd., the world's largest dairy exporter, is using "every available drop" of milk to meet orders as a recovery in demand lifted prices to a one-year high.

Whole milk powder prices jumped 25 percent to \$2,872 a metric ton, the highest since September last year, at Fonterra's monthly auction. Resurgent demand, reduced production in the U.S. and "tight" supplies in Australia and New Zealand all contributed to the bigger-than-expected jump in prices, the Auckland-based company said.

"We are utilizing every available drop of milk to meet our orders for the next quarter," Kelvin Wickham, managing director of Fonterra's global trade unit, said in a telephone interview today. The market "is more balanced but it's not nirvana all of a sudden."

Fonterra accounts for about 40 percent of the global trade in butter, milk powder and cheese. Milk powder prices slumped to a five-year low in July as consumer spending slowed faster than producers could reduce output and the U.S. and Europe offered subsidies to help their farmers export surplus product.

If current prices can be sustained, policy makers will be under pressure to end the subsidies that have already created "significant" butter and skim milk stockpiles, Wickham said.

"At these sorts of price levels for whole milk powder, and the correlating equivalent for other products, there is no need for export subsidies or intervention policies," he said. "Then the inventory has to clear."

The U.S. resumed dairy export subsidies in May. The European Union, which restored price assistance in January and extended them again in July, expects to spend about 600 million euros (\$858 million) on dairy support this year, Agriculture Commissioner Mariann Fischer Boel said yesterday. Prices are stabilizing, she said.

Yesterday's price-gain followed a 25 percent jump at Fonterra's previous auction in August.

While prices had reached unsustainable levels, the pace of gains the past two months was unexpected and shows markets are likely to remain volatile, Wickham said.

Production cuts in the U.S., drought in India and parts of Asia and a slow, cold start to the new season in New Zealand may all be contributing to a sentiment-driven rally, he said.

"There was much higher demand than we saw even at the previous event," he said. "There were more parties participating and clearly they felt comfortable buying up to these sorts of price levels."

U.S. dairy cooperatives plan to send 86,710 cows to slaughterhouses to help support prices, the Arlington, Virginia-based National Milk Producers Federation said Aug. 5. It is the third cull in nine months. U.S. milk production this year may decline 1.3 percent from 2008, the Department of Agriculture said July 10.

Fonterra began Internet-based auctions in July 2008. It offers a one-month contract with delivery starting two months after the sale, and two three-month contracts with delivery starting three and six months later.

Milk powder for delivery December through February climbed 23 percent to \$2,847 a ton in last night's sale, Fonterra said. Powder for shipment from March through May sold at \$2,861 a ton, a gain of 25 percent. Average prices across all contracts rose 24 percent to \$2,858.