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### Dairy Week

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### Editorial – Fonterra Auction Price Jumps 24%

The big news this week was the extraordinary increase seen in the average price for whole milk powder (“WMP”) at Fonterra’s latest *globalDairyTrade* event held on 2 September. The average price achieved across all contracts and contract periods for WMP was US\$2,858 per tonne FAS, up 24.2% or US\$557 per tonne on the month prior. Kelvin Wickham, Managing Director, Fonterra Global Trade, said the lift was higher than expected. “However, we anticipated whole milk powder prices would lead the recovery because of low global inventories and firming demand. With demand returning, our customers have more confidence in refilling their supply chains. But it remains to be seen whether demand has returned to sustainable growth.” In other news, Aussie dairy company, the Warrnambool Cheese and Butter Factory (“WCB”) has recorded a net operating loss after tax of AU\$19.9 million for 2009. WCB’s CEO and Managing Director, John McLean said the result was “very disappointing.” Meanwhile, fellow Australian company, Murray Goulburn had more positive news, announcing the first step-up of the season. The co-operative increased its milk price by AU\$0.17/kg protein and AU\$0.07/kg butterfat. Managing Director, Stephen O’Rourke said Murray Goulburn anticipates “further improvement in market conditions in the second half of this financial year” and is dedicated to improving farmgate returns.

### Dairy Market Review

4 September 2009

*NZX Agrifax*

*USD per tonne*

	04-09-09	28-08-09	21-08-09	14-08-09	07-08-09	05-09-08
Butter	2350	2150	2075	2000	2000	3650
Skim Milk Powder	2400	2200	2200	2075	2000	3000
Whole Milk Powder	2900	2300	2250	2225	2225	3200
Cheddar Cheese	2900	2875	2800	2700	2650	4500
Casein	6250	6000	5700	5500	5500	10500

*NZX Agrifax Commentary:* WMP bounded a phenomenal US\$600/tonne this week to US\$2,900/tonne. The 26% jump in WMP is the largest percentage movement for a single dairy commodity in one week recorded by NZX Agrifax in its 18 years of data collection. The US\$2,900/tonne is marginally above the Fonterra gDT auction result of US\$2,872/tonne for the near spot contract price held on Tuesday, as prices continued to strengthen through the remainder of the week. Feeding off the gDT auction, other dairy commodities have been pushed upward. NZX Agrifax received some of the widest price ranges ever recorded for butter and skimmilk powder this week. The net result was both commodities moving up 9% to US\$2,350/tonne and US\$2,400/tonne respectively. Casein and Anhydrous milkfat gained 4% to US\$6,250/tonne and US\$2,700/tonne respectively. Cheddar posted the smallest rise, climbing just US\$25/tonne to US\$2,900/tonne.



## Dairy Companies

### **Dairy Crash Causes AU\$20 Million Loss for WCB**

*Australian Food News*/James Ferre 31 August 2009

Warrnambool Cheese and Butter Factory Holdings Limited (“WCB”) has recorded a net operating loss after tax of AU\$19.9 million for 2009, reports *Australian Food News*. Revenue dropped 16% to AU\$441 million although total milk intake increased 8% to a record 922 million litres over the year. Sales volumes also increased, up 16% on 2008 figures, however the “unprecedented downturn” in the dairy industry caused the overall loss, reports *Australian Food News*. WCB’s CEO and Managing Director, John McLean said: “This is a very disappointing result. After a period of excellent commodity price growth, the global financial crisis and economic downturn prompted a collapse in international dairy commodity prices.”

Full story:

<http://www.ausfoodnews.com.au/2009/08/31/20m-loss-sums-up-turbulent-year-for-wcb.html>

**However:**

*The Australian*/Blair Speedy 1 September 2009

Mr McLean was optimistic about the future of WCB, reports *The Australian*. “Despite the disappointing 2009 year, WCB is in a good physical shape to take advantage of improved international commodity prices as world economies recover,” he said. “Market diversification, a premier milk production region and a strong underlying business will allow WCB to trade through this difficult period and provide positive returns to stakeholders.”

Full story:

[http://www.theaustralian.news.com.au/business/story/0,,26008212-5018010.00.html?from=public\\_rss](http://www.theaustralian.news.com.au/business/story/0,,26008212-5018010.00.html?from=public_rss)

Full WCB report available at:

<http://www.asx.com.au/asx/research/companyInfo.do?by=asxCode&asxCode=WCB#headlines>

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### **Dairy Farmers of America Pays Members US\$7.6 Million**

*Dairy Farmers of America Release* 26 August 2009

Recognising the continued financial burden its members are experiencing, Dairy Farmers of America, Inc.’s (“DFA”) Board of Directors has issued the balance of 2008 patronage payments several weeks ahead of schedule. More than 12,000 members who marketed their milk through DFA in 2008 will receive cash payments equal to 2 cents per hundredweight, for a total of US\$7.6 million. Combined with the payment issued in April, DFA members received a total of US\$19 million (a combined 5 cents per hundredweight) in patronage payments for 2008. An additional US\$9.5 million was distributed to members in July, which was paid from 2009 earnings. “Our members continue to experience unprecedented stress as a result of the current economic climate,” said Tom Croner, DFA Board treasurer and chair of the Board’s Finance and Budget Committee. “By issuing patronage checks early and in cash, we hope to send a clear message to these hardworking dairy men and women that we are deeply committed to identifying options that deliver short-term relief, while we explore long-term solutions that will prevent a crisis of this proportion from occurring again.”

Full release:

[http://www.dfamilk.com/newsroom/pr/090827\\_patronage.htm](http://www.dfamilk.com/newsroom/pr/090827_patronage.htm)

### Murray Goulburn Steps Up

*Agra Informa Limited* 28 August 2009

Australian based manufacturer Murray Goulburn has announced a milk price step up of AU\$0.17/kg protein and AU\$0.07/kg butterfat, reports *Agra Informa Limited*. In July this year the company told its suppliers it would pay AU\$0.26 per litre of milk in the 2009/10 season, explaining that the conservative opening price was a result of volatile market conditions. The price increase is the first this season for any company. Murray Goulburn Managing Director, Stephen O'Rourke said: "We anticipate further improvement in market conditions in the second half of this financial year, which ends June 30, 2010... We remain positive about future demand for dairy products, and despite tough market and seasonal conditions, Murray Goulburn has embarked on additional strategies to improve farmgate returns," reports *Agra Informa limited*.

Full story:

<http://www.agra-net.com/dairy>

### YoCream Unconcerned by Slowing Sales Growth

*YoCream Release* 27 August 2009

US dessert, frozen yoghurt and beverage manufacturer, YOCREAM International, Inc. ("YoCream") has announced its results for the nine months ended 31 July 2009. In summary:

	2009	2008	% Increase
Sales	US\$37,224,000	US\$29,631,000	25.6%
Income from Operations	US\$8,229,000	US\$5,100,000	61.4%
Net Income	US\$4,502,000	US\$2,934,000	53.4%
Earnings per Share	US\$1.82	US\$1.27	43.3%

Sales for the third quarter ended 31 July 2009 increased 5.3% to US\$15,955,000, representing the thirteenth consecutive quarter of sales growth. Sales for the nine months increased 25.6% to US\$37,224,000 when compared to the same period of 2008. "The single digit growth rate in the third quarter is not a negative," stated Tyler Bargas, Director of Sales. "The third quarter merely saw us catch up with last year's roll out of smoothie sales to a major national account. In fact, sales of our core frozen yoghurt products are up 66% in the third quarter. We continue to work with large national accounts. Four more are in test with different products right now. So we expect steady growth ahead for our core products as well as surges in sales should the national accounts approve the products in test."

"New frozen yoghurt stores, both independent and chains, continue to open at an accelerated pace throughout the nation," said Suzanne Gardner, Director of Marketing. "This is not a short term bubble of growth in the popularity of frozen yoghurt. Consumer understanding of the health benefits of probiotics and the enjoyment of the yoghurt experience has resulted in a long term shift toward frozen yoghurt with live and active cultures as a preferred frozen dessert."

When asked about capacity to respond to additional surges in sales to large national accounts, Senior Director Matt Hanna reported that YoCream will complete US\$4 million in FY '09 plant infrastructure capital expansion. This will effectively double the capacity to pasteurize, culture and package frozen yoghurt mix. "We can now run in one shift what was taking us two shifts to produce," he stated. "We believe significant growth is coming and we are prepared to support our core business and new customers."

Full release:

<http://www.yocream.com/releases.php>

## **Declining Demand Hits FrieslandCampina**

*Reuters* 1 September 2009

Dutch dairy company FrieslandCampina has announced a fall in first-half sales for 2009 of 15%, down to €4.1 billion (US\$5.9 billion) due to “sluggish” demand, reports *Reuters*. The co-operative “does not expect any key changes in the economy in the second half of 2009” predicting that the “market will remain challenging.” Analysts agree, questioning whether first half price cuts that helped push up sales volumes of one of FrieslandCampina’s key competitors – Danone, would be sustainable. FrieslandCampina said: “Supermarkets in Europe are again starting to focus on price competition, which is causing more and more pressure on selling prices of dairy products in the supermarket segment.” The co-operative’s first-half net profit increased 30% to €78 million largely due to “lower interest payments and an increase of profits from associates,” reports *Reuters*.

Full story:

<http://www.reuters.com/article/rbssConsumerGoodsAndRetailNews/idUSL15241220090901>

Full FrieslandCampina Release:

<http://www.en.frieslandcampina.com/news%20and%20press/news/press%20releases/2009%2008%2031%20frieslandcampina%20h1%202009.aspx>

***Meanwhile:***

*Just-food.com* 1 September 2009

A spokesperson for FrieslandCampina told *Just-food.com* that the company plans to invest heavily in brand building and also cut costs in order to battle declining demand for dairy products. “We have a fairly good promotional budget and we don’t scrimp on that more than is necessary. We will continue to invest in our brands,” the spokesperson said. In terms of cost cutting the spokesperson said: “Since we began operating as a merged company in January we began looking at what is possible. We have taken some cost-control measures, such as combining our purchasing. In the future, we expect to have a better look at the production side.”

Full story:

<http://www.just-food.com/article.aspx?id=107880&amd=7643>

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## **First Milk Strikes Financing Deal**

*First Milk Release* 31 August 2009

First Milk, the UK’s largest dairy farmer co-operative, has completed a £130 million deal with Lloyds TSB Commercial Finance and Barclays Commercial Bank, to refinance its banking facilities. Jim Maguire, First Milk’s finance director commented: “The finance package put together by Barclays and Lloyds provides us with a more flexible approach to our lending and ensures that, as the volumes and price of the milk that we produce grow, the banking facility grows too. Importantly it provides us with an additional £30 million of funding compared with our previous facility, which we will use to develop our business.” The three-year deal was completed on 27 August 2009 and in total covers £130 million of banking facilities.

Full release:

[http://www.firstmilk.co.uk/index.php?option=com\\_content&view=article&id=782:first-milk-completes-p130m-banking-deal&catid=10:news-articles&Itemid=91](http://www.firstmilk.co.uk/index.php?option=com_content&view=article&id=782:first-milk-completes-p130m-banking-deal&catid=10:news-articles&Itemid=91)

## **NZFSU Announces Loss of US\$15.6 Million**

*NZFSU Release 26 August 2009*

NZ Farming Systems Uruguay (“NZFSU”) reported its operating result from farming before mark to market adjustments as a loss of US\$15.6 million for the year ending 30 June 2009, consistent with previous guidance. Chairman, Keith Smith said “it was a very difficult year with falling dairy prices, an international credit crunch and a 30 year drought hard on the heels of previously difficult climatic conditions. The operating environment impacted heavily on the company’s short-term results and overshadowed progress towards long-term goals. The company, however, remains positive on prospects for the business in the medium term,” said Mr Smith. “We believe a number of factors including the positive pasture performance under irrigation, continuing development of the local Uruguayan farming talent and the expectation that dairy prices have bottomed out give us good reason for this confidence.” The success of the recent bond issue, which provided much needed development funding was also a significant development, said Mr Smith. After a bright start in the first quarter, the company experienced a significant deterioration in operating conditions with the drought having dramatic impact on the business. Winter has seen ground moisture levels increase to seasonal norms. With milking stock in good condition the company is well positioned for the spring surge in pasture growth. The company took action to counter the deteriorating conditions, cutting costs where possible, scaling back farm development spend and selectively reducing beef stock numbers to conserve cash and provide a platform to take advantage of the improved climatic conditions once they arrived.

**Financial Performance:** Revenue nearly doubled to US\$15.8 million from US\$7.8 million the previous year. The key driver was milk volume, which more than tripled to 44.6 million litres from 13.4 million litres the previous year. Milk revenue was US\$10.0 million, up from US\$5.0 million the previous year. Livestock physical changes (births and natural growth less losses) contributed US\$6.2 million of non-cash revenue, up from US\$2.6 million the previous year. Farm working expenses rose to US\$22.7 million from US\$12.0 million the previous year, with labour, feed and cropping, and pasture maintenance making up about 70% of the costs. The operating loss prior to mark to market adjustments was a loss of US\$15.6 million, against US\$8.8 million loss the previous year. In addition, this result was impacted by non-cash fair value adjustments including livestock writedowns of US\$20.2 million, (compared with an increase in value of US\$14.3 million in the previous year) and modest writedown in land values meaning that net profit after tax was a loss of US\$45.9 million. Operating cashflow was a loss of US\$22.2 million versus US\$18.8 million the previous year. Increasing milk production is expected to reduce the cashflow deficit in the coming year.

Full release:

<http://www.nzx.com/markets/NZSX/NZS/announcements/2802557/NZS-Trading-Results-Year-End-30-June-2009>

**Meanwhile:**

*Agra Informa Limited 1 September 2009*

Singapore-based Olam International has acquired a 14.35% shareholding in NZFSU, reports *Agra Informa Limited*. Vivek Verma, Olam International’s Managing Director and Group Product Head for coffee and dairy products said: “While Uruguay’s current productivity levels are relatively lower, its climatic conditions are conducive for Kiwi-style intensive pasture management. Success in adopting Kiwi practices in Uruguay would result in a powerful combination of low capital and operating costs with high productivity. Therefore, Uruguay and NZFSU fit well with our stated ambition of participating selectively in the dairy farming value chain segment.”

Full story:

<http://www.agra-net.com/dairy>

### **Goodman Fielder to Develop Dairy "Power Brand"**

*Dairy Globe* 31 August 2009

Australia's largest food manufacturer, Goodman Fielder is looking to geographically and organically build its Meadow Fresh brand, reports *Dairy Globe*. The company's Managing Director, Peter Margin said work in Hong Kong and Singapore was already underway and said Goodman Fielder was "exploring some other regions to aggressively build that business." He said the plan was to build Meadow Fresh into a "power brand" and the company would look to make domestic acquisitions in the dairy and bakery sector in order to do so.

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### **France's Bongrain Fails to Forecast**

*Just-food.com* 1 September 2009

French-based dairy group, Bongrain last week reported a 41.5% drop in net income to €13.2 million for the first half of 2009, while net sales slid 10.3% to €1.58 billion, reports *Just-food.com*. Now the group has warned that it is not in a position to make financial forecasts for full year 2009 because of weak consumer demand and "imbalances in the dairy economy." Bongrain said: "The environment remains marked by imbalances in the dairy economy. World prices for industrial products remain at historically low levels. In Europe, the price paid for milk in France is too high compared to the prices experienced in competing countries. In certain markets particularly affected by the economic crisis, the weakness of consumer demand also has an impact on the group. These factors are a source of uncertainty limiting the ability to make reliable forecasts in respect of 2009 as a whole," reports *Just-food.com*.

Full story:

<http://www.just-food.com/article.aspx?id=107873&amd=7643>

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## **People Movements**

### **New Chairman for Mengniu Dairy**

*Alibaba.com* 31 August 2009

The CEO of China National Oils, Foodstuffs and Cereals Corporation ("COFCO"), Yu Xubo has been appointed as Chairman of the Inner Mongolia subsidiary of Mengniu Dairy Company Limited, reports *Alibaba.com*. He replaces Niu Gensheng who has been transferred to Chairman of the Board of Directors of Mengniu Dairy. Analysts suggest the shuffle shows COFCO's formal entry into Mengniu Dairy as Niu established the company in Inner Mongolia.

Full story:

<http://news.alibaba.com/article/detail/business-in-china/100164372-1-cofco-ceo-becomes-chairman-mengniu.html>

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### **Nominations for Fonterra Elections Open**

*Fonterra Release* 31 August 2009

This year elections are being held for three shareholder-elected Directors for Fonterra's Board of Directors, two members of the Directors' Remuneration Committee, and 14 members of the Shareholders' Council. Fonterra shareholders, or a shareholder of a company, or a member of a partnership or a person having an interest in a body corporate that is a Fonterra shareholder, are eligible to stand for election. Candidates must also be nominated and seconded by Fonterra shareholders.

Full release:

<http://www.fonterra.com/wps/wcm/connect/fonterra.com/fonterra.com/Our+Business/News/>

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## Farmgate Issues

### **US Farm Income Forecast to be Down 38% in 2009**

*Newsroom* 1 September 2009

According to the US Department of Agriculture (“USDA”), US net farm income is forecast to be US\$54.0 billion in 2009, down US\$33.2 billion or 38% from the preliminary estimate of US\$87.2 billion for 2008, reports *Newsroom*. The 2009 forecast is US\$9 billion below the average of US\$63.2 billion in net farm income earned in the previous 10 years. USDA says after reaching record or near record levels in 2008, all three measures of farm sector earnings are forecast to decline in 2009. Net cash income is expected to fall 30% to a level below its previous 10-year average and net value added is expected to fall from a record US\$135.8 billion in 2008, but remain near its 10-year average because the drop in expenditures for purchased inputs offset some of the decline in value of production. Total expenses are forecast to decline for the first time since 2002, with the 2007 and 2008 increases in farm expenses, at US\$34.8 billion and US\$22.5 billion, the largest year-over-year absolute changes on record. Cash receipts for livestock, dairy and poultry are forecast to be US\$119 billion in 2009, down 15.7% from 2008, with declines in sales across all major livestock categories. The US animal sector is projected to account for 41.9% of total agricultural cash receipts in 2009, down from 43.5% in 2008. USDA says soft consumer demand is expected to dramatically reduce milk prices for farmers in 2009. When coupled with reductions in the US dairy herd, dairy cash receipts are projected to be down almost 34% from 2008 levels. It said: “While milk supplies are forecast to remain similar to last year, farm prices for milk are expected to decline significantly for much of the year. A slight price recovery is expected toward the end of 2009 as excess cows are liquidated. Weaker global demand for dairy products, a strengthening US dollar and drought recovery in Australia and New Zealand are expected to stifle export growth in the US dairy sector in 2009,” reports *Newsroom*.

Full story:

[www.newsroom.co.nz](http://www.newsroom.co.nz)

Full report:

<http://www.ers.usda.gov/Briefing/FarmIncome/>

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### **Hefty Fines for NZ Dairy Farmers**

*The New Zealand Farmers Weekly/Richard Rennie* 31 August 2009

Prominent kiwi dairy farming brothers Frank and Allan Crafar and their company Hillside Farms were hit with a NZ\$29,500 fine each in the Hamilton District Court late on Friday for effluent discharge breaches, reports *The New Zealand Farmers Weekly* (“NZFW”). Allan Crafar’s wife Elizabeth also received a lesser NZ\$1,500 fine. In sentencing Judge Laurie Newhook said the brothers had taken “short cuts with the environment” despite being good people of strong moral fibre. The judge expressed his concern at the brothers’ lack of remorse over the offending on the Hamilton property involved, saying they continued to “blame others at least if not more than they are blaming themselves.” The charges related to ongoing and “systemic” failures on the property that resulted in the brothers’ sharemilker on the property lodging a complaint with Environment Waikato (“EW”). EW counsel told the sentencing judge that only after a catalogue of efforts by EW seeking compliance had failed was a decision to charge the Crafars made. The Crafars maintained that the sharemilker had been responsible for management of the farm’s effluent system and delays over fixing the problem had been exacerbated by the sharemilker having an accident and the brothers wanting to ensure he could exit his position smoothly. However Judge Newhook believed the brothers continued to exhibit a “cavalier” approach to running the property and placed their offending in the higher level of penalties, reports *NZFW*.

Full story:

<http://www.nzfarmersweekly.co.nz/article/7894.html>

## Industry Stakeholders

### **Raw Milk Cheeses get the Go Ahead in NZ**

*New Zealand Government Release 2 September 2009*

Kiwi Cheesemakers will be allowed to craft a range of raw or unpasteurised milk products for sale in domestic and international markets under new standards to be introduced in October, says New Zealand Minister for Food Safety Kate Wilkinson. Previously, only a small range of raw milk cheeses have been allowed to be imported into New Zealand, but could not be made there. “This is about levelling the playing field and recognising we have some incredibly passionate cheesemakers in New Zealand who could produce raw milk cheeses to rival the best in Europe,” Ms Wilkinson says. “The changes mean a greater variety of cheeses will be available for food lovers here, while also opening up business opportunities for the dairy industry. It makes sense that our own industry should be able to make the products that we allow to be imported. All raw milk products, made here or brought in, will need to meet the required food safety standards before they can be sold to the public,” she said.

### **New Zealand ETS Rollout Headed for Delay**

*Newsroom/Marie McNicholas 31 August 2009*

A six month delay in further rollout of New Zealand’s emissions trading scheme (“ETS”) is emerging as a potential half-way house for the Government as it buys time to cobble together a more permanent deal to change the scheme’s design, reports *Newsroom*. It faces an uphill struggle to mobilize enough support to water down the scheme by Christmas and bring it closer to Australia’s model after a long-awaited review reinforced sharp political divisions on how to run an ETS and combat climate change. In its 130-page report, the committee’s majority backed an all-sectors, all-gases ETS over a carbon tax but offered little guidance on key design questions such as allocation and phaseout of free carbon credits and the entry dates for agriculture. Prime Minister John Key said he hoped the ETS would be redesigned by 1 January 2010, when the stationary energy and industrial processing sectors are due to enter, but admitted he did not know if amending legislation could go to a select committee and be passed into law in time, reports *Newsroom*. “Either that will happen...or some legislation will need to be passed that alters that. My understanding is that it would be very difficult to start on January 1, 2010 whatever the preferred outcome is,” he said. The ETS now on the books would have “dramatic” effect on the economy, a “significant” effect on consumer prices and cost jobs, Mr Key said, and he wanted an enduring solution rather than something for the next few months. “The real aim here is to get a permanent outcome where there’s as broad a consensus as we can achieve.”

*DairyNZ Press Release 1 September 2009*

DairyNZ says the Select Committee report on the Emissions Trading Scheme reinforces just how difficult it is going to be to reduce New Zealand’s greenhouse gas emissions while at the same time ensuring the country’s most important export industry is not unfairly handicapped. DairyNZ Chief Executive Dr Tim Mackle said: “We’re disappointed the report recommends the inclusion of agriculture in the scheme before dairy farmers – or any other farmers for that matter – have the tools available to actually do something which will reduce emissions. That said, we welcome the Committee’s recommendation that the Government makes significant on-going investment to reduce agricultural emissions and improve efficiency in pastoral systems.” Dr Mackle said: “It really is a case of the devil being in the detail, and we will be working with Government to ensure the interests of dairy farmers – and therefore the interests of the New Zealand economy – continue to be taken into consideration in the formation of a fair and equitable ETS.”

Full release:

<http://www.dairynz.co.nz/page/pageid/2145837796>

## **US Dairy Advisory Committee to be Established**

*USDA Release 25 August 2009*

US Agriculture Secretary Tom Vilsack has announced he is moving forward on establishing the Dairy Industry Advisory Committee and is requesting nominations. “The Obama Administration is committed to working with all sectors of the dairy industry to develop changes to the dairy pricing system to avoid the boom and bust cycle behind the crisis facing many dairy farmers this year,” said Mr Vilsack. “The input provided by the members of this committee will play an important role in building a more stable market for dairy producers for years to come.” Earlier this month, Secretary Vilsack promised to move forward with establishment of a charter creating the committee for two years. Once appointed, the committee will review the issues of farm milk price volatility, and dairy farmer profitability. The committee will also offer suggestions and ideas on how USDA can best address these issues to meet the dairy industry’s needs.

Full release:

[http://www.usda.gov/wps/portal/!ut/p/.s.7.0.A/7.0.1OB/cmd/ad/ar/sa.retrievecontent/c/6.2.1UH/ce/7.2.5JM/p/5.2.4TQ/d/3/th/J.2.9D/s.7.0.A/7.0.1OB?PC.7.2.5JM\\_contentid=2009%2F08%2F0399.xml&PC.7.2.5JM\\_parentnav=LATEST\\_RELEASES&PC.7.2.5JM\\_navid=NEWS\\_RELEASE#7.2.5JM](http://www.usda.gov/wps/portal/!ut/p/.s.7.0.A/7.0.1OB/cmd/ad/ar/sa.retrievecontent/c/6.2.1UH/ce/7.2.5JM/p/5.2.4TQ/d/3/th/J.2.9D/s.7.0.A/7.0.1OB?PC.7.2.5JM_contentid=2009%2F08%2F0399.xml&PC.7.2.5JM_parentnav=LATEST_RELEASES&PC.7.2.5JM_navid=NEWS_RELEASE#7.2.5JM)

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## **New Food Safety Standards for China**

*Foodnavigator.com/Rory Harrington 31 August 2009*

A year on from the melamine milk contamination scandal China is drafting a new system of food safety standards, reports *Foodnavigator.com*. Vice Minister for Health, Chen Xiaohong said following the implementation of the Food Safety Law on 1 June 2009, a detailed code would be drafted to “spell out acceptable levels of pathogenic micro-organisms, food additives, heavy metals and other pollutants in food products...Other priorities would include allowable levels for pesticide and micro-organism residues,” reports *Foodnavigator.com*. Chen explained: “Food and drug safety has a direct bearing on people’s health and also sustains the sound development of the whole industry. It also reflects the credibility and social responsibility of an individual enterprise. Experiences have shown that an enterprise can generate more economic returns when putting people’s health above anything else.”

Full story:

[http://www.foodnavigator.com/Publications/Food-Beverage-Nutrition/FoodProductionDaily.com/Quality-Safety/China-to-launch-new-food-safety-standards/?c=xaxQPussla8D7vGuRA1pUA%3D%3D&utm\\_source=newsletter\\_daily&utm\\_medium=email&utm\\_campaign=Newsletter%2BDaily](http://www.foodnavigator.com/Publications/Food-Beverage-Nutrition/FoodProductionDaily.com/Quality-Safety/China-to-launch-new-food-safety-standards/?c=xaxQPussla8D7vGuRA1pUA%3D%3D&utm_source=newsletter_daily&utm_medium=email&utm_campaign=Newsletter%2BDaily)

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## **New US Animal Welfare Assurance Program**

*NMPF Release 20 August 2009*

An animal well-being program designed to bolster consumer confidence in the US dairy industry is being launched by the National Milk Producers Federation (“NMPF”) and Dairy Management Inc.™ (“DMI”). The new National Dairy FARM Program: Farmers Assuring Responsible Management will demonstrate producers’ commitment to the highest level of animal care and quality assurance. “The dairy industry has an excellent track record of responsible management practices,” said Jerry Kozak, President and Chief Executive Officer of NMPF. “The National Dairy FARM Program will enhance current operations and instill a sense of confidence in consumers who, more now than ever, want to know that animals are well cared for and that the dairy products they consume are safe, wholesome and nutritious.” The program is voluntary and available to all producers.

Full release:

[http://www.nmpf.org/latest\\_news/press\\_releases/dairy\\_farm082009](http://www.nmpf.org/latest_news/press_releases/dairy_farm082009)

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# Exports and Trade

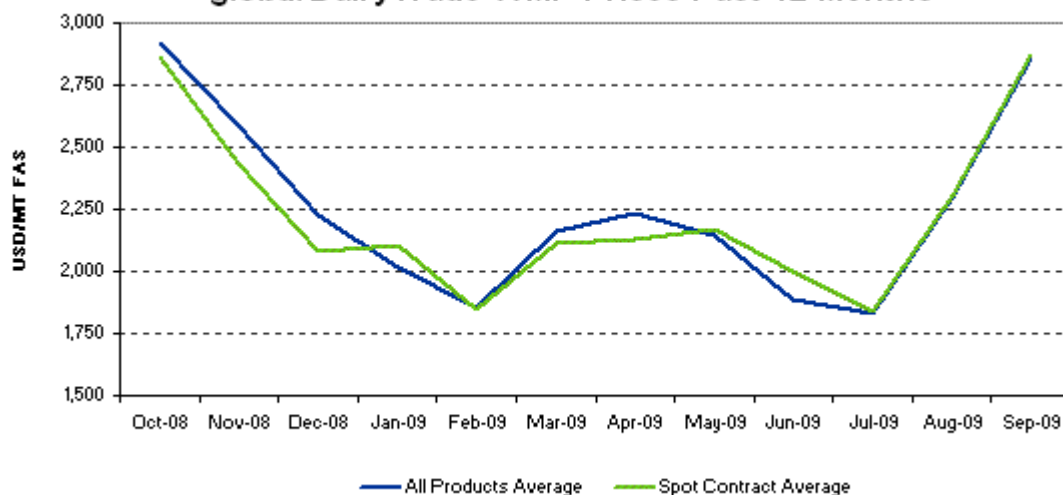


## Fonterra Auction Shows Further Market Recovery

Fonterra Release 2 September 2009

*globalDairyTrade*, Fonterra’s internet-based sales platform, concluded its September trading event on 2 September with average prices for Whole Milk Powder (“WMP”) up 24.2%. The trading manager, CRA International, advised Fonterra that the average price achieved across all contracts and contract periods for WMP was US\$2,858 per tonne FAS. This was US\$557 per tonne higher than the August event. Prices ranged from US\$2,765 per tonne FAS to US\$2,940 per tonne FAS. Kelvin Wickham, Managing Director, Fonterra Global Trade, said the lift was higher than expected. “However, we anticipated whole milk powder prices would lead the recovery because of low global inventories and firming demand. With demand returning, our customers have more confidence in refilling their supply chains. But it remains to be seen whether demand has returned to sustainable growth.” Mr Wickham said that from November 3 *globalDairyTrade* trading events would include anhydrous milk fat (“AMF”), in line with plans to offer an expanded range of products. “This will provide for AMF the same transparent market price that *globalDairyTrade* is already providing for WMP,” Mr Wickham said. The next *globalDairyTrade* trading event will be held on 6 October 2009.

**globalDairyTrade WMP Prices Past 12 Months**



Source: *globalDairyTrade*

**WMP Prices, 2004-2009**



Source: USDA International Dairy Market News, *globalDairyTrade*

For more information visit:

[www.globalDairyTrade.info](http://www.globalDairyTrade.info)

**Comments:**

*The New Zealand Herald* 2 September 2009

Kevin Wilson, rural economist at ANZ National Bank said: “We saw an extraordinary increase, and it’s significant coming on the back of last month” when the price jumped 26%, reports *The New Zealand Herald*. He added: “We’ll have to wait until February/March when we’re three-quarters through the season before we get closer to the big final result – it’s a long way in relative business terms before July 31” which is when the season ends.

Full story:

[http://www.nzherald.co.nz/dairy-industry/news/article.cfm?c\\_id=168&objectid=10594704](http://www.nzherald.co.nz/dairy-industry/news/article.cfm?c_id=168&objectid=10594704)

*Federated Farmers Release* 2 September 2009

Lachlan McKenzie, New Zealand Federated Farmers Dairy Chairperson said: “It is a big relief for dairy farmers to see the price of WMP still tracking up on the back of last month’s 25.8% uplift. The last two auctions reflect the buoyancy of WMP prices. Last month’s uplift in WMP to US\$2,301 and [the latest] increase to US\$2,858 per tonne is a sure sign there is light at the end of the tunnel. This is also illustrated by the positive long term outlook, with the average price for March to May 2010 rising to US\$2,861 per tonne...If these prices are sustained, it is possible they will counter the effects of the high New Zealand dollar on this season’s average payout.”

*The New Zealand Herald/Andrea Fox* 3 September 2009

Fonterra Global Trade managing director Kelvin Wickham said Fonterra had anticipated that whole milk powder would lead the recovery in dairy prices but was surprised by the leap in price shown at the latest auction, reports *The New Zealand Herald*. “Clearly people are refilling their supply chains in anticipation of demand. It’s not as robust as two years ago, but certainly a lot better than a year ago. I anticipated wholemilk powder prices would rise first simply because it is a product made to customer demand,” he said. “There are very low inventories in the world and no inventory in New Zealand but the lift [size] was unexpected. The good news is we are on the right side of US\$2500.”

Full story:

[http://www.nzherald.co.nz/dairy-industry/news/article.cfm?c\\_id=168&objectid=10594844](http://www.nzherald.co.nz/dairy-industry/news/article.cfm?c_id=168&objectid=10594844)

**Meanwhile:**

*The Press/Tina Law* 27 August 2009

It appears that Fonterra is planning to open the *globalDairyTrade* auction up to other companies, reports *The Press*. Fonterra US President and Chief Operating Officer, Martin Bates said many other dairy companies were interested in how they could benefit from participating in the auction but he would not reveal a timeframe for when those companies may start participating or who they may be. Brad Miller, Vice-President of CRA International which set up and operates the auction for Fonterra said: “It would be good for the marketplace to have other sellers trading their product on Fonterra’s *globalDairyTrade* system, reports *The Press*.”

Full story:

<http://www.stuff.co.nz/national/farming/2806059/Fonterra-to-open-up-auction>

## Global Market Overview

USDA Release/Steve Schneeberger 3 September 2009

### *Oceania Overview:*

Milk production patterns in the Oceania region continue to expand, although slower than usual for this time of the season. In New Zealand, milk producers and handlers state that the season is getting off to a slower start due to a colder and wet winter season. Reports indicate that milk volumes are about 3% behind last year at this time. Pasture development is slow. One factor that may be limiting pasture development is that some farmers are making management decisions to not fertilize pastures as much as they have in past years due to economics of dairy production. Most farmers in New Zealand are looking at their operations from an economic view point and trying to make the best managerial decisions when it comes to supplemental feeding, fertilization, and animal welfare. In Australia, the resumption of the new milk production season is still a few weeks away. Moisture, or lack of moisture, continues to be a major concern for many dairy producers. In Northern regions of Victoria where irrigation is necessary to maintain pasture growth, water allocations for the upcoming season are basically zero which will challenge producers to look to supplemental feed for animal nutrition during the upcoming season. This will put further pressure on the bottom line of an already discouraging balance sheet. An El Nino weather pattern continues to be forecast for much of Australia during the upcoming summer months. This pattern will not only impact dairy production, but agriculture in general. On 1 September, the 15<sup>th</sup> round of whole milk powder trading within the *globalDairyTrade* platform was held. During this trading event, the average price for all powder was US\$2,858 per MT which was 24.2% higher than the previous average. Prices for near term shipments for November averaged US\$2,872 per MT, 24.6% higher than the previous event. Prices and percentage changes for other shipment dates are: Dec – Feb shipments, US\$2,847, +23.4% and Mar – May shipments, US\$2,861, +24.9%. It has been announced that in November, anhydrous milk fat will be traded on this platform. The results of this most recent event is giving encouragement to dairy producers throughout Oceania and is also causing traders and handlers of dairy products throughout the world to optimistically look forward. Current whole milk powder prices are at levels not seen in nearly a year. Prices for other manufactured dairy products out of Oceania are firm. Traders and handlers indicate that buyer interest is gaining momentum, although suppliers continue to move cautiously with their commitments.

### *Western and Eastern European Overview:*

Milk production continues to edge lower with some areas of Europe experiencing hot temperatures which are reducing milk volumes at a more rapid rate. This reduction in milk output is causing demand for milk to be very aggressive. During the most recent Dairy Management Committee meeting on 3 September, all export refund levels were unchanged. Clearances of butter and skim milk powder to intervention have slowed greatly now that commercial pricing is higher than intervention levels. During the past week, 64 MT of butter and 3,800 MT of skim powder have cleared to the program. This brings the total for butter to 83,222 MT and skim milk powder to 281,533 MT. Clearances of butter to PSA have also slowed greatly and holdings total 134,606 MT. Butter is now moving back out of PSA, but is basically fully committed, thus doing very little to alleviate a tight butter supply. Prices for most manufactured dairy products are higher. Many European traders were surprised at the strength that whole milk powder, traded within the *globalDairyTrade* event, realised earlier this week. Many question if the 24% price strength, compared to the previous event, will be maintained. Milk production continues to trend lower seasonally. Some of this trend is occurring due to warm temperatures for this time of the season, while most declines are typical. Traders and handlers indicate that they have product available for potential sale, but butter is in the tightest position. Sales are reported to be slow.

## Manufacturing/R&D

### **Fonterra Develops Clear Milk Protein**

*Manawatu Standard* 28 August 2009

Fonterra has developed a clear milk protein at its Palmerston North Research Centre in New Zealand which is proving a hit in the US, reports the *Manawatu Standard*. The protein, for which Fonterra owns the intellectual property is currently being tested in clear drinks at Fonterra's Chicago Technical Centre. The tests have included a clear apple juice supplemented with a whey protein and an orange-pomegranate flavoured clear sparkling water boosted with 5 grams of whey proteinate per serving.

Full story:

<http://www.stuff.co.nz/manawatu-standard/news/2810656/Fonterra-clear-protein-hit-in-US>

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### **Probiotics can Ease Gut Problems says Study**

*Foodnavigator.com/Stephen Daniells* 1 September 2009

A new study from French food giant Danone has found that consuming probiotic supplemented fermented milk on a daily basis may improve gut health and well-being in women suffering from digestive problems, reports *Foodnavigator.com*. The study showed that gastro-intestinal well-being was improved by approximately 70% by consuming Danone's Activia probiotic product. The researchers, led by senior scientist at Danone Research, Dr Denis Guyonnet, wrote: "These data, taken together with previous data obtained on gastro-intestinal transit and in irritable bowel syndrome, suggest that this specific probiotic food may represent a promising nutritional and safe solution for the management of gastro-intestinal symptoms."

Full story:

[http://www.foodnavigator-usa.com/Publications/Food-Beverage-Nutrition/NutraIngredients.com/Research/Danone-Everyday-gut-problems-eased-by-probiotics/?c=xaxQPussla8vDTlvOrWP8w%3D%3D&utm\\_source=newsletter\\_daily&utm\\_medium=email&utm\\_campaign=Newsletter%2BDaily](http://www.foodnavigator-usa.com/Publications/Food-Beverage-Nutrition/NutraIngredients.com/Research/Danone-Everyday-gut-problems-eased-by-probiotics/?c=xaxQPussla8vDTlvOrWP8w%3D%3D&utm_source=newsletter_daily&utm_medium=email&utm_campaign=Newsletter%2BDaily)

Full study available at:

<http://journals.cambridge.org/action/displayJournal?jid=bjn>

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### **New Foot and Mouth Test**

*Politiken.dk* 24 August 2009

Researchers in Denmark have developed a new test for foot and mouth disease in cattle which determines whether anti-bodies are a result of the disease or a vaccination, reports *Politiken.dk*. The new test will mean veterinarians will be able to avoid slaughtering millions of cattle as they will be able to determine whether the animal has the disease or not. "Foot and mouth disease is one of the most contagious and feared cattle diseases and in 2001 cost the lives of eight million cattle in Britain alone," reports *Politiken.dk*.

Full story:

<http://politiken.dk/newsinenglish/article774156.ece>

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### **Dairy Doesn't Increase Risk of Breast Cancer**

*HealthDay/Kathleen Doheny* 28 August 2009

New research published in the *American Journal of Clinical Nutrition* shows that consuming dairy products, meat and eggs should not increase the risk of an adult woman developing breast cancer, reports *HealthDay*. Debate has raged for years over the issue, but in the new research, scientists were unable to find a link between meat, egg and dairy product consumption and an increased risk of breast cancer. In one study, Italian researchers analysed diet information collected from almost 320,000 women between 1992 and 2003. "The women were from numerous European countries, including Denmark, France, Germany, Greece, Italy and the UK. The team found 7,119 cases of breast cancer during follow up that lasted a median of nearly nine years (half of the patients were followed longer, half less). While they found a link between high butter consumption and breast cancer risk, it was only in premenopausal women. They did not find overall that meat, egg or dairy product intake was linked with an increased risk for breast cancer," reports *HealthDay*. Dr Eleni Linos, MD, an epidemiologist at Stanford University Medical Centre said: "So far, we haven't seen a strong link between meat intake and fat intake in adulthood and breast cancer in adulthood."

Full story:

<http://healthday.com/Article.asp?AID=630411>

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### **New Light Barrier Protection for Dairy Packaging**

*Dairyreporter.com/Guy Montague-Jones* 28 August 2009

ColorMatrix, innovators of liquid colour and additives for the plastics industry, are soon to launch new light barrier protection for PET dairy packaging, reports *Dairyreporter.com*. Light exposure can affect the quality of dairy products by causing chemical reactions that can modify proteins and fats, this can then damage flavour as well as vitamin content. To protect dairy products from such light associated issues, ColorMatrix has developed a new range of light blocking colorants called Lactra. According to ColorMatrix, Lactra provides protection at wavelengths of up to 550nm and usually achieves colour usage rates of approximately 6 to 8% of polymer content. ColorMatrix spokesperson, Morag Girdwood said "this means less colour needs to be used, presenting efficiency savings, but also preventing the appearance of a grey finish that can be associated with excess colour," reports *Dairyreporter.com*. According to the company, Lactra is perfect for manufacturers who wish to lighten the weight of their dairy containers but still maintain strong light protection.

Full story:

[http://www.dairyreporter.com/Safety-Hygiene/New-light-barrier-claims-high-protection-for-dairy-at-low-usage-levels/?c=xaxQPussla%2BFq%2B9CjqzYQ%3D%3D&utm\\_source=newsletter\\_daily&utm\\_medium=email&utm\\_campaign=Newsletter%2BDaily](http://www.dairyreporter.com/Safety-Hygiene/New-light-barrier-claims-high-protection-for-dairy-at-low-usage-levels/?c=xaxQPussla%2BFq%2B9CjqzYQ%3D%3D&utm_source=newsletter_daily&utm_medium=email&utm_campaign=Newsletter%2BDaily)

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### **Probiotic Ice Cream Pushed**

*Foodproductiondaily.com* 1 September 2009

Ingredients and enzyme manufacturer, Danisco has developed peach, strawberry and vanilla manufacturing kits all fortified with probiotics to help dessert makers tap into a growing global ice cream market, reports *Foodproductiondaily.com*. The company said: "The concepts are part of a complete probiotic demo kit designed to assist manufacturers with new product development in this growing category."

Full story:

[http://www.foodproductiondaily.com/Publications/Food-Beverage-Nutrition/NutraIngredients.com/Industry/Danisco-pushes-probiotic-ice-cream/?c=xaxQPussla%2FKcAoRj9zpKA%3D%3D&utm\\_source=newsletter\\_daily&utm\\_medium=email&utm\\_campaign=Newsletter%2BDaily](http://www.foodproductiondaily.com/Publications/Food-Beverage-Nutrition/NutraIngredients.com/Industry/Danisco-pushes-probiotic-ice-cream/?c=xaxQPussla%2FKcAoRj9zpKA%3D%3D&utm_source=newsletter_daily&utm_medium=email&utm_campaign=Newsletter%2BDaily)

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## Marketing

### **Using Milk-Carton Ads to Build Strong Brands**

*The New York Times/Philip Gray 26 August 2009*

A growing number of US national brands are going old-school in an attempt to reach out to school children and shoppers, using milk cartons as an advertising medium, reports *The New York Times*. Milk carton's have long been used as a means of advertising but this summer is set to see a new evolution in the types of messages conveyed on these almost nostalgic marketing tools. You won't see faces of missing children or campaigns for local sports teams, instead there will be ad's for national brands such as "Cheerio's" and "Pinocchio" DVD's, reports *The New York Times*. Although audiences may have moved away from traditional marketing channels to the likes of the internet and cable, Gary Hempbill from the Beverage Marketing Corporation believes that the milk jug is an enduring medium that will continue to reach the masses, "it finds its way into most refrigerators in the homes of Americans," reports *The New York Times*.

Full story:

[http://www.nytimes.com/2009/08/27/business/media/27adco.html?\\_r=1](http://www.nytimes.com/2009/08/27/business/media/27adco.html?_r=1)

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### **Dairy Crest Relaunches its Leading Dairy Brand**

*Talking Retail 28 August 2009*

UK dairy company, Dairy Crest is relaunching its leading dairy spread brand, Clover, reports *Talking Retail*. The campaign which includes new packaging and logo, together with TV advertising, aims to position cover in the middle as a balance between health and taste. Paul Fraser, Dairy Crest Marketing Director, said: "Clover is unique in this category. It is the only brand churned like butter yet with half the saturated fat. That's a great proposition for consumers and for our customers. We are investing significantly in this relaunch and more people than ever before will see what is great about the middle," reports *Talking Retail*.

Full story:

<http://www.talkingretail.com/products/product-news/13109-dairy-crest-relaunches-clover-with-new-ad-campaign.html>

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### **Welfare is Next Major Food Issue**

*New Zealand Farmers Weekly/Hugh Stringleman 31 August 2009*

2009 Nuffield Scholar Alec Jack warns that Animal welfare concerns are overtaking organics and food miles in affluent EU and US markets for New Zealand foods, reports *The New Zealand Farmers Weekly* ("NZFW"). "In the UK supermarkets now you see organic lamb at the same prices as conventional lamb," Jack told a Meat and Wool NZ Far North Monitor Farm community day. This news comes after a recent report showed there were no nutritional differences between organic and conventional foods, which had given consumers cause for thought – perhaps welfare-friendly sums up their wants better than organic? Jack went on to say that New Zealand farmers should be aware of the "local food" movement in the UK, where farm lobbies are quick to prod fears about food security following the recent commodity price spike. Organics Aotearoa spokesperson, Gavin Middleton acknowledged that retail prices for organic and conventional foods in the UK were converging for a number of reasons, including organic house brands and economies of scale. He said animal welfare requirements are part of the organics standards and that consumers buy organic foods for many reasons, reports *NZFW*.

Full story:

<http://www.farmersweekly.co.nz/>

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# Consumer

## **Milk Extras Won't Aid Health says Study**

*Australian Food News/James Ferre* 1 September 2009

A new study by Australian consumer group Choice has found that drinking milk with added calcium, vitamins or omega-3 is unlikely to make any difference to your health, reports *Australian Food News*. The study that investigated over 100 different brands and types of cows' milk concluded that the only significant difference is between full-cream, low-fat and skim milk. The study also suggested that "the generic brands typically sold by supermarkets under their own labels, which command 43% of the market, are effectively the same quality as the well-known brands, which can cost up to twice as much." Choice spokesperson, Christopher Zinn said: "Although some brands claim to be high in calcium, normal, unadulterated milk is a good source of calcium regardless of the brand. Likewise with the added extras in milk – you're essentially just paying an excess for what amounts to a very negligible benefit in terms of added vitamins."

Full story:

<http://www.ausfoodnews.com.au/2009/09/01/choice-sees-little-benefit-in-added-extras-to-milk.html>

**However:**

*The New Zealand Herald/Vaimoana Tapaleao* 2 September 2009

New Zealand dairy giant, Fonterra has responded to the claims, saying they are "nonsense" reports *The New Zealand Herald*. Fonterra New Zealand Managing Director, Peter McClure said consumers should rest assured that the milks the company sold provided all the benefits they said they did. For example extra calcium helped those who suffered from osteoporosis, extra protein helped to build muscle, and the brand Mega milk had more fat and was targeted at children. "So to say there's no benefit is nonsense."

Full story:

[http://www.nzherald.co.nz/dairy-industry/news/article.cfm?c\\_id=168&objectid=10594712](http://www.nzherald.co.nz/dairy-industry/news/article.cfm?c_id=168&objectid=10594712)

## **Consumers Turn to Convenience over Price**

*Foodnavigator-usa.com/Caroline Scott-Thomas* 31 August 2009

According to new research from marketing firms, The Integer Group and M/A/R/C consumers are starting to move back towards valuing convenience over price, reports *Foodnavigator-usa.com*. The monthly survey questioned 1,200 shoppers and found that "convenience-seeking continues to rise, with 'I will pay more if my life is made easier' jumping by 8% since February." The researchers also commented that "The gap between convenience and saving money is widening...June saw an impressive jump in shoppers wanting to get everything in a single trip (up 5% from April), while a focus on spending as little as possible continues to decline," reports *Foodnavigator-usa.com*.

Full story:

[http://www.foodnavigator-usa.com/Financial-Industry/Consumers-willing-to-spend-more-for-convenience-says-market-research/?c=xaxQPussla%2BHFcC5tiGuhg%3D%3D&utm\\_source=newsletter\\_daily&utm\\_medium=email&utm\\_campaign=Newsletter%2BDaily](http://www.foodnavigator-usa.com/Financial-Industry/Consumers-willing-to-spend-more-for-convenience-says-market-research/?c=xaxQPussla%2BHFcC5tiGuhg%3D%3D&utm_source=newsletter_daily&utm_medium=email&utm_campaign=Newsletter%2BDaily)

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