

# Milk Producers Council

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## CHICAGO MERCANTILE EXCHANGE

Blocks  $-.0400$  \$1.4100  
Barrels  $+.0025$  \$1.4325

## CHICAGO AA BUTTER

Weekly Change  $+.0175$  \$1.3450  
Weekly Average  $+.0050$  \$1.3325

## NON-FAT DRY MILK

Week Ending 1/01 & 1/02  
Calif. Plants \$1.2685 23,284,662  
NASS Plants \$1.2807 24,534,947

## Weekly Average

Blocks  $-.0555$  \$1.4245  
Barrels  $+.0044$  \$1.4350

## DRY WHEY

WEST MSTLY AVG w/e 12/31/09 \$.4075  
NASS w/e 1/02/10 \$.3857

**CHEESE MARKET COMMENTS:** Block prices lost \$.04 per lb this week on the CME, while barrels gained \$.0025 per lb. Sales reported to NASS for last week showed a jump in barrel volume, with prices averaging \$.22 below blocks – a lag of about four weeks behind the CME price pattern. *Dairy Market News (DMN)* finds that buyers say they do not want to make major commitments until prices stabilize. They may be where they need to be right now. Cheese production in November, on a per day basis compared to October, was 1.2% higher – a great relief to those who were dreading the possibility that too much seasonally cheap milk might wind up in cheese plants. The end of month inventory for all cheese was lower than it was at the end of October. Sales of Mozzarella cheese are doing well. Cheese production in December is also believed to be in line with seasonal milk production and the irregular holiday season consumption of fluid milk. Most of the trading activity on the CME over the past two weeks was originated by one or two plants who apparently felt they had more block cheese on hand than was wanted. One more week of relative stability on the CME, followed by a favorable report on December milk production (on January 19<sup>th</sup>), could provide the answers cheese buyers are waiting for.

**BUTTER MARKET COMMENTS:** Butter production in November was about 10% lower than last November, but about 7% higher than in October, and butterfat storage at the end of November was 25% below where it was in October. Very good news, indeed, perhaps indicating that some of the butter destined for export has been shipped. Prices on the CME this week gained \$.0175 per lb in fairly active trading.

**POWDER MARKET COMMENTS:** Prices reported for sales last week to NASS and CDFA were about \$.05 per lb lower than the prior week, with sharply higher volumes (+18 million lbs for California plants and +15 million lbs for NASS). The California weighted average is once again **below** the low end of the full range of prices reported by DMN for the West. How can that be? DMN reports that international prices are moving lower, even as reports on milk production indicate that global supply this year will not be much, if any, above 2009's levels. DMN says the market is unsettled. It got that way as last year ended with sales lower, milk supplies uncertain, export sales decreasing, international prices coming down, and buyers finding some product, already sold, is back on the market. Next week we will see how much nonfat and skim milk powder was exported in November. November production of skim milk powder (destined for export) jumped by 87% over October, an increase of about 9 million lbs.

**WHEY PRODUCTS MARKET COMMENTS:** Prices for dry whey and whey protein concentrates continue to increase as buyers actively clear away product as it's offered. Prices may have reached levels where non-dairy protein products of good quality are competitive with dry whey. The "mostly" price for dry whey in the West rose again, and the national price for WPC-34 rose above \$.90 per lb this week.

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## FRED DOUMA'S PRICE PROJECTIONS...

Jan 08 Est:	Quota cwt. \$ 15.48	Overbase cwt. \$13.78	Cls. 4a cwt. \$14.70	Cls. 4b cwt. \$12.50
Last week:	Quota cwt. \$ 15.60	Overbase cwt. \$13.90	Cls. 4a cwt. \$14.72	Cls. 4b cwt. \$12.78

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**FONTERRA'S GLOBAL AUCTION CONTINUES TO EXPAND AND GAIN IMPORTANCE:** (By J. Kaczor) The results of Fonterra's January 5<sup>th</sup> internet auction, the nineteenth since July 2008, was one of the more important of them all, in that the winning prices were lower than December's, but withstood all criticism except the Wall Street Journal's knee-jerk reaction which called the 7% drop in the average price for whole milk powder to be a "sharp fall." Most others waited for Paul Grave, the manager of the *globalDairyTrade* auction, to discuss the results. Fonterra's media release said the lower prices represent a "minor correction" which signals that supply and demand were "more closely in balance" and the results were not outside the range of what they expected under current market conditions.

The results (weighted average prices for all styles of whole milk powder) of the last six monthly auctions support Fonterra's understanding: +25.2% in August, +24.6% in September, +5.1% in October, +11.0% in November, +5.1% in December, and -6.8% in January. Weighted average prices for the three months in which anhydrous milkfat was auctioned were: +55% in November, -9% in December, and +4% in January.

In a follow-up release Fonterra noted that skim milk powder will be added, "early in 2010" (March?), to the list of products to be offered for bidding. That should catch the interest of U.S. sellers because skim milk powder ranges between 15% to 40% of U.S. nonfat powder exports. What that might mean for nonfat dry milk is anyone's guess. The release included a restatement that other suppliers are invited to offer their products to the volume presently offered, which would add to the auction's level of liquidity and credibility. The release also noted that the New Zealand Stock Exchange, NZX, is planning to offer futures contracts for whole milk powder, by mid-year, and will use the winning price for the *gDT*'s "spot month" as the settlement price for the contracts. In the meantime, our industry leaders continue to fiddle and hope.

**INVENTORIES OF MAJOR DAIRY PRODUCTS AT THE END OF NOVEMBER PROVIDE A MIXED MESSAGE FOR FUTURE MILK PRICES.** (By J. Kaczor) Milk production in November fell 1.0% below where it was a year earlier, and was 0.9% above October, on a per-day basis. During the month, sales of fluid milk, representing about 38% of all U.S. milk usage, remained about even with the prior year. Production of major dairy products in November was reported by USDA earlier this week. The major milk usage categories other than fluid usage, butter, powder, and cheese, combine to use about 40% of production. On a per-day basis, compared to October, butter production increased by 10%, nonfat powder production increased by 21%, and production of all cheese increased by 1.2%.

- The amount of butterfat products in cold storage at the end of November was 25.4% **below** a month earlier which, when combined with the 10% increase in production, should provide substantial support to current butter prices and gives credence to the futures prices for butter which have risen to the mid \$1.50's in July.
- Production of nonfat dry milk increased on a per-day basis by 13.8%, and the amount in storage at the end of the month was 27% higher than the amount at the end of October. Production of skim milk powder more than doubled during the month, on a per day basis, compared to October. Inventories of SMP are not recorded.
- The inventories at the end of November of all types of cheese and American cheese (67% of which is Cheddar) were about where they were at the end of October, and should provide support for current price levels. However, the amount of American cheese notably rose in November, for the first time in more than twenty years. The increase was small – it gets a one month pass.

Grades for performance: butter ("A"), cheese ("B"), nonfat powders ("incomplete" – the numbers need checking, but current production seems to be clearly exceeding sales).

**MPC'S MONTHLY BOARD MEETING TO BE HELD NEXT TUESDAY IN BAKERSFIELD:** (By Rob Vandenheuvel) Next Tuesday (January 12<sup>th</sup>), the MPC board will be gathering at the Kern County Farm Bureau office for our January board meeting. As always, members and prospective members are strongly encouraged to attend. The meeting will start at 11 am, and lunch will be served. For those interested in attending the meeting, please contact Debi at (909) 628-6018 so that she can make lunch accommodations.