

Milk Producers Council

5370 SCHAEFER AVE. SUITE A - CHINO, CA 91710 - (909) 628-6018 - Fax (909) 591-7328

E-mail: mpc@milkproducers.org

Website: www.MilkProducersCouncil.org

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FROM: John Kaczor

MPC FRIDAY MARKET UPDATE

CHICAGO MERCANTILE EXCHANGE

Blocks - \$.0025 \$1.0700
Barrels + \$.0200 \$1.0900

Weekly Average

Blocks - \$.0080 \$1.0640
Barrels + \$.0135 \$1.0730

CHICAGO AA BUTTER

Weekly Change + \$.0025 \$1.1125
Weekly Average - \$.0105 \$1.1115

DRY WHEY

WEST MSTLY AVG w/e 01/16/09 \$.1475
NASS w/e 01/10/09 \$.1710

NON-FAT DRY MILK

Week Ending 1/09 & 1/10

Calif. Plants \$.8239 14,105,847
NASS Plants \$.8360 21,750,287

CHEESE MARKET COMMENTS: Prices remained below support price levels this week for blocks and barrels, although there were signs of more buyer interest and price strength at week's end (one carload of blocks sold for \$.05 per lb above Thursday's low). On Thursday, **block prices fell to \$1.04 per lb**, \$.09 below the support price, **the lowest it's been since February 2003**. The weekly average of \$1.0640 per lb was also the lowest it's been for that same period of time. Last week a comment was passed along that manufacturers may not want to sell at prices below support levels; this week we received a report that **some brokers in Southern California were also refusing**, even though their **customary practice** was to use the previous week's average as the price basis. Pretty sharp dealing, but not likely to promote long-term relationships. Still no sales to the CCC, but *Dairy Market News* says to expect some soon. **November's exports** of Cheddar cheese was a third lower than last November; exports of all cheese was down 11%. Exports of all types of cheese over the past 12 months was 44% higher than the previous 12 months, but the increase amounted to less than 1% of total cheese produced during that period. Production of all types of cheeses in November increased by 1.3% above November 2007.

BUTTER MARKET COMMENTS: Prices on the CME this week were steady to slightly higher, but **the weekly average fell by a bit, to its lowest level since June 2003**. This week, six more carloads were sold to the CCC, at \$.06 per lb below the CME spot price. Production is reported to be at about normal for this time of year; sales are beginning to pick up as many buyers apparently see little risk at this time. Retail sales are expected to be fairly good but restaurant sales are not. Look for a lot of butter to be priced at less than \$2.00 per lb. **Exports of butterfat products** in November was 43% lower than the previous November, but up by 300% over the full 12 month period. Production of butter in November was 2.2% higher than November 2007.

POWDER MARKET COMMENTS: This sad story remains the same: prices remain close to the \$.80 support level, sales to the CCC continue and now total 134 million lbs, export demand continues to fall, and inventories continue to rise. Production of nonfat dry milk in November increased by 35% over the previous November, but **skim milk powder production fell by 16%**. **November exports** were 44% lower than in November 2007, but the estimated average price was about \$1.50 per lb, which was about \$.55 per lb higher than the average price reported by California plants for the month. DMN again reports that some nfdm was sold in the West at \$.025 per lb below the support price. DMN could find no carload sales of nfdm this week in the West at more than \$.85 per lb. **The future for exports began to look even dimmer this week, when the European Union announced that subsidies will again be available for exports of skim milk powder, butter, and cheese, and reports from New Zealand describe "mountains" of skim milk powder being warehoused by Fonterra.**

WHEY MARKET COMMENTS: The market and prices for dry whey continue to be weak and the western "mostly" price remains stuck at \$.1475 per lb. The news for whey protein concentrates continues to be favorable: prices again moved up this week, while DMN reports that demand continues to be good. At some point, soon, the value of protein in dry whey should again catch the interest of domestic and international buyers, but it's still a long way up out of the basement. Production of dry whey in November was 10% lower than a year earlier, but

end-of-month stocks were 1% higher. **Dry Whey exports in November** were 27% below the previous November, at an estimated average price of \$.30 per lb.

FRED DOUMA’S PRICE PROJECTIONS...

Jan 16 Est:	Quota cwt. \$12.10	Overbase cwt. \$10.40	Cls. 4a cwt. \$ 9.52	Cls. 4b cwt. \$ 9.01
Last Week:	Quota cwt. \$12.11	Overbase cwt. \$10.40	Cls. 4a cwt. \$ 9.50	Cls. 4b cwt. \$ 9.04

WAS THIS WRECK PREDICTABLE? YOU BE THE JUDGE: (*By Rob Vandenheuvel*) Almost two years ago, on April 27, 2007, Geoffrey Vanden Heuvel published an article in this newsletter entitled, “Staying Profitable – An Idea.” The article opened with the following introduction:

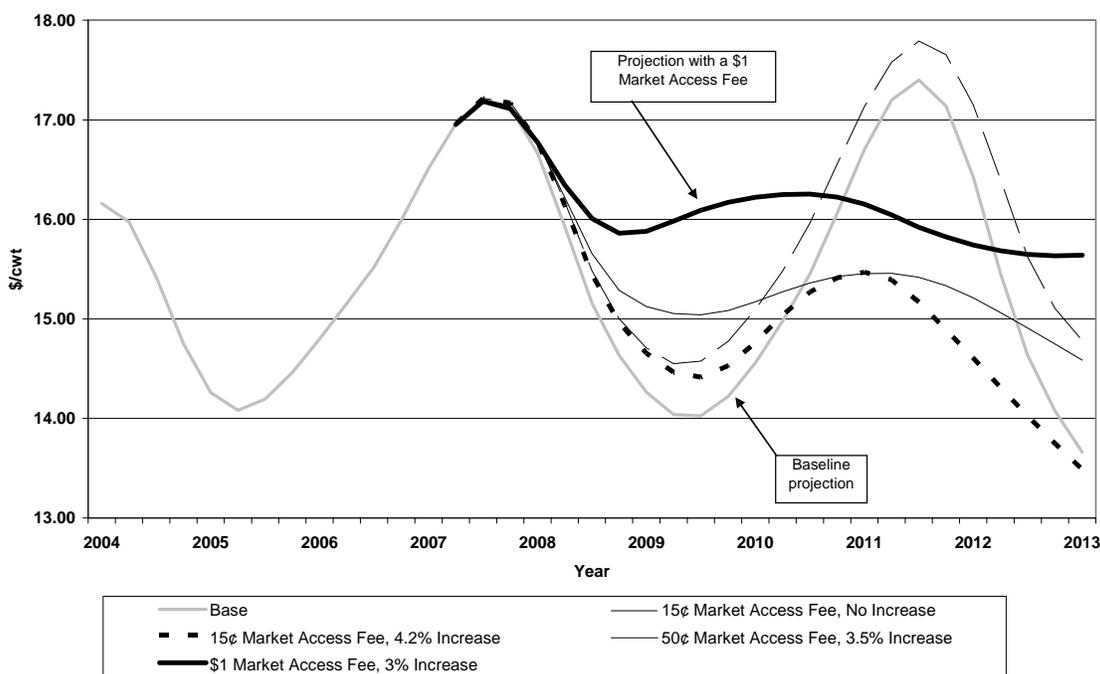
“The dairy industry has gotten into a Boom and Bust cycle, which is getting increasingly violent with every passing turn. We had a downturn in the year 2000 and recovered in 2001. We had a downturn in 2003, that was, at least for me, twice as severe as the year 2000 downturn. We recovered in 2004/05 and went into another downturn in 2006, which we are just starting to recover from in 2007. The approximately 16 months of downturn in ‘06 and early ‘07 has been twice again as severe in terms of equity lost as was the 2003 downturn. Realistically we are probably looking at about 12 - 24 months of prosperity before we go back into the soup again. If nothing changes it is likely that the 2009 downturn will be horrific.” (*Geoffrey Vanden Heuvel, 04/27/2007*)

Fast forward to now. As you can see above, Fred Douma is projecting the January overbase price to be \$10.40 – a level not seen since the summer of 2006. And while the milk price may be at the same level as it was in 2006, the cost of production has jumped from the \$12-\$13 per cwt range to the \$17-18 per cwt range since then. **It’s fair to say that Geoffrey’s prediction two years ago that 2009 would likely be even worse than 2006 has now painfully become a reality.**

That same article included a chart (*shown below*) demonstrating the outlook for milk prices. The chart was created by economists at the Cornell University Program on Dairy Markets and Policy. **Take a look at the gray line in the chart (the “baseline” projection).**

This was the projection they made if **nothing was done to manage our national milk supply**. While the Cornell economists may not have captured just how high and how low the market would go (the burst we got from the robust 2007 export market hadn’t been realized at the time of the modeling), that didn’t change the fact that they were able to predict – almost to the month – that we would be back in the low end of the cycle by 2009.

All Milk Price, Base and Four Market Access Fee Scenarios
<http://dairy.cornell.edu>



So their predictions were absolutely right about the timing of the current collapse; could they be right that we won’t get out of the doldrums until we’re into 2010? Only time will tell.

So what can we learn from this? First and foremost, this demonstrates that the current devastating wreck **was entirely predictable**. As Geoffrey wrote in the April 27, 2007 article:

“In the past when national supply exceeded demand and a correction was needed, there was a large exodus of small producers, mostly in the Midwest, which brought about the needed reduction in supply. There are no longer a large number of those types of producers around to make the adjustment. So larger, better-capitalized producers must leave the industry in order to achieve a supply reduction. Those producers do not die easily, so the economic downturn has to be that much more severe in order to break a sufficient number of producers to bring supply and demand back into balance.”

More importantly than being predictable, this experience should also demonstrate that the current wreck **was entirely preventable**. Again, I’ll take you back to Geoffrey’s article in 2007:

“What we need is an incentive for producers to manage supply. Europe and Canada have implemented strict production quotas to control supply. They do work, but the quota acquires a huge capital value (quota in Ontario Canada is currently selling for about \$29,000 per cow) and growth of the industry is stymied. American dairy producers have never embraced this approach. We could go to a completely free market, but American producers have continued to support government regulation because of our belief that processors, if given the opportunity, would abuse their inherent market power over producers.”

As Geoffrey went on to explain, there is an idea right in the middle between mandatory quotas and a totally free market. That idea is the **Growth Management Plan**.

In 2007, MPC met with producer groups throughout the country to talk about the Growth Management Plan and how it would directly address the over-supply of milk that pushes our prices to the levels we’re seeing now. In those meetings, we explained that while the U.S. dairy industry needs to continue growing as our demand continues to grow, **we need to be smart with our growth**. The beauty of the Growth Management Plan is that it allows dairies the opportunity to grow, but in a manner that ensures there is market capacity to handle the increased production. The Growth Management Plan charges expanding dairies a “market access fee” that is redistributed to the dairies that hold their production in check. In essence, the expanding dairies are paying their fellow producers to hold their production in line to allow the market to handle the increased milk that results from the expansion.

The Growth Management Plan was a valid concept in 2007 and it’s a valid concept now in 2009. If you’re interested in reading Geoffrey’s 2007 article in full (or other information on the Growth Management Plan), you can find it on our website: <http://www.milkproducerscouncil.org/GMP.htm>. With over-production back on the minds of producers throughout the country, Milk Producers Council has also contracted with Cornell University to update the modeling for the Growth Management Plan with more current information. So stay tuned...

COMPLIANCE WITH RECENTLY ANNOUNCED EPA REGULATION: *(By Rob Vandenheuvel)* This week, National Milk Producers Federation (NMPF) recommended that dairy producers with more than 700 mature cows should initiate compliance with the “Emergency Planning And Community Right-To-Know Act” (EPCRA). This program, which is overseen by EPA, requires that businesses report the types of chemicals they store, use and release. EPA has determined that the ammonia emitted by dairy cows is a chemical that is regulated under this Act. *(Dairies with less than 700 mature cows are exempt from this rule)*

There are conflicting legal opinions on how/if producers should proceed, but NMPF is recommending that producers initiate compliance with the rule **by calling your State Emergency Response Committee (SERC) and your Local Emergency Response Committee (LERC) by Tuesday, January 20th**. More information (including a script for this call) is available at: http://www.nmpf.org/washington_watch/environment/cercla-epcra. You can also call the MPC office for more information (909-628-6018).

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