

Milk Producers Council

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MPC FRIDAY MARKET UPDATE

CHICAGO MERCANTILE EXCHANGE

Blocks $-\$.0225$ \$1.4925
Barrels $-\$.0325$ \$1.4725

Weekly Average

Blocks $-\$.0140$ \$1.4990
Barrels $-\$.0330$ \$1.4740

CHICAGO AA BUTTER

Weekly Change $-\$.0025$ \$1.3275
Weekly Average $-\$.0480$ \$1.3310

DRY WHEY

WEST MSTLY AVG w/e 1/29/10 \$.4050
NASS w/e 1/30/10 \$.3894

NON-FAT DRY MILK

Week Ending 1/29 & 1/30

Calif. Plants \$1.0662 17,472,564
NASS Plants \$1.1328 23,137,321

CHEESE MARKET COMMENTS: Prices on the CME this week lost ground with little trading and quite a bit of uncertainty. There is some good news right now: cheese prices are at a four-year high for this time of year (except for 2008), and cheese production in December was actually below where it was a year earlier. The uncertainty in the market has to do with what's going to happen to the milk supply this year, and how long it will take to work the too-high inventory of cheese down to where buyers can commit without being concerned about sharply lower prices. Last year, more cheese was produced than was needed; the amount of cheese in storage at the end of this year was 115 million lbs higher than twelve month earlier. Right now, it looks like cheese prices by mid-year could be either \$.30 per lb higher or \$.30 per lb lower than present prices – depending on the amount of milk and cheese that is produced over the next several months. Period. What happened to the idea that if you don't have a market for it, don't produce it?

BUTTER MARKET COMMENTS: Butter prices on the CME lost a wee bit this week, with active trading. Prices rose two days and fell three. The good news for the butter market is that prices currently are higher than they have been in five years, butter production is in reasonable relationship to sales, and inventories are not burdensome. Retail sales are reported to have been, and continue to be, good. Unlike cheese production, butter is one of the products that clears the market of milk that is not needed for any other use. Currently, production is moving seasonally higher but should drop on a per-day basis from January through July. Strange isn't it, why butter prices are not even stronger than they have been? Based on the lower amount of butter in storage at the end of December, it looks like those exports, that were mentioned so often as possible, have indeed occurred.

POWDER MARKET COMMENTS: Prices reported by *Dairy Market News (DMN)* this week continue to show that Western plants are pulling down nonfat dry milk prices in their rush to sell product. Average prices were \$.15 per lb lower in the West than those reported for Central and Eastern plants. California plants in the past four weeks have sold more nonfat dry milk than was produced in the month of December, and already-sold product is backing up in their warehouses. Buyers have been shocked by these abrupt price drops, and understandably are hesitant to accept any offers other than the lowest. Sellers, mainly in California, have lost credibility. DMN's description of the West's market as having a weak undertone doesn't quite get to the point; we need more specifics from them. Who's buying, who got the best deals, who were left out, what trade-offs were made? Details, not names; details.

WHEY PRODUCTS MARKET COMMENTS: DMN reports the dry whey market as unsettled. Buyers are cautious, and are concerned about how much the futures prices are above current prices, and perhaps about the sudden difference in price per lb of protein that has opened between nfdm and whey products. However, sales continue to keep pace with production and the average prices reported for last week's sales rose again after a one week decline, continuing their almost unbroken string of weekly increases since February, 2009. Prices for whey protein concentrate are steady and high.

FRED DOUMA'S PRICE PROJECTIONS...

Feb 05 Est:	Quota cwt. \$ 14.89	Overbase cwt. \$13.20	Cls. 4a cwt. \$12.61	Cls. 4b cwt. \$13.21
Last week:	Quota cwt. \$ 15.21	Overbase cwt. \$13.84	Cls. 4a cwt. \$13.91	Cls. 4b cwt. \$12.69

PRICES MOVE LOWER ON FONTERRA'S MONTHLY AUCTION; SKIM MILK POWDER TO BE OFFERED NEXT MONTH: *(By J. Kaczor)*

Fonterra's latest monthly global internet auction was completed on Tuesday, February 2nd. It was the twentieth; the first one was held July, 2008. This was the fourth month anhydrous milk fat was offered to bidders. In March skim milk powder will be added. Until recently, this innovative auction approach to selling major dairy commodities on a global basis was little more than an interesting side show for the U.S. dairy industry. The U.S. produces little whole milk powder (the only product that was offered until AMF was added), and little of what is produced is exported. So, the monthly auctions have been closely watched by the U.S. industry, but only for signs of changes in the general balance between supply and demand for all dairy commodities. This month, prices for regular whole milk powder were \$.04 to \$.11 per lb lower than January's result, and prices for premium grade AMF ranged \$.12 to \$.15 per lb lower.

But there are fair amounts of anhydrous milkfat produced in the U.S. (just how much is uncertain because the major producers decline to release data on production, and the amount in storage at the end of the month is combined with butter and therefore successfully hidden from view). The amount of AMF that was exported this year, through November, has averaged one million lbs per month – a quarter of the total occurred in November, with the support of USDA's export subsidies. Timely information about sales of this important international dairy product on the *globalDairyTrade* platform should be helpful. And the addition of skim milk powder (a standardized form of U.S. nonfat dry milk that contains, on average, less protein than NFDm) should make Fonterra's monthly auction a really important event for the U.S. because NFDm is perhaps the most important market-clearing product in the industry. While NFDm is not likely to be acceptable for the auction, prices for the two related products tend to move together, so important market information should become available.

Although almost all of the initial criticism and attacks on Fonterra's monthly auction have gone away as prices finally began to rise by the middle of last year, questions remain about how useful and representative the monthly prices are for the vast majority of sales that are not included in the auctions. The volume of the three products that will be offered in March should represent about 20% of Fonterra's total production, and follows the annual production pattern of the southern hemisphere. A significant improvement should happen when other suppliers (Europe, Brazil, Argentina) begin to add some of their supplies to the auction, a development Fonterra is openly inviting. The U.S. industry will have to politely decline because its milk pricing formulas discourage commitments to buy or sell at fixed prices for long terms or even medium terms – or does not want to use hedging tools to support those commitments. It appears U.S. milk producers will have to be content with the results of the tried and true business practices of the companies who buy their milk: lengthy price negotiations, zero transparency, and certain price volatility.

A BALANCE IS REACHED IN DECEMBER; WHAT LIES AHEAD? *(By J. Kaczor)*

Based on USDA's report on dairy product production in December, released earlier this week, it looks like the U.S. dairy industry is not far out of balance. Milk production in December was lower than a year earlier and higher than in November. No surprises there; 252,000 fewer cows than a year earlier accounts for the decrease, and one more day's worth of production in December than in November accounts for the increase. With fluid milk consumption continuing strong, and an increase in yogurt offsetting decreases in cottage cheese and sour cream, usage of the rest of the milk went to butter, powder, and cheese. (The continuing strength in fluid milk consumption is quite an expression of consumers' sense of milk's real and perceived value, considering they stayed with the product all the way through that fifteen month period of record high prices that happened in the middle of a great recession). The following tables show how it balanced out. The numbers in the tables reflect millions of lbs. The left-hand

column shows the short term situation where the relationship to production and inventory changes are relevant; the right hand column takes the longer term view, which detaches production numbers from inventory numbers, thereby making such comparisons meaningless.

<i>Production</i>		
	Dec 09 vs Nov 09	Dec 09 vs Dec 08
Butter	+29.2	-6.7
Powders	+27.8	-24.3
Cheese	+18.3	-1.0
Dry Whey	+4.4	-0-

<i>End of Month Inventories</i>		
Butter	-9.0	+14.6
Powders	+17.0	-67.4
Cheese	+3.6	+115.0
Dry Whey	+2.1	-17.2

- The decrease in the amount of butterfat products in storage at the end of December, compared to the increase in production of butter during December, suggests that exports helped to move quite a bit of product, in addition to the strong sales reported by DMN. The December to December comparison is believed to reflect lower overall exports of butterfat during 2009.
- The production figures for powders include NFDM and skim milk powder, while the inventory figures are all NFDM. (A major manufacturer of SMP declines to provide inventory figures.) Short term, more powder was sold in December than was produced, as the inventory dropped by 10.8 million lbs during the month. Not shown in the above table is the fact that NFDM inventories fell by 63.3 million lbs from the end of October. One might ask, then, why the concern over mid-January inventories was so great as to warrant the major disruptive dumping of prices and product. It simply doesn't figure. The drop in the December to December comparison resulted from sales that were made to the CCC from December 2008 through March 2008.
- Short term sales of cheese show positive sales, although the percentage difference between production and inventory disappearance is small. The long term increase in inventory, and the fact that the levels appear to be steadily increasing, doesn't do much to support the belief that cheese prices are on solid ground. Lower production, or at least flat production and a steady increase in sales (domestic or export) is what is needed to improve the prospects for this most important of the industry's usage category.
- The figures for dry whey, short term and long term, reflect a very nice balance between steady supply and steady demand. Much of the support for the demand side has been and continues to be from international sales.

All in all, it looks like a reasonable balance has been reached after a wild ride. Next week, a review of some interesting comments about exports, credit, and production plans.

JANUARY CARES COLUMN POSTED ON OUR WEBSITE: *(By Rob Vandenheuvel)* The newest Dairy Cares monthly column has been posted to our website (<http://www.milkproducerscouncil.org/cares.htm>). This month's column focuses on the work being done in Tulare County to streamline the county's land use regulations. With several different layers of environmental regulations facing the dairy industry, it's encouraging to see a county making an effort to align their policies with the other regulatory agencies, rather than maintaining a confusing web of intertwined regulations.

CDQAP-CERTIFICATION CLASSES SCHEDULED FOR MARCH 2-3: *(By Rob Vandenheuvel)* Last fall, CDQAP hosted environmental certification classes throughout the Central Valley, giving dairies an opportunity to become CDQAP-certified and saving those dairies 50% on their annual fees to the State Water Resources Control Board. Next month, CDQAP will be holding class in Ontario, at the Southern California office of MPC.

Dairymen from Southern California that have not yet taken the class but would like to be CDQAP-certified (as well as any Central Valley dairymen who missed last fall's classes) are invited to attend the class next month.

The class will be held on March 2nd (in the afternoon) and March 3rd (in the morning). You must attend both days of the class for certification. The location of the class will be:

13545 S. Euclid Avenue, Unit B
Ontario, CA 91762

As I've mentioned before, the classes are only part of the certification. After completing the class, you will also need an on-site evaluation of your dairy. This evaluation will be done by a third party and will cost \$500 per dairy.

If you plan on attending the class, please RSVP to Debi Clark (909-628-6018) so that we can make sure we have enough room for everyone.

MPC PRESIDENT PRESENTING THE DAIRY PRICE STABILIZATION PROGRAM AT FARM SHOW: *(By Rob Vandenheuvel)* Next Tuesday at the Tulare Farm Show, MPC President Syp Vander Dussen will be participating in a panel discussion on the long-term outlook for the dairy industry, focusing primarily on efforts to implement the Dairy Price Stabilization Program.

The panel discussion will be held from 12:15 - 1:15 pm. So for those of you who will be at the Farm Show on Tuesday, please make plans to stop by The Seminar Center at 12:15 and participate in this important discussion about the long-term viability of the dairy industry.

MORE RAIN EXPECTED THROUGHOUT THE STATE: *(By Rob Vandenheuvel)* With more rain expected throughout the state this weekend, dairies are reminded to regularly inspect your stormwater retention infrastructure. Not only is this required by the various regional water boards, it also allows dairies to catch and address minor issues before they become major one.