

Milk Producers Council

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TO: DIRECTORS & MEMBERS

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MPC FRIDAY MARKET UPDATE

CHICAGO MERCANTILE EXCHANGE

Blocks + \$.0700 \$1.3100
Barrels + \$.0400 \$1.2700

CHICAGO AA BUTTER

Weekly Change N.C. \$1.1025
Weekly Average N.C. \$1.1025

NON-FAT DRY MILK

Week Ending 2/13 & 2/14

Calif. Plants \$.8058 21,598,583
NASS Plants \$.8187 29,375,406

Weekly Average

Blocks + \$.0998 \$1.3063
Barrels + \$.0773 \$1.2763

DRY WHEY

WEST MSTLY AVG w/e 02/20/09 \$.1575
NASS w/e 02/14/09 \$.1555

CHEESE MARKET COMMENTS: According to *Dairy Market News*, the continuing strength in cheese prices on the CME reflects a huge increase in recent buying activity for domestic consumption. DMN reports “Buyers are now aggressively looking for more cheese...,” “Cheese is well cleared up at the plant level,” “In the last week, anyone that has tried to clean out inventories...has been very successful.” Let’s hope so, because the NASS report on the amount of cheese in cold storage at the end of January, released today, showed that way more was being stored than a year earlier and somewhat more was on hand than at the end of December when cheese prices were on their way to well below support levels. DMN supports its comment by noting that some plants have reported that fewer orders are being made for March deliveries – a possible sign of over-buying. It could be that many buyers generally got caught with their socks down – by holding back on purchases too long to benefit from the once in a lifetime opportunity. **The weekly average price for Cheddar blocks for all four weeks in January was below the U.S. support level.** Retail sales are reported to be good, with lots of ad features and price deals. The necessary “reality check” here is that consumer confidence has not shown any signs of recovery and most economists do not see an end to the current historically damaging recession until much later this year, if by then, and prices for cheese milk on the futures market have not risen nearly as much as the current cheese prices should generate.

BUTTER MARKET COMMENTS: Butter prices on the CME remained at \$1.1025 per lb for another week. DMN reports that retail sales are fairly strong, even without as many price reductions as expected, but food service buying remains on the slow side. The amount of butter and anhydrous butterfat in cold storage at the end of January was about 5% lower than January 2008, but **was almost 50% higher than just a month before.** What’s more to be said? Oh, those industry-saving exports and loyal international customers are gone, but last week the U.S. Dairy Export Council assured those interested that it’s only a matter of time before they will return, and USDEC is designing ways for U.S. plants to get their fair share of that business.

POWDER MARKET COMMENTS: The market is either steady (in the West) or lackluster (in the Central region), sales are strong to the Commodity Credit Corporation, and DMN reports that some plants outside of California finally may be getting into that act. For the week ending February 13th close to half of all nfdm sales by California plants went to the CCC, the California plants’ average price was a tad above the support price, and the average of the Western “mostly” price was a tad below. California producers lost out on the record price run-up for exports of nfdm that began in the Spring of 2007 and somehow lost out on the profits that were made when those prices finally collapsed last month. Next week, a tabulation of the numbers, for sure.

WHEY MARKET COMMENTS: Prices in the West continue to edge up, and this week the “mostly” price average is a full cent per lb above the January lows. DMN reports that domestic **and export** interest is showing signs of improvement. Meanwhile, the market for whey protein concentrate appears to have leveled off, with buyers seemingly satisfied that product will be available when it is needed, at prices reflective of the current buyers’ market.

FRED DOUMA'S PRICE PROJECTIONS...

Feb 20 Est:	Quota cwt. \$ 11.36	Overbase cwt. \$ 9.66	Cls. 4a cwt. \$ 9.40	Cls. 4b cwt. \$10.20
Feb 13 Revised:	Quota cwt. \$ 11.27	Overbase cwt. \$ 9.57	Cls. 4a cwt. \$ 9.40	Cls. 4b cwt. \$10.00

JANUARY'S MILK PRODUCTION SHOWS CLEAR SIGNS OF CUTBACKS: *(By J. Kaczor)* USDA's report on milk production for January 2009 came with a few surprises. First, the news that's very encouraging: **the increase in U.S. milk production compared to January 2008 was only 26 millions lbs, which is 0.8%, which is the lowest monthly percentage increase in almost two years.** The increase from December's production was 200 millions lbs, which is only a little more than half of what happened a year earlier.

The second surprise, were the adjustments made to the numbers of milk cows and the amount of milk that was reported **for each month in 2008**, based mainly on the NASS survey of cattle that was completed in January. December's cow count was increased by 42,000, which raised it to 117,000 higher than in December 2007. (Last month, it was reported to be only 75,000 larger.) The total amount of milk produced in December was adjusted up by 46 million lbs. (This adjustment helps to explain the huge increase in production of nonfat dry milk that was reported for December.)

While the increase in cow numbers for December **could be considered a setback** for those who are hoping for a significant contraction in milk production and resulting reductions in the manufacture of unneeded and unwanted surplus products, it may not be a setback at all, because of what has happened since. The reason for hope that collective sanity will prevail is found in January's numbers. As mentioned above, NASS estimates that only 26 million more lbs of milk was produced in January, and **January's cow numbers are 14,000 lower than the number reported for December.** That December to January drop doesn't happen often, and when it has in the past, February usually follows along. CWT's herd disposal program is given credit for a good part of that decrease, and the cost/price catastrophe producers are facing accounts for the rest. In December, 24,000 more cows were culled than the previous December, and the increase in January over a year earlier was 45,000.

CALIFORNIA: Counter to the national trend, NASS adjusted California's cow numbers for December **down** by 4,000, but milk production was adjusted **up** by 11 million lbs (but still was 0.5% below December 2007). For January, NASS reports that **cow numbers decreased by 9,000 from December and by 7,000 from January 2008.** CWT reports that 23 California herds were eliminated as part of herd retirement program in the 1st 5 weeks of the year. Milk production was reported to be 1 million lbs more than in December and 50 million lbs less than last January. **The percentage decrease in milk compared to last January was a whopping 1.4%.** Production per cow has now decreased in California for 7 months in a row.

SHOULD THE INDUSTRY SERIOUSLY CONSIDER A GROWTH MANAGEMENT PLAN? A LOT OF PRODUCERS SURE THINK SO: *(By Rob Vandenheuvel)* Yesterday, Western United Dairymen hosted a well-attended producer forum in Modesto to discuss "supply management and plant capacity." The forum included reports on the various "production base plans" implemented by the California cooperatives and an interesting presentation by Dr. Maurice Doyon from Laval University (Québec) on the Canadian supply management program.

But the presentation that far-and-away received the most interest from producers in the room was from Dr. Chuck Nicholson from Cornell University's Program on Dairy Markets and Policy. Dr. Nicholson delivered an outstanding analysis of the **Growth Management Plan (GMP)**, a program that would directly address the **single largest threat to the U.S. dairy industry** – massive (and growing) volatility in the price of milk.

The GMP does this by creating a financial incentive for dairies throughout the country to manage their milk production. By creating this simple incentive, individual dairies that wish to grow can do so, but they will essentially have to "buy their market share" by paying their fellow dairymen who hold their production in line,

allowing the market to absorb the increased production. Domestic consumption of dairy products is continuing to grow as the population grows. As an industry, we need to continue to grow, but we need to be more strategic about it. The Growth Management Plan would accomplish that goal.

The GMP has been discussed several times in this newsletter and will be explored even further in future issues. The presentation by Dr. Nicholson at yesterday's forum included updated modeling and research that Cornell University performed on the GMP over the past month. The research showed that if implemented, the program will provide a more stable, profitable price for producers. You can find Dr. Nicholson's presentation at <http://www.milkproducers.org/021909gmp.pdf>.

While a program like the Growth Management Plan inevitably stirs up many questions about the details of the program, the broad message that could be heard through the questions/comments from producers at yesterday's forum was clear: **Status quo is unacceptable. Our industry needs long-term solutions, and the Growth Management Plan is an idea that should be seriously discussed and considered.**

AQMD EXTENDS DEADLINE TO FILE ANNUAL EMISSIONS REPORT – NOW DUE APRIL 2ND: *(By Rob Vandenheuvel)* The South Coast Air Quality Management District (AQMD), which issues air permits to larger dairy facilities (the threshold is around 700 milk cows), announced that the deadline to submit your Annual Emissions Report has been extended to April 2, 2009 (The previous deadline was March 2nd). MPC has been assisting our members in filling out these reports, so if you need any assistance, please feel free to contact us at (909) 628-6018.

The new system for submitting these reports is extremely complex and time-consuming. As I'm sure you've seen in your mailbox, many "consultants" are jumping on this opportunity and offering to fill out your report (for a fee of course). These consultants know little-to-nothing about the dairy industry, and are merely exploiting the fact that AQMD has subjected dairies to confusing, frustrating, time-wasting paperwork. If you are an MPC member, **use us as a resource.** We can help.

DAIRIES THAT WANT TO START PARTICIPATING IN THE MILC PROGRAM IN FEBRUARY HAVE UNTIL NEXT FRIDAY TO SIGN UP: *(By Rob Vandenheuvel)* Any producer that wants to designate February as their "start month" under the current Milk Income Loss Contract (MILC) program must have the proper paperwork filed with FSA by next Friday (February 27th). If you need any help filling out the paperwork, please call MPC at (909) 628-6018.

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