

Milk Producers Council

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MPC FRIDAY MARKET UPDATE

CHICAGO MERCANTILE EXCHANGE

Blocks $-.0425$ \$1.2975
Barrels $-.0400$ \$1.2500

Weekly Average

Blocks $-.0485$ \$1.3205
Barrels $-.0565$ \$1.2725

CHICAGO AA BUTTER

Weekly Change $+.0450$ \$1.4500
Weekly Average $+.0345$ \$1.4335

DRY WHEY

WEST MSTLY AVG w/e 2/26/10 \$.4038
NASS w/e 2/27/10 \$.3894

NON-FAT DRY MILK

Week Ending 2/26 & 2/27

Calif. Plants \$1.0209 22,782,576
NASS Plants \$1.0448 34,313,453

CHEESE MARKET COMMENTS: CME prices for cheddar were steady on Monday and Tuesday, before USDA reported production of all types of cheese in the U.S. in January was 2.3% lower than December's output but production of cheddar was 2.5% higher. Prices for blocks and barrels then lost ground for the rest of the week. *Dairy Market News (DMN)* says some plants in the Midwest and East continue to ease back on production in order to keep stocks in line with current demand, but plants in the West continue to keep producing, to maintain "efficiencies." It's beginning to look like the answer to how low cheese prices will go may come from the company that has been selling most of the cheese on the CME. In the past several weeks about 90% of all CME-traded cheese was sold by a single plant. The plant is large and efficient, is located in an unregulated area, and is part of a national firm that has two other plants located in federal order areas. This firm is also a major manufacturer (with about 17% of the U.S. market) of specialized whey protein isolates (products with protein content above 90%). Several weeks ago it was mentioned, in jest, that it was beginning to look like some plants are making cheese mainly to obtain whey. Even if that were true, which is not likely, it still would not explain what is happening on the CME. The daily trading doesn't happen in a vacuum – this week's buyers are happy with the lower prices, last week's buyers are wishing they had waited, and those who bought a month ago are probably kicking themselves. How much does the lag between CME spot prices and the average price received by manufacturers affect anything? Here's how they compare this week for cheddar blocks: Friday CME, \$1.2975; this week's CME average, \$1.3205; last week's NASS price, \$1.4921. Representatives of other manufacturers and brokers are on site observing it all. What are they thinking? It's still too early in the year to tell how good or bad it will be – it depends. Milk production is likely to be the major determining factor in overall strength or weakness in milk prices this year, but also important is how much cheddar cheese production will occur, how exports will shape up, and how long will it take for the U.S. economy to recover to the point where consumers return to normal food purchase patterns.

BUTTER MARKET COMMENTS: DMN reports that butter production is seasonally heavy but sellers and buyers apparently believe the market is in good shape. January's production was 7.5% higher than December's, somewhat higher than expected but certainly not a problem for buyers and sellers. Optimism is shown by the CME futures prices steadily increasing through November, topping off at \$1.61 per lb. Prices increased every day this week on the CME. January's and February's butter prices are the highest they've been in five years.

POWDER MARKET COMMENTS: Higher NFDM sales volumes were reported last week, and prices fell close to the \$1.00 per lb level. In the West, DMN reports some sales this week were at \$.98 per lb. The price for extra grade powder on the CME was lowered \$.12 per lb this week on the CME, to \$1.12 per lb. This week, USDA sold 23 million lbs of NFDM for an average price of \$.75 per lb, to be used for other than human consumption. Not really a bad deal, considering. They paid \$.80 per lb for it, hauled it to their warehouses, and paid storage for about nine months. The original purchase was for a very good cause – it supported milk prices. The net cost to the government from start to finish for this product is about \$.15 per lb, maybe more. The product

was about nine months old, and likely still suitable for human consumption, and it would have been a whole lot better if it had been donated to countries who desperately need wholesome dairy foods but do not have the means to buy them. The effect of displacing 23 million lbs of other products used for animal feeds or non food usage is anyone's guess. The report states the NFDM that was sold was not denatured, and is now being offered for resale to the public for "restricted use." Would some national producer organization please follow its ultimate usage very closely?

WHEY PRODUCTS MARKET COMMENTS: Prices for dry whey slipped for a second week in a row for sales made last week, according to NASS. That price average is now about \$.01 per lb below its high for the past twelve months. Prices for whey protein concentrate (34% protein) also eased downward a bit. Sales continue to be strong, but buyers are understandably looking at how much more they are paying for protein per lb in dry whey than what it would cost from buying WPC or NFDM. Production of DW (human food) in January was 2.3% higher than in December, production of dry lactose was 4.0% higher, WPC production was 1.5% higher, and production of whey isolates jumped by 7.2% (and was 23.1% higher than a year ago).

FRED DOUMA'S PRICE PROJECTIONS...

Mar 05 Est:	Quota cwt. \$ 14.15	Overbase cwt. \$12.45	Cls. 4a cwt. \$12.78	Cls. 4b cwt. \$11.27
Last week:	Quota cwt. \$ 14.85	Overbase cwt. \$13.15	Cls. 4a cwt. \$12.81	Cls. 4b cwt. \$12.92

PRICES RISE AND FALL ON FONTERRA'S LATEST INTERNET AUCTION: (By J. Kaczor) Fonterra down played what should have been the biggest news about this month's *globalDairyTrade* internet auction. The big news was the successful addition of skim milk powder to the other products offered.

Four kinds of SMP were offered: low heat, medium heat, high heat, and UHT. The total volume available this month was small, about 6.6 million lbs. The total volume of SMP projected to be available over the first twelve months is 271 million lbs of New Zealand sourced product, which is a little more than one third of what USDA estimates Fonterra will produce in the year ending June of this year (and probably a little less than one third of what they will produce in the next year). Volumes for delivery in months of high milk production will be about six times the amount offered this month. As the starting price, Fonterra used the simple average of the price range (less 15%) that was reported by DMN for New Zealand and Australia two weeks ago. Based upon the winning prices for all four products, it's clear that the biggest sellers were low heat and medium heat products (90% of the total). The average winning prices for these two products are: \$1.28 per lb for deliveries in May, \$1.43 per lb for deliveries in June through August, and \$1.32 per lb for deliveries in September through November. The \$1.28 price for May is considered the "spot price," and is \$.03 higher than what DMN had reported as the middle of the price range two weeks ago. Using its established procedure for starting prices, expect to see \$1.09 per lb as the initial offer next month for low and medium heat products.

The price for whole milk powder for the spot month of May moved back up to where it was in January's auction, \$1.48 per lb. Prices for the next three months are \$1.50 per lb, and \$1.44 per lb for the last three months covered by the auction. Prices this month for anhydrous milkfat, the fifth time they were offered, fell by about \$.20 per lb for all seven months. For deliveries in May, \$1.72 per lb; for deliveries from June through August, \$1.78 per lb; for deliveries from September through November, \$1.75 per lb.

For comparison purposes, DMN reports the average of the "mostly" price for whole milk powder in the U.S. \$1.44 per lb. The average prices this week for NFDM are about \$1.03 per lb but, six weeks ago, before U.S. manufacturers dumped inventories, were about where Fonterra's auction prices for skim milk powder are now. The disconnect between U.S. domestic prices and international prices on this key product is puzzling, isn't it?

While questions remain about how sound and valid this auction procedure is, the New Zealand stock exchange believes the prices for whole milk powder are sound enough (in terms of volumes sold and number of companies

participating) to use them as a basis for offering futures contracts for hedging purposes, beginning in a few months.

GOT A DIESEL POWERED VEHICLE ON YOUR DAIRY? THE AIR RESOURCES BOARD NEEDS TO HEAR FROM YOU: *(By Rob Vandenheuvel)* The California Air Resources Board (CARB) is in the process of implementing a new rule affecting diesel-powered vehicles, including ag vehicles such as feed trucks and manure spreaders. Depending on the annual mileage of your vehicle, you may be able to delay the implementation of this rule until 2017 or later.

In order to receive this temporary exemption from the rule, dairies will have to submit a form to CARB for each truck by March 31st. For more information, CARB has put together a fact sheet on the new rule (<http://www.arb.ca.gov/msprog/onrdiesel/documents/tbagfs.pdf>) as well as the form that needs to be submitted for each ag vehicle seeking the exemption. (<http://www.arb.ca.gov/msprog/onrdiesel/documents/TBReportingForm091222.pdf>).

MPC members wanting assistance in filing this paperwork should contact Betsy Hunter (Central Valley Representative, 661-205-6721) or Rob Vandenheuvel (909-992-9529).

MPC MONTHLY BOARD MEETING NEXT TUESDAY IN CHINO: *(By Rob Vandenheuvel)* Next Tuesday (March 9th) at 11 a.m., MPC will be holding its monthly board meeting at the Centro Basco Restaurant (13432 Central Avenue – Chino, CA 91710). As always, **all MPC members are welcome (and urged) to attend and participate in our board meetings.** Lunch will be provided, so if possible, please RSVP with Debi at the MPC office (909-628-6018).