



Milk Producers Council

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TO: DIRECTORS & MEMBERS

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MPC FRIDAY MARKET UPDATE

CHICAGO MERCANTILE EXCHANGE

Blocks	+\$.0550	\$1.3250
Barrels	+\$.0475	\$1.3125

CHICAGO AA BUTTER

Weekly Change	+\$.0200	\$1.4900
Weekly Average	+\$.0240	\$1.4800

NON-FAT DRY MILK

Week Ending 3/19 & 3/20

Calif. Plants	\$1.0298	20,375,278
NASS Plants	\$1.0446	29,957,988

Weekly Average

Blocks	+\$.0190	\$1.2870
Barrels	+\$.0175	\$1.2805

DRY WHEY

WEST MSTLY AVG	w/e 3/19/10	\$.4000
NASS	w/e 3/20/10	\$.3703

CHEESE MARKET COMMENTS: Blocks and barrels finished last week with increases of \$.0025 per lb on the CME and continued to increase this week, with heavy trading in barrels. The biggest increases for the week occurred today, with bids, no trades – a good sign. Two recent reports from USDA relating to cheese were not devastating: more cows and higher milk production in February and stocks of cheese at the end of January growing a bit more than changes in production would have indicated. Dairy Market News (DMN) finds that buying interest from processors, for barrel cheese, has been picking up. [Watch for CWT to take credit for the price increases on the CME; they just can't help it.] Block prices are now back to within \$.40 per lb of where they were in early December. Major buyers have got to be edgy, wondering about future milk production, costs of storage, and future prices. According to DMN, at least some plants are trying to hold production down to match current orders. Has the cheese market again turned on a dime?

BUTTER MARKET COMMENTS: The report on butterfat products in storage at the end of February was positive; higher than January and February 2006 and 2007; lower than those months in 2008 and 2009. Butter sales continue to be good, even without much in the way of exports. Butter production should follow its normal seasonal pattern for the next five or six months – lower, which should keep this market nicely balanced.

POWDER MARKET COMMENTS: The market tone, if not the prices, is definitely pointing upward. With 24 million fewer lbs of nonfat dry milk and skim milk powder produced in January in the U.S., and domestic sales increasing, concerns about too much product in inventory may be put aside in favor of speculating about where future prices could be heading. Production in Europe is reported to be as expected, and slightly lower than expected in New Zealand. Huge stores of publicly-owned product in Europe seem to be one “overhang” keeping prices from moving up. The market for whole milk powder is steady this week; buttermilk powder firming, higher, and sharply higher as we look from the East coast to the West.

WHEY PRODUCTS MARKET COMMENTS: Sales volumes are steady, but the overall market for dry whey seems to be weakening. Some re-selling of DW in the Midwest is occurring, with discounts, and prices for DW for animal feed continue to be affected by the “restricted use” NFDM that was sold by the CCC some weeks ago. The average for the West’s “mostly” price moved down a bit this week, but is a full \$.03 per lb above the NASS weekly average. Whey product prices are being affected by nonfat dry milk prices, as expected, which could be good in the long run. However high the products are in protein content, users of the products really do not relish having to change formulas in order to squeeze a small savings from their purchasing departments; it’s usually much easier to get it directly from current suppliers for products currently being used.

FRED DOUMA’S PRICE PROJECTIONS...

Mar 26 Final:	Quota cwt. \$ 14.10	Overbase cwt. \$12.41	Cls. 4a cwt. \$12.85	Cls. 4b cwt. \$11.10
Last week:	Quota cwt. \$ 14.09	Overbase cwt. \$12.39	Cls. 4a cwt. \$12.82	Cls. 4b cwt. \$11.08

LOOKING AT FEBRUARY'S INCREASE IN MILK PRODUCTION, AND FOR A SOLUTION: (By J. Kaczor) The trouble with depending on everything going right is that it seldom happens. Take the matters of milk price recovery projections, and milk production forecasts, for example. Most of the proven industry models were very good in projecting a strong price recovery in 2007-2008, and then falling again in 2009. None of them saw the record-highs in 2007-2008 or the record-lows in 2009 – and they should not be faulted for that because those prices were truly unforeseeable. Most of the forecasts for 2008 predicted prices would average close to 2007's, but they didn't say the year would end by heading down to where 2007 began (very low; January 2009). Had they forgotten that adage about being able to drown in a stream that averages only six inches deep?

The same kind of swings and misses apply to most of the factors that affect the industry's most basic statistic – future milk production. What was normally a fairly simple thing to do, project changes in the dairy herd then add a reliable increase in production per cow to arrive at an estimate of how much milk will be available, is not so simple any more. About the only time-honored assumption a milk producer can rely on anymore is that the cows need to eat. That's not a sound business plan useful for forecasting, that's a worry looking for a solution.

Feed cost surprises can be controlled by using risk management tools, because crops are closely watched, carefully measured, and (except for weather variables) their futures prices are relatively stable. The “tool” for locking in a gross margin for milk, once the feed cost is known, is the class III futures market prices, which are closely watched, carefully measured, and not at all stable – affected by the very thinly-traded, highly leveraged, CME cheddar cheese market. Producers who acted in December when cheese prices peaked should now be showing their lenders projected income over feed costs high enough to refinance a falling amount of debt. Those who may have thought 2010's price recovery was underway early in November and December and could wait for better prices, are now looking at just the opposite. Class III futures prices, instead of serving as a steady benchmark reflecting fair consensus, look more like a gyrating stock market, inviting speculation and loaded with risk. [Note: National Milk Producer Federation has a “solution” in mind – do nothing to minimize future price booms and busts, but cushion producers from the very lowest prices that are sure to occur. NMPF members, is that really what you think is best for your members?]

Most forecasts made last fall about number of dairy cows and the amount of milk production for 2010 are not looking so good right now. The sharp decline in number of cows from last January through October slowed in November and December, and turned upward in January and February. USDA estimates that the dairy herd has now increased by 3,000 cows in each of the past two months, instead of expected continuing decreases at somewhat reduced rates. After seven straight months of lower milk production compared to the same month a year earlier, February's output was about 14 million lbs higher, with 201,000 fewer cows. Production per cow was 2.1% higher.

It's still too early to tell what's going to happen. A turning point isn't yet apparent. The global recession is showing signs that it's nearing its end but, at least in the U.S., the massive loss of equity in homes and the loss of jobs appears to still have some time to continue before turning around. Those are the industry's customers; USDA estimates that sales of fluid milk products (class I usage) was 0.1% lower in December and 2.2% lower in January, compared to year earlier levels. The latest report on stocks of cheese in storage at the end of January shows that consumers didn't switch from milk to cheese – they cut back on both.

The increases in production per cow are understood to reflect the effects of good management and younger cows. USDA estimated that a record high number of replacements existed in January. How many of those producers who removed entire herds last year are planning to restart this year? How many of the younger cows owned by producers who will quit the business this year will be taken on by other producers? What's the chance of hot and humid weather occurring this summer in the mid-west instead of the ideal conditions they had last summer? What effect will the major expansion of a major cheese plant in New Mexico have on total cheese and whey supply? Could exports of butter, cheese, and nonfat dry milk really absorb the surplus that is almost certain to occur? The problem with these questions is that they almost all need to be answered the right way if milk prices are to rise as forecasted, and that seldom happens.

Note about regional differences. Differences in milk production trends between a six-state region in the mid-west and a five state region in the west, referred to here from time to time, cannot even be seen in looking back from September 2009 to February 2010 (February is the most recent month reported by USDA). Over this period, the number of cows in California, Arizona, Idaho, New Mexico, and Texas changed by a total of zero, zilch. (California had 9,000 fewer cows than in September, and 65,000 fewer than last February; milk production in February was 1.2% lower than a year earlier.) The number of cows in this six month period in Minnesota, Wisconsin, Iowa, Illinois, Indiana, and Michigan increased by a total of one. That's not to deny that the regions may see things differently regarding near term industry prospects, but the numbers show that the major decisions thus far about expansion and contraction were made last year in the January to August period.

NEWSFLASH – CME ESTABLISHES FUTURES MARKET FOR SKIM MILK POWDER: *(By J. Kaczor)* Wednesday evening, CME Group announced the July launching of a futures market for skim milk powder with three U.S. shipping locations and three international locations. Mind you, this is skim milk powder, not nonfat dry milk. It sounds like it could be very complicated because of the international locations. The contracts and options could be cash settled, but with tariffs and transportation factors, just who would settle what? Meanwhile, the New Zealand exchange had announced their plans to launch a futures market for whole milk powder, using Fonterra's internet prices as the settlement prices. Would Fonterra's internet auction prices for skim milk powder (which cover a seven-month period from the auction date) affect the CME futures prices, or would the opposite occur? We'll see. Perhaps.

REMINDER: DEADLINE THIS TUESDAY (MARCH 31) FOR FILING YOUR DIESEL-POWERED VEHICLES WITH THE AIR RESOURCES BOARD: *(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 next Tuesday, March 31st**. For more information, CARB has 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 truck (<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).

JUST SOME FUN FACTS: AN INTERESTING UPDATE ON THE CHINO DAIRY INDUSTRY: *(By Rob Vandenheuvel)* The Chino dairy industry was a significant milk shed for many years. In fact, many of our readers probably have some connection to the Chino dairy industry, either a direct connection or a family member or friend that used to be involved. Given that connection, it may interest many of you to know the current status of this historically-significant dairy region.

According to reports submitted by the dairies in the Chino basin to local government agencies, there are approximately 79 dairy facilities still operating in the Chino/Ontario region (this includes milking operations only). On those 79 dairies, approximately 57,000 cows are milked every day. In addition, there are about 32 non-milking operations, where about 37,000 heifers and calves are raised. So all told, there are about 111 facilities with 94,000 animals housed in the Chino Basin.

As a note, compare that to ten years ago. When the Regional Water Board drafted their 1999 General Order for dairies, they estimated there were 279 facilities, with 320,000 total animals (milking, dry, heifers and calves) in the Chino Basin. That's a 60 percent reduction in the number of facilities and a 70 percent reduction in animals.