

# Milk Producers Council

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## MPC FRIDAY MARKET UPDATE

### CHICAGO MERCANTILE EXCHANGE

Blocks +\$.0700 \$1.9050  
Barrels +\$.0900 \$1.8400

### Weekly Average

Blocks +\$.0145 \$1.8685  
Barrels +\$.0345 \$1.7780

### CHICAGO AA BUTTER

Weekly Change +\$.0025 \$1.3925  
Weekly Average +\$.0090 \$1.3890

### DRY WHEY

NASS w/e 4/12/08 \$.2498 WEST MSTLY AVG w/e 4/17/08 \$.2775

### NON-FAT DRY MILK

Week Ending 4/11 & 4/12

Calif. Plants \$1.2341 17,923,296

NASS Plants \$1.2418 24,421,376

**CHEESE MARKET COMMENTS:** Prices on the CME moved up nicely this week. Blocks gained 7 cents, all on unfilled bids – a good sign. Barrels narrowed the price difference from blocks by 2 cents, by gaining 9 cents on the week. The cheese market continues to be the single best source for good news for producers as production remains steady, imports continue to lag behind last year, and exports remain comparatively strong.

**BUTTER MARKET COMMENTS:** It was a slow week on the CME in terms of sales, with prices moving closer to the \$1.40 per lb level. The futures market has butter in the neighborhood of \$1.47 by mid-year. Production of butter remains high, in line with seasonal milk production and lower fluid milk sales. Exports remain very good. Dairy Market News reports that new orders for export continue to be placed. DMN also notes that some domestic buyers appear to be concerned about what may happen to supplies later in the year if milk production levels off and butter exports continue. This concern is said to be causing some buyers to begin to make arrangements for their future needs.

**NONFAT POWDERS:** DMN reports that export sales remain strong, supported largely by the falling value of the U.S. dollar and the reported shortage of supplies in Australia and New Zealand. Domestic demand is said to be “fair” to good, supported partly by a concern about possible higher prices later in the year. Production continues to soar, but stocks of nfdm are reported to be down and not burdensome. The weekly NASS and California plant average selling prices continue below the spot market prices by about 10 cents per lb. The CWAP bobbed down again last week, the 4th time in 8 weeks. I'm waiting for comments along the line that “*export sales are adding millions to producers' income,*” followed by producers asking, “*where's the money?*” **The average price for nonfat powder exports in February was \$1.83 per lb. The average price reported for nfdm sales by California plants in February was \$1.29 per lb.** Someone is making a very lot of money exporting nfdm and smp, but it is not showing up in any public price indicator. Does anyone see anything strange about this? Not CDFA, certainly, but anyone else? It's almost enough to make one think that all those calls for more transparency in the market for these major internationally traded products were really not all that sincere.

**WHEY MARKET COMMENTS:** Production of whey products is steady to somewhat higher, in line with cheese production. Export volumes continue to be well below last year's levels, and DMN reports that some international buyers and brokers are resisting the prices being offered. DMN's comment that the market is now in better balance doesn't seem to square with current price levels and lagging export sales. The average price for dry whey exported in February was \$.57 per lb, which was \$.30 per lb higher than the prices reported by NASS and the U.S. spot markets. (See the comment above about profits in the exporting business.) Domestic prices for dry whey are now lower than they have been in 4 years.

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## FRED DOUMA'S PRICE PROJECTIONS...

April 18 Est: Quota cwt. \$17.66 Overbase cwt. \$15.97 Cls. 4a cwt. \$14.37 Cls. 4b cwt. \$16.71  
Last Week: Quota cwt. \$17.55 Overbase cwt. \$15.85 Cls. 4a cwt. \$14.38 Cls. 4b cwt. \$16.48

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**A SECOND LOOK AT MILK-FEED PRICE RATIOS:** (By J. Kaczor) A reader of the MPC *Update* recently emailed some commentary on an article I authored two weeks ago about the record low U.S. milk-feed price ratio for March. The first point made by the reader correctly noted that the ratio does not accurately track the relationship between **milk prices per cwt** and **feed costs per cwt of milk**, which is often referred to as “income over feed costs” (IOFC). To arrive at IOFC, the **amount of feed** used to produce a given amount of milk needs to be determined, the **cost of that feed** calculated, and that cost subtracted from **the price for that milk**. The calculation can also be done on a per cow basis, per cwt basis, or per day basis, etc; whatever best suits the individual producer. The IOFC is a meaningful number. It is the amount of money available to pay for all other costs involved with operating a dairy.

A second comment made was that the U.S. M/F ratio, is presently “worthless” and “misleading” because of the elevated levels of feed costs and milk prices. Its usefulness is impaired mainly **because it is a national ratio**, where state or regional ratios would more appropriately reflect local prices and costs. As to its ability to predict future actions, I'll stand by the statement that “*the index can be looked at as a barometer, good for measuring changes, and may be used by those who have an interest in how much milk may be produced in the future...*” Because the M/F ratio uses **current input costs**, while current feed costs for producers generally reflect a blend of new and old prices, it tends to be a leading indicator. The message given by the March **M/F price ratio of 2.05** is that milk prices are moving down and feed costs are moving up **at unprecedented rates**. **If that proves to be misleading**, it likely will not be because of **the level** of milk prices and feed costs, but **the volatility of milk prices**.

A third point was made that the *Update* article asserted that milk margins have declined but no evidence was offered to support that assertion. I believe the table below serves as evidence for California producers. The data is taken from information published by CDFA. Cost-of-production figures are calculated quarterly by CDFA auditors, and average minimum milk prices, f.o.b. plant, paid to producers are published monthly. The cost figures include allowances for management compensation and a return on invested capital. A simple average of the monthly milk prices for each quarter is used for comparison to the cost figures. All the numbers in the table are on a per cwt of milk basis.

Period	Milk Price	Feed Cost	Total Cost	Profit/Loss	I.O.F.C.
1st Qtr, 2006	\$12.45	\$6.55	\$13.38	-\$ .93	\$5.90
2nd Qtr	11.14	6.55	13.73	-2.59	4.59
3rd Qtr	11.40	7.66	14.11	-2.71	3.74
4th Qtr	12.73	7.25	14.81	-2.08	5.48
1st Qtr, 2007	13.65	7.25	14.73	-1.08	6.40
2nd Qtr	17.44	7.40	15.48	+1.96	10.04
3rd Qtr	20.62	7.76	15.75	+4.67	12.86
4th Qtr	20.64	8.31	16.71	+3.93	12.33
1st Qtr, 2008	17.68	9.31	18.11	- .43	8.37
March, 2008	16.93	10.33	19.13	-.2.20	6.60

The feed cost for March was calculated on a sample of producers taken from those in the full 4th quarter study. **Current feed input costs were substituted for actual feed costs**, using the 4th quarter ration profile. Other costs for the 1st quarter of 2008 were extrapolated from earlier periods. The milk price for March was estimated based upon existing prices and estimated usages. **Yes, in California at least, milk margins have declined and are heading lower**. Furthermore, it's beginning to look like the option to expand production by any means in order to

spread fixed costs over a larger output, at least for a majority of California producers, may have ended with the activation of a number of supply management programs in this state. No growth, or slower growth, is expected to result in increases per cwt in the “other cost” category that must be covered by the IOFC.

**Next Week:** Information on how producers may help control those swings in IOFC, plus a report on a very interesting sounding milk margin insurance program to be made available for producers in 35 states.

**USDA REPORTS ALL-TIME RECORD HIGH MILK PRODUCTION; IT HAPPENED LAST MONTH:**

*(By J. Kaczor)* Never before has so much milk been produced by so few cows in any single month than what was produced last month on U.S. dairy farms. The table below shows the numbers for the top ten producing states, and for the U.S., for March 2007 and 2008. The number of cows represents thousands. The milk production represents millions of pounds.

	Number of Cows		Milk Production		
	2007	2008	2007	2008	Pct Change
<b>Washington</b>	235	245	470	488	3.8
<b>Michigan</b>	329	344	643	640	- 0.5
<b>New Mexico</b>	349	340	625	677	8.3
<b>Texas</b>	347	370	666	733	10.1
<b>Minnesota</b>	455	463	751	752	0.1
<b>Pennsylvania</b>	550	549	941	922	- 2.0
<b>Idaho</b>	504	540	948	1,026	8.2
<b>New York</b>	628	626	1,024	1,052	2.7
<b>Wisconsin</b>	1,246	1,251	1,043	2,077	1.7
<b>California</b>	1,799	1,846	3,553	3,637	2.4
<b>United States</b>	9,142	9,259	16,132	16,462	2.0

For those who are concerned about a developing surplus of milk, there is some fairly good news. The rate of the monthly increase over year-earlier levels appears to be leveling out. From October through March, the successive percentage increases have been 3.6, 3.4, 2.7, 2.2, 1.9, and 2.0. The troublesome news is that this March’s increase of 2.0% was double that of a year ago.

The first question to ask is how much of the increased milk supply went into butter, cheese, and powders? The short answer, without doing any research beyond reading the local newspapers and looking at what happened in February, is “more.” Consumption of milk in fluid form, its highest priced usage, in January and February was about 2.0% lower than the previous year. Since February, the U.S. economy has continued to weaken, food and fuel prices have continued to rise, and consumer confidence has continued to fall. The next question is has exports of butter, cheese, and milk powders continued at levels sufficient to keep inventories of those products from swamping the domestic market? Based upon continuing comments from Dairy Market News, the answer is “yes.”

Next Monday, USDA is expected to publish the report of how much butter and cheese is in cold storage at the end of March. The report of the usage of March's milk output is due on May 3rd.

The California numbers are surprising with respect to how much more milk was produced and how many more cows were being milked than a year ago, but then, the March herd was only 3,000 cows larger than in February. It appears that the combination of less usage of rbst and the activation of the milk production management programs by the major California cooperatives is having an effect.