

# Milk Producers Council

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## MPC FRIDAY MARKET UPDATE

### CHICAGO MERCANTILE EXCHANGE

Blocks +\$.0075 \$1.1400  
Barrels N/C \$1.0800

### Weekly Average

Blocks + \$.0015 \$1.1340  
Barrels + \$.0140 \$1.0800

### CHICAGO AA BUTTER

Weekly Change N/C \$1.2650  
Weekly Average +\$.0130 \$1.2650

### DRY WHEY

WEST MSTLY AVG w/e 05/21/09 \$.2675  
NASS w/e 05/16/09 \$.2347

### NON-FAT DRY MILK

#### Week Ending 5/15 & 5/16

Calif. Plants \$.8185 16,344,621  
NASS Plants \$.8349 22,412,745

**CHEESE MARKET COMMENTS:** Trading activity on the CME spot market this week was way slower than last week, and prices were little changed. Today, blocks gained what they lost last week, plus a little. *Dairy Market News* (DMN) describes the cheese market as weak, but “unclear” and “confusing” seems more the case – and the confusing part may be intentional. Let’s not forget the specific tags the CME itself carries: “thin,” “few participants,” and “subject to manipulation.” DMN goes on to report that much cheese is being bought and stored on a regular basis, using CME as the price basis but not the product source, and the volume in storage is growing. That’s the role CME is supposed to play, but when sales are brisk, prices are expected to respond. Doesn’t that sound like the CME is again being used for purposes other than to discover fair market prices? DMN seemingly explains what’s happening by reporting that “most traders feel that the recent CWT cow slaughter result is insufficient to make a sizable impact in milk production.” That may be what they’re saying, but their actions say something quite the opposite. (Note: the futures market sees cheese prices in the \$1.50 to \$1.60 price range by late summer.) Looking forward, key questions are: will domestic cheese consumption increase from their recent levels; and how much of the reduced milk supply will be apportioned to cheese plants? Why would cheese plants want to continue to produce more cheese at current prices than is currently being consumed? Most probably don’t want to, and that brings us right back to looking at the CME. NASS reported today that cheese in storage at the end of April was 7% higher than last April and 2% higher than at the end of March, with Cheddar making up most of the increase. Someone is going to make a tidy sum on that inventory; unfortunately, at this point it looks like it won’t be milk producers.

**BUTTER MARKET COMMENTS:** The CME butter market was steady this week, with the average price moving up once again. The volume of butterfat products in storage at the end of April was 3% lower than a year ago, which is a good sign because last year’s exports have gone, at least for the foreseeable future, and that volume either has to be consumed in the U.S. or not produced at all. Current and future reductions in the U.S. milk supply suggest that production will be part of the solution, and DMN reports that butter sales are doing well so far this year.

**POWDER MARKET COMMENTS:** DMN reports the markets for nonfat dry milk, whole milk powder, and buttermilk powder are doing well, with current production clearing plants on a regular basis. Fairly heavy usage of condensed skim by ice cream manufacturers has helped to keep nfdm supplies from being a burden. Sales to the CCC at support prices continue to edge lower; this week’s sales were less than 2 million lbs. Over the past 4 weeks, the NASS weekly average price for nfdm has increased by \$.025 per lb. Last week, the California plant average was still chasing the national average, but did increase by \$.008 per lb, as the percentage sold to the CCC falls.

**WHEY MARKET COMMENTS:** The market for whey-based products continues to be firm, and prices, except for whey protein concentrates, continue to move upward. Demand for dry whey, both domestic and

export, is firm and product is readily clearing from points of production. Ironically, some buyers of whey protein concentrate want to secure future volumes (and possibly prices) through contracts at the same time some manufacturers are considering cutting back on production in favor of dry whey. The West “mostly” average for dry whey moved up again, by \$.0075 per lb.

**SPECIAL NOTICE: USDA ANNOUNCES ACTIVATION OF THE DAIRY EXPORT INCENTIVE PROGRAM FOR THE YEAR ENDING JUNE 30, 2009.** Products include nonfat dry milk, butterfat products, cheeses, and “other dairy products.” This program was created to enable U.S. manufacturers to compete internationally with financial assistance from the U.S. government. The amount of nonfat dry milk authorized for this program is about 150 million lbs; the amount of butterfat products is about 46 million lbs; the amount of cheeses is about 6 million lbs. This is the program that CWT designed its export assistance program to follow. U.S. sellers find buyers, negotiate prices, and submit a request for a subsidy. This is potentially very good news for producers because it could increase exports of dairy products in the short run, but it comes at a time when world demand is depressed, some prices are very low, and international buyers have resorted to their regular suppliers. **This announcement should not be taken as an invitation to increase milk production in the U.S.**

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#### **FRED DOUMA’S PRICE PROJECTIONS...**

<b>May 22 Est:</b>	<b>Quota cwt. \$ 11.46</b>	<b>Overbase cwt. \$ 9.76</b>	<b>Cls. 4a cwt. \$10.01</b>	<b>Cls. 4b cwt. \$ 9.54</b>
<b>Last week:</b>	<b>Quota cwt. \$ 11.45</b>	<b>Overbase cwt. \$ 9.75</b>	<b>Cls. 4a cwt. \$ 9.99</b>	<b>Cls. 4b cwt. \$ 9.54</b>

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**U.S. MILK PRODUCTION:** (by J. Kaczor) The headline in our April 17<sup>th</sup> article about March’s **milk production, production per cow**, and **number of cows** all being lower than the prior March was right at the time but NASS, as they always do, adjusted the numbers after receiving a few corrections and some late reports. March was still very good, but updated numbers reported this week show that milk production “climbed” by 0.03 percent and the average production per cow was two lbs higher rather than three lbs lower than in March 2008.

**Note on how NASS estimates monthly milk production:** The amount of milk produced is by far the most accurate of the three components reported because it is based on a very large sample of all producers. The major sources used by NASS are federal milk order administrators and several individual states, including California. Even so, the milk output that is first reported gets revised at least once (the following month) as more complete data is received. For number of cows, the “benchmark” is a national cattle survey that is conducted every January and July which is used to correct any over or under estimates that were made in the months that followed the most recent survey. Data for the other ten months comes from a variety of state and local sources which NASS uses to estimate month-to-month changes at the state level. The estimate of average monthly production per cow is simply the number that fits between milk cow numbers and milk output (milk production divided by number of cows equals production per cow).

**April’s milk production:** Milk production fell by 0.1% in April, compared to a year earlier. Production per cow for the month increased by an estimated three lbs. The number of milk cows was estimated to be 23,000 fewer than in April 2008. April marks the third month in a row where U.S. milk production was lower or virtually unchanged from year-earlier levels. Looking back one year, the number of milk cows in April 2008 was reported to be 175,000 more than in April 2007. This month’s 23,000 decrease still leaves the industry with 150,000 more cows being milked than in April 2007. CWT’s announcement that 100,000 cows have been approved for removal starting as early as next week through the end of July should result in an additional net reduction of another 80,000 or so cows. Whether that is enough of a cut back will be determined by how domestic consumption holds up over the duration of this historic economic recession, and by how much self control is applied by producers who may see an opportunity to expand.

California’s production continues to move downward, with fewer cows than last year and a little less production per cow. California’s milking herd was still increasing through December, but began to contract in January and is now estimated to be 24,000 lower than last April and 19,000 lower than in December. Milk production was 82 million lbs lower than last April (-2.3%). The state’s milk production has now been lower than the same month a

year earlier for nine of the last ten months. In CWT's last herd removal program, California producers gave up about 23,000 cows; about the same number is expected to be included in the current round, which should leave the state free of complaints about lack of plant capacity. **But please note one of the important points made in the following article about how all that has been gained in the way of ridding the state of unwanted, unneeded, and commercially unsaleable milk could be undone if the state's major coop's allow the production bases associated with the cows being removed by CWT to be assumed by other members of the coops.**

**AN OPEN LETTER TO MY COLLEAGUES SITTING ON THE BOARD OF CDI, LOL, DFA, HILMAR**  
*(By Sybrand Vander Dussen, as an individual producer)* Again, a CWT Herd Retirement Program is underway. Ultimately, whether the 100,000+ cow removal is effective remains to be seen. At this point, the futures market has responded with a yawn. They are convinced we will continue to out-produce the market and give our buyers \$20 milk for \$10. Meanwhile, any equity we have left is rapidly being converted to bank loans. At what point are we done? How long will we continue with this insanity? Some say, "It'll get better when enough people go out." That statement used to be correct; there were enough very small producers that, in the past, when milk prices tanked due to overproduction, they would exit the dairy business, production would taper down and prices would rise.

Do you realize that in 1983, there were 297,740 dairy producers in the U.S.? There are now 62,000! The case of the "last man standing" mentality can no longer be made. Now everyone suffers, needlessly and foolishly, with careers being destroyed and major life-altering effects.

In 2008, when the California coops placed into effect their base programs, the primary reason for doing that was to identify those who had more recently increased production, and those producers were dunned with the cost of excess milk disposal. It had a second – likely unintended – effect of lowering some production, when, for an individual, those overbase costs became just too much. Then we had a CWT program in July 2008. Those dairies taken on CWT were allowed to sell their base to others, almost completely neutering the CWT effect. People could buy that base and either increase production or shield themselves from those senseless disposal costs. Last December, in the midst of the next CWT buyout, MPC encouraged the coops to buy the base from those exiting producers, giving the dairymen some value, but not allowing those herd retirements to turn into a production increase somewhere else (<http://www.milkproducerscouncil.org/updates/121208.pdf>). Our coops did not respond. Bases were sold for around \$50 per gallon which figures out to about \$350 per cow. Great for the CWT participants, but not great for anyone else. The coops were in a position to buy that base, at, say, \$150 per cow, hold it until markets demand more milk and issue it to those remaining members who wished to buy base at the same price. That would have been intelligent, but it didn't happen.

Now we have a bloodbath going on in our industry. Again, our coops could buy the base back. Will they?

MPC has, for 2½ years, been pushing the Growth Management Plan. We have recently joined the Holstein Association, USA, on their plan called "Dairy Price Stabilization Program" (DPSP) – essentially, the same plan. This plan will settle our industry and provide market prices, but it's longer term. We need action from our coops now.

Here's what our coops need to do:

1. Buy the base from their members who are on CWT.
  - Hold it for later, and intelligent distribution. (Same cost out as in).
2. CDI, LOL, DFA & Hilmar-(representing 96% of the milk in CA), need to get on a phone, agree as to how much milk we can market, and not pick up any more than that from the producers.
  - Accomplishing that, immediately the costs of milk disposal stop, and the coops can improve market conditions in California overnight, resulting in a higher milk check for the dairymen members of those cooperatives. The coops have the ability, but do they have the will?

When I talk about “coops”, I am not referring to the CEO’s or staff. They carry out the will of the Board. The Board is made up of dairymen like you and I. What’s wrong with the Boards? What are they afraid of? Do they dairy in a different economic world than me? Do they not take their responsibility to their members seriously?

Dairymen, do what you know you must! Call your Board member! Go to a Board meeting! Let them know status quo is unacceptable. We are on track for the greatest, most cruel purging of our industry we have ever seen – and it’s unnecessary!

**MANAGER’S NOTE: (By Rob Vandenheuvel)** *This open letter by Syp was written earlier this week, prior to yesterday’s very well attended ad hoc producer meeting in Tulare to discuss “National Do Not Ship Milk Day.” A lot of what Syp wrote in the open letter above was aired out at that meeting. There was great interest in bringing the major California cooperatives together through a “commission,” made up of representative board members from California Dairies Inc., Dairy Farmers of America, Land O’Lakes, Security Milk Producers and Hilmar Cheese. The idea is to get dairymen talking and working with fellow dairymen, each representing their respective cooperatives.*

*There were individual board members from CDI, DFA, LOL and Security present at the meeting. Each of those dairymen committed to having their cooperative participate in this effort. We’ll see if yesterday’s meeting can result in a better working relationship among these groups, and ultimately a better milk price for California dairy families.*

*End*