

Milk Producers Council

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MPC FRIDAY MARKET UPDATE

CHICAGO MERCANTILE EXCHANGE

Blocks +\$.0025 \$1.1200
Barrels +\$.0200 \$1.0900

CHICAGO AA BUTTER

Weekly Change N.C. \$1.2050
Weekly Average -\$.0030 \$1.2050

NON-FAT DRY MILK

Week Ending 6/19 & 6/20

Calif. Plants \$.8218 15,280,665
NASS Plants \$.8464 21,238,497

Weekly Average

Blocks - \$.0135 \$1.1185
Barrels N.C. \$1.0760

DRY WHEY

WEST MSTLY AVG w/e 06/25/09 \$.3100
NASS w/e 06/20/09 \$.2755

CHEESE MARKET COMMENTS: Prices for blocks and barrels rose slightly this week. Trading activity was moderate. USDA reported that **the amount of cheese in U.S. cold storage at the end of May was a record high**, and *Dairy Market News* (DMN) reporters apparently are hearing that current levels are even higher. It appears that manufacturers are betting on a sharp price increase by Fall. Until the costs of carrying inventory begin to outweigh the prospects of windfall profits from the inventory, more cheese will continue to be produced than the market wants or needs. Buyers simply do not want to add to what they are carrying. DMN notes that it may get worse; use of pizza cheese will be lower over the summer because schools are closed (pizza on the menu twice a week), resort area usage has remained lower than normal, and now is not expected to recover this year. Retail activity is reported to be good, and the low prices for un-aged cheeses should help consumers to make smart decisions.

BUTTER MARKET COMMENTS: Butter prices held steady this week. Trading activity was above normal. Retail sales remain surprisingly strong. The amount of butterfat products in storage at the end of May was about 18 million lbs lower than last May, even though exports have virtually dried up. USDA's export assistance subsidies were doubled on June 22nd in response to comments received from potential exporters who needed more help. That program, in conjunction with the downward trend in butter production, should help to move prices closer to the \$1.30 level.

POWDER MARKET COMMENTS: Despite assurances that it wouldn't happen, some of that CCC-owned nfdm that was swapped for cheese and packaged milk for use in USDA's domestic feeding programs is seeping back into the marketplace. In theory, the extra volume of cheese and packaged milk that is used in the feeding programs would have used up about the same amount of milk used to produce the nfdm. DMN senses a bit of confusion from the industry about whether that is true or not, and if it is not true how much of an effect will it have on the chances of price recovery for nfdm. Meanwhile, USDA's DEIP program has in two weeks generated about 43 million lbs of nfdm subsidized exports. NASS prohibits reporting of those prices. However, if the sales are made by California plants, they will be included in their reports to CDFA with the subsidy amount included. Based upon the number of bids to USDA that have been denied, an increase in the level of accepted subsidies is expected.

WHEY MARKET COMMENTS: *"Demand is strong enough to absorb any offerings easily. Inventories at the producer [manufacturer] level are light to nonexistent."* So says DMN, and so prices for dry whey continue to edge upward. Rounding out the cheese byproduct category, prices for whey protein concentrate, dry lactose, and casein all ended the week with higher prices.

FRED DOUMA'S PRICE PROJECTIONS...

June 26 Final: Quota cwt. \$ 11.31 Overbase cwt. \$ 9.61 Cls. 4a cwt. \$10.06 Cls. 4b cwt. \$ 9.52
 Last week: Quota cwt. \$ 11.31 Overbase cwt. \$ 9.61 Cls. 4a cwt. \$10.04 Cls. 4b cwt. \$ 9.52

THOUGHTS ABOUT MILK PRICE RECOVERY: *(By John Kaczor)* It was welcome news to read earlier this month that National Milk Producers Federation's (NMPF) Strategic Planning Task Force has urged Cooperatives Working Together (CWT) to use every available bit of funds to assist CWT members to use USDA's Dairy Export Incentive Program (DEIP) to its fullest extent possible. It's not clear on how that may happen – no details have been announced – and CWT has not budgeted any funds for export assistance this year. Maybe a rabbit will be pulled from a hat, and then what? But it seems clear that removal of cows in the present economic environment, whether it happens by individual action or by organized programs, may not be enough to sufficiently re-balance the production of dairy commodities in the U.S. with their domestic demand. Achieving a balance (or even the likelihood of a balance) between monthly milk production and monthly milk usage is the necessary step needed to get milk prices moving up once again.

DEIP should help. The DEIP activation was first announced by USDA Secretary Vilsack on May 22nd, and the export subsidies were published on June 8th. Since that time a total of 13 bids for assistance with nonfat dry milk exports (totaling 43 million lbs of product) have been approved, and many more have been turned down because they exceeded what USDA was allowing. Five bids for butterfat and cheese products have also been approved. Sales periods for these contracts extend out to about September 30th. The subsidies for butterfat products were increased, almost doubled, on June 22nd in response to pleas from exporters. USDA has indicated that all subsidies are being reviewed in order to keep them at levels high enough to make U.S. products competitive internationally. The current DEIP period ends on June 30th, and major efforts are being made to convince those who can do something in Washington D.C. to immediately activate the next DEIP on July 1st, to cover a full year's period. The volumes of products in DEIP are not great (they are controlled by WTO agreements); nonfat dry milk, the largest of them, barely reaches 150 million lbs for the year.

Export subsidies now being offered by the European Union and the U.S. have the Australian and New Zealand dairy industries in a tizzy. Chief among their complaints are that these subsidies are depressing the international market for **their** dairy products, or at least causing the expected recovery of prices to be delayed. That's really interesting, in that the volume of dairy product exports from those countries seems to have been maintained at year earlier levels, or even increased. Contrast that to what has been happening to U.S. exports so far this year. The following table compares the volumes (and in some cases the prices) for **U.S. exports of major dairy products for the first four months of this year** to what was the case last year. The volume figures reflect millions of lbs; the values are per lb of product. Values are not shown for product categories that may contain different package sizes, different varieties, or ranges of quality.

Product	2008		2009	
	Volume	Value	Volume	Value
Nonfat Powders	313.6	\$1.753	150.5	\$.922
Whole Milk Powder	21.9	1.144	11.7	.956
Butter	63.3		9.9	
Anhydrous BF& Oils	8.2		5.0	
Cheddar Cheese	21.7		8.3	
All Other Cheeses	80.5		64.6	
Dry Whey	125.3	.552	148.7	.301
Whey Protein Concentrate	61.7		55.0	

In looking at these figures, it's important to remember that **last year U.S. exporters were handed a very big gift** in the sense that Europe's milk production had not increased much from earlier periods, international demand was still strong, and Australia and New Zealand each got hit with droughts which, in the case of New Zealand, cut milk production from December 2007 through April 2008 by about 7%. Because of that, except for the two

why products, the volumes exported by the U.S. in early 2008 were substantially higher than was the norm.

Unfortunately, even with DEIP, the current international situation does not look very good for dairy product sales. Dairy farmers worldwide are suffering from historically low milk prices which makes the reduction or elimination of surpluses very important to everyone everywhere, the global economic crisis still looms over almost all nations regardless of size or stage of economic development, and fluctuations in currency values influence buying decisions almost on a daily basis. Sources familiar with international sales of nonfat dry milk say the current DEIP allowances are not large enough and, even if they are increased to the point where buyers commit to serious volumes, those sales may merely detract from future sales. But let's worry about that later.

Feedback about the article last week on the widespread and hard-hitting low milk prices came from Professor Ed Jesse, University of Wisconsin's Department of Agriculture and Applied Economics, who had just returned from a meeting of international economists. His observation from what was discussed at that meeting was that U.S. dairy farmers got hit harder than those in other countries this year because of the loss of exports. How ironic, to have that windfall turn into a hurricane. New ideas that surfaced this week to help increase milk prices include increasing the dairy product support prices for three or four months to generate about \$.60 per cwt on milk prices (from NMPF), and to increase the MILC payments to cover 90% (up from 45%) of the difference between \$16.94 per cwt and the Class I price in Boston. Let's add to that list something maybe a little more practical: the goal of getting rid of the 50 million lbs of nonfat dry milk that still remains in U.S. warehouses by donating it for humanitarian purposes to countries whose populations are near starvation. That's not intended to put off price recovery for Australia and New Zealand, but if it does, so be it.

PRODUCER-HANDLER LEGISLATION TO BE CONSIDERED BY ASSEMBLY AG COMMITTEE

NEXT WEDNESDAY: *(By Rob Vandenheuvel)* The Assembly Agriculture Committee is scheduled to consider SB 362 (Florez) at a 1:30 p.m. hearing next Wednesday, July 1st. As we've reported in this newsletter, the bill would allow the five remaining producer-handlers in California to exempt all their production that is processed into Class 1 products. For the past three weeks, we've included various perspectives on this bill. First, we included the producer perspective (<http://www.milkproducerscouncil.org/updates/060509.pdf>). Then we included the producer-handler perspective (<http://www.milkproducerscouncil.org/updates/061209.pdf>). Finally, last week we included the processor perspective (<http://www.milkproducerscouncil.org/updates/061909.pdf>). If you missed any of those articles, I'd encourage you to go back and read them.

For those of you who are willing and able to attend next Wednesday's hearing, I'd strongly encourage you to come to Sacramento. **This is a major piece of legislation for the California dairy industry, and every dairyman who is able should come to the hearing and make your opposition known to the Committee members.** The hearing will be at **1:30 p.m. on July 1, 2009 in Room 126 in the State Capitol**. If you are not able to attend, **I would strongly encourage you to call the members of the Assembly Agriculture Committee and register your opposition to the bill.** You can find the contact information below. The Committee needs to hear from the California dairy farmers!

California Assembly Agriculture Committee

- Chairwoman Cathleen Galgiani (D-Stockton) – 916-319-2084
- Vice-Chairman Tom Berryhill (R-Modesto) – 916-319-2025
- Assemblywoman Connie Conway (R-Tulare) – 916-319-2034
- Assemblywoman Jean Fuller (R-Bakersfield) – 916-319-2032
- Assemblywoman Fiona Ma (D-San Francisco) – 916-319-2012
- Assemblyman Tony Mendoza (D-Norwalk) – 916-319-2056
- Assemblywoman Mariko Yamada (D-Davis)- 916-319-2008

If you have any questions, please feel free to contact Milk Producers Council at 909-628-6018.