

Milk Producers Council

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PAGES: 3

TO: DIRECTORS & MEMBERS

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MPC FRIDAY MARKET UPDATE

CHICAGO MERCANTILE EXCHANGE

Blocks +\$.0675 \$2.0675
Barrels N/C \$1.9700

CHICAGO AA BUTTER

Weekly Change +\$.0100 \$1.5400
Weekly Average N.C. \$1.5360

NON-FAT DRY MILK

Week Ending 7/18 & 7/19

Calif. Plants \$1.3776 12,759,120
NASS Plants \$1.4099 14,803,602

Weekly Average

Blocks +\$.0930 \$2.0470
Barrels +\$.0205 \$1.9385

DRY WHEY

NASS w/e 7/19/08 \$.2583 WEST MSTLY AVG w/e 7/24/08 \$.2800

CHEESE MARKET COMMENTS: The market is unsettled, says Dairy Market News – referring, presumably, to the price differences between block prices and barrels, which had widened to 15.5 cents per lb this Wednesday before “correcting” to about 10 cents today. Last Friday, the difference was a “normal” 3 cents per lb. DMN attributes these price spreads to the steady demand for exports of blocks. (Barrel cheese is not exported.) Wednesday’s report on the amount of cheese in cold storage at the end of June (2% higher than last June, the first time this year end-of-month stocks were higher than the same month a year earlier) was a little surprising but had no apparent effect on the market. It’s speculated that sales and offers to buy barrel cheese at higher prices on Thursday and Friday may have been made by block customers who saw sufficient opportunity to convert “barrel” cheese (which is rarely shipped in barrels) to blocks.

BUTTER MARKET COMMENTS: Butter prices on the CME this week rose by 1 cent per lb. Prices reported to NASS have now been above \$1.50 per lb for 3 straight weeks. The amount of “butter” in cold storage on June 30th was 6% below the amount a year earlier, the 1st month this year stocks were below last year’s levels, and 5% below the level in May. (Cold storage reports of butter include all stable forms of butterfat, so direct comparisons cannot be made to reports of butter production, which include only butter.) Nonetheless, that report should give at least short-term support to current butter prices. Butter exports continue to explain much of the current price strength.

POWDER MARKET COMMENTS: Prices reported by NASS and CDFA for last week’s sales were up. The NASS price is now above \$1.40 per lb for the first time since early this year when it was plunging from last year’s record highs. The current California plant (CWAP) average price rose by 2.73 cents per lb on lower volume, and is now 3.25 cents below the NASS prices. The recurring pattern of CWAP price increases associated with lower sales volumes likely means a higher percentage of sales were for export. (Export prices in May averaged about 30 cents higher than prices for all powder sales.) DMN reports that export activity remains strong – a very important part of a difficult to understand market clearing process. More on that next week.

WHEY MARKET COMMENTS: Sales prices reported to NASS for the past three weeks for dry whey have been moving steadily downward. DMN offers a very plausible reason for the incredible weakness in this market: buyer reaction to being caught in last year’s very fast run up to record high prices – the major reaction being a switch to alternative ingredients. Current prices reported to NASS are now about one-third of what they were a year ago, which is a drop of about \$.53 per lb. [Last year, June’s whey prices contributed about \$3.00 per cwt to the July 4b milk price level.] Oddly enough, the average price for exports of dry whey in May, the latest month reported, was \$.552 per lb, which was \$.13 per lb **above** the prices reported f.o.b. docks in major exporting countries and \$.28 per lb **above** the NASS price for the month. DMN also reports that many buyers seem to be waiting for prices to fall further (export prices?). Prices for that other outstandingly useful

product, whey protein concentrate, also continued to fall.

FRED DOUMA'S PRICE PROJECTIONS...

July 25 Est.	Quota cwt. \$18.91	Overbase cwt. \$17.21	Cls. 4a cwt. \$16.02	Cls. 4b cwt. \$17.77
Last Week	Quota cwt. \$18.84	Overbase cwt. \$17.14	Cls. 4a cwt. \$15.95	Cls. 4b cwt. \$17.65

MILK PRODUCTION IN JUNE INCREASES BY 3% OVER 2007: *(By J. Kaczor)* With the help of 133,000 more cows and an additional 26 lbs of milk per cow for the month, USDA estimates that U.S. dairy producers supplied 458 million more lbs of milk in June than was supplied last June. That amounts to about 1.8 million gallons of milk per day, about 300 more tanker loads. States with the largest increases were Texas (16.3%), New Mexico (10.2%), Idaho (8.4%), Kansas (8.3%), and Colorado (7.4%).

Out here, in the real West, Arizona production increased by 5 million lbs and California by 78 million lbs. Production per cow in both states was affected by the high temperatures that set in earlier than usual. Production per cow in Arizona fell by an average of 15 lbs for the month; California's PPC increased by an average of 5 lbs. USDA reports that California producers milked 37,000 more cows than last June.

We will find out how that milk was used when NASS reports dairy product production in early August. Chances are that virtually all of the increase in milk production was used for cheese, butter, and powder production, which means milk price strength and stability depends more than ever on continuing strong dairy product export success. Next week, an evaluation of that success will be offered.

CWT'S HERD RETIREMENT PROGRAM; MILK COW SLAUGHTER; HEIFERS ON HAND IN JULY: *(By J. Kaczor)* The three reports in this header just happened to be released within a week of each other. NASS estimated that 9,250,000 dairy cows were being milked on July 1st, and there were 3,900,000 replacement heifers on hand. The ratio of heifers to cows (.421 to 1.0) was slightly down from where it was a year ago, but still suggests that expansion may be more likely than contraction in total milk production over the coming months. The number of dairy cows slaughtered in June was 181,000, a bit higher than was expected, but milk producers still managed to add those 133,000 cows mentioned in the above report. And, finally, CWT released its preliminary report on the number of cows (25,474) included in the bids they accepted for mandatory retirement. That's not many cows, and considering that about a third of them would have been culled or "retired" in the normal course of business, the net result of that program should be minimal. (And frankly, it is presumed that most producers reading this are elated that the "bred heifer" part of the CWT program fell on its face. It was a vile idea.)

What is suggested by this summary of matters relating to dairy cows is that the more things change, the more they remain the same. Despite the huge increases in feed and other production costs, it looks like 59,000 (or so) milk producers are waiting for many of their brethren to shut down production, retire, or raise crops and get rich. The maddening part of this is that all 59,000 producers are making the right decision from individual their points of view, but collectively may be contributing to a very big surplus of milk in a buyers market. If that happens, when that happens, maybe enough minds will open up to constructive alternatives to the present pricing system. For those interested, and for everyone else, a discussion of a milk price stability program conceived by Milk Producers Council and verified by Cornell University as to its effectiveness can still be found on the MPC website at <http://www.milkproducerscouncil.org/GMP.htm>.

COWS AND GREENHOUSE GAS EMISSIONS – KEEPING THE DEBATE IN CONTEXT *(By Rob VandenHeuvel)* This month, a study by Dr. Alvaro Garcia from South Dakota State University and Dr. James Linn from the University of Minnesota was released which took a look at the history of U.S. dairy farming and its role in methane emissions.

The two scientists compared the current milking cow population to the herd in 1924 – the first year USDA began tracking national cow numbers. Using a formula that calculates methane emissions based on a cow's diet, they were able to demonstrate that the total methane emissions attributable to milk cows in 1924 was **40 percent higher** than the emissions that can be attributed to today's herd! Furthermore, they determined that with the efficiencies achieved in milk production – resulting in substantially less cows producing substantially more milk – the methane emissions per pound of milk produced in 1924 were **three times higher** than the emissions per pound of milk produced today!

While this won't stop the industry from continuing to seek ways to improve our stewardship of the air and water resources around us, it should remind us that like anything else, we should keep things in context. It's been mentioned in this newsletter before, but we need to continue reminding the public that dairy farmers have done a tremendous job in improving the efficiency of the modern dairy cow. In 1944 (when total milk cow numbers in the U.S. were at a peak), there were 25.6 million milk cows producing 117 billion lbs of milk. Last year, there were 9.1 million milk cows – **a 64 percent reduction** – producing more than 170 billion lbs of milk – **a 45 percent increase**. Sure, there is always more that can be done, but as an industry, we need to continue touting what we've already done, not to mention the tremendous breakthroughs that the industry is currently exploring on a voluntary basis (i.e., manure-to-energy technology).

ATTENTION SOUTHERN CALIFORNIA DAIRIES – IT'S TIME TO FILL OUT YOUR 'ANNUAL EMISSIONS REPORT' WITH AQMD *(By Rob VandenHeuvel)* Dairies that have Air Quality Management District (AQMD) permits in the San Jacinto and Chino/Ontario regions should have received a packet of information in the past few weeks regarding the 2007 Annual Emissions Report. This report, which estimates your dairy's various "air emissions" *(and then charges a fee for those emissions)* must be submitted to AQMD by September 2nd. For MPC members looking for assistance in filling out these forms, please call me at (909) 992-9529.

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