

Milk Producers Council

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MPC FRIDAY MARKET UPDATE

CHICAGO MERCANTILE EXCHANGE

Blocks +\$.0850 \$1.2850
Barrels +\$.0900 \$1.2600

Weekly Average

Blocks +\$.0600 \$1.2300
Barrels +\$.0440 \$1.1980

CHICAGO AA BUTTER

Weekly Change -\$.0150 \$1.2450
Weekly Average -\$.0140 \$1.2490

DRY WHEY

WEST MSTLY AVG w/e 07/30/09 \$.3200
NASS w/e 07/25/09 \$.2953

NON-FAT DRY MILK

Week Ending 7/24 & 7/25

Calif. Plants \$.8328 16,539,245
NASS Plants \$.8499 16,917,769

SPECIAL NOTICE: USDA this morning announced the support prices for nonfat dry milk and cheddar cheese will be increased effective August 1st, for a period of 92 days, ending on October 31st. The announcement preceded the close of the CME spot markets, and the cheese and powder prices responded immediately. The increase for blocks and barrels of cheddar was \$.18 per lb (to \$1.31 and \$1.28, respectively); the increase for nonfat dry milk was \$.12 per lb (to \$.92). Although an increase may have been expected, it exceeded what had been proposed. The surprisingly large increase, along with the time limitation after which the prices fall back to where they were, will certainly put to a test the decision-making ability of manufacturers and buyers of those products. An immediate bonus goes to everyone who has product in inventory; milk producers will have to wait until the higher market prices work their way into the various classes of usage. Class 4a and 4b usage, which is approximately 75% of all milk usage in California should be affected immediately (for August usage); Class 1 prices for September should reflect about 60% of the increase, and prices for Class 2 and 3 usages will be affected in October. CWT's current herd removal program will have been completed before the end of September, so a clearer picture of the U.S. milk supply should be helpful in going forward. Note: USDA's announcement included an estimate that they expect the higher support prices will cause CCC to buy an additional 150 million lbs of nonfat dry milk and 75 million lbs of cheddar cheese this year. It will be interesting to see if today's announcement affects prices for whole milk powder in Fonterra's next auction next Tuesday.

CHEESE MARKET COMMENTS: Cheese prices again advanced this week on the CME. Until today's dramatic support price announcement most of the increases were generated by buyers bidding (and buying) at slightly higher prices. Today's bidding and sales added \$.06 to the block price and \$.07 to barrels. The prices are now just pennies below the new temporary support levels. In addition to cheddar, *Dairy Market News* (DMN) is seeing increased demand for Mozzarella and a variety of other American type cheeses. They note that the market's response to the recent "more than adequate" cheese inventory report has been steady increases in cheese prices. Go figure that. Cheese production in the Northeast and Midwest is running above expected levels because of ideal weather for milk production. In the West, demand has been steady, and production is lower due to high temperatures, lower milk solids, and fewer cows. On July 28th, Secretary Vilsack announced USDA's export subsidy program (DEIP) was opened to requests for export of cheese; the total available volume is only 6.3 million lbs, but is likely to be increased to include an additional amount equal to what was covered by the program in June and July. What effect today's announced increase in the support price for cheese will have on DEIP cheese volume is anyone's guess. The immediate effect on manufacturers' inventory values is estimated to add about \$85 million to their bottom lines. Milk producers will get their share in due time, we expect.

BUTTER MARKET COMMENTS: DMN says demand for butter is keeping pace with production, and production is beginning to follow its usual seasonal move downward. The price on the CME this week lost \$.015 per lb in fairly heavy trading. The lower production is helped along by continuing strong demand for cream from the soft product manufacturing part of the industry.

POWDER MARKET COMMENTS: Prices on the CME for grade A powder moved up \$.02 per lb, to \$.92, and extra grade powder moved up \$.025, to \$.90. Before today's support price announcement the market was described as unsettled and now is likely in complete disarray. The weekly averages of the two major nfdm price series ended last week at \$.8499 for the NASS current sales series with no sales to the CCC and \$.8328 for California plants which includes export sales and CCC sales. It will be interesting to see how many of this week's sales will manage to be drawn out by sellers into next week. (Prices are not reported until product is shipped.) The immediate increase on inventory values is estimated to be about \$11 million. Producers outside of California should expect to gain about \$.60 per cwt on the skim milk portion of their milk price; **producers in California should expect to get something more because Dairy America's sales to the CCC will receive the full \$.12 per lb support price increase**, but, unfortunately, for some reason that may not happen. It's the "usual suspects" thing.

WHEY MARKET COMMENTS: It's beginning to look like the market for dry whey is close to the point of being oversold. Prices this week were unchanged, and buyers appear to have backed away. Sales are flat and inventories have increased along with the pace of cheese production. On the other hand, the markets for dry lactose and whey protein concentrate (34% protein) remain firm, with prices on the upper end of their "mostly" series up just a bit.

FRED DOUMA'S PRICE PROJECTIONS...

August Est:	Quota cwt. \$ 12.25	Overbase cwt. \$10.55	Cls. 4a cwt. \$10.81	Cls. 4b cwt. \$11.05
July Final:	Quota cwt. \$ 11.26	Overbase cwt. \$ 9.56	Cls. 4a cwt. \$10.00	Cls. 4b cwt. \$ 9.39

THE GOOD GUYS WIN ONE: (By J. Kaczor) This past week may have marked the peak of a remarkable long drawn out campaign of political activity by the dairy industry. In this sense, the "industry" includes a number of cooperatives, trade associations, support organizations, lenders, and thousands of individual producers who took the time to call, write, or visit their elected representatives and those holding high offices in Washington, D.C., and "campaign" does not in any way suggest a well-planned, coordinated, parade of paid lobbyists. Instead, imagine something like thousands of angry and fed up dairy farmers marching on Washington. It wasn't exactly that, but in a sense, it was like that. Milk Producers Council is proud to have participated in the effort. **The single, most recurring, message given by almost everyone over this time was the need for immediate and significant measures to help U.S. dairy farmers survive the current industry financial crisis.**

One of the clearest and most consistent points contained in that message was the amount of losses being incurred. It's astounding. Various numbers have been mentioned, depending on the size of producer, region of the country, and on how much feed is home grown, but the average might be around \$100 per cow per month. [According to California Department of Food & Agriculture's cost auditors, the average loss per cow per month in California's Central Valley in the first quarter of this year, with no allowance for return on investment or management fee, was \$96.00.] If \$100 is a fair estimate, **that means close to a billion dollars of losses per month for U.S. dairy farmers was occurring since January, while corn, wheat, and soybean farmers have been living large.** It looks like **that point** may have finally registered in the minds of many, perhaps most, of your elected representatives and key people in the U.S. Department of Agriculture.

The focus of much of this week's lobbying in Washington was centered around Tuesday's third meeting of the House Agricultural Sub Committee on Livestock, Dairy, and Poultry. That hearing was a small but important part of the total effort. Long before, during, and after the hearing, stories of financial ruin were being told throughout the country. Some kind of "critical mass" may have occurred which finally got through. It got to the point where a good number of members of congress and U.S. Senators were doing the talking and the walking.

The first, but not the last immediate and significant help came today, as reported in the report that lead today's MPC commodity comments. Considering the fact that Secretary Vilsack estimated producers will benefit by a total of \$240 million from the 3 month support price increases, it is obvious from the above estimate of losses that are occurring a considerable amount of additional help is urgently needed. Next week a review of some of the other good and useful proposals will be made, along with some that could be labeled as nibbling at the margins.