



Milk Producers Council

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MPC FRIDAY MARKET UPDATE

CHICAGO MERCANTILE EXCHANGE

Blocks +\$.0275 \$1.6475
Barrels +\$.0300 \$1.6150

Weekly Average

Blocks +\$.0130 \$1.6310
Barrels +\$.0120 \$1.5950

CHICAGO AA BUTTER

Weekly Change +\$.1225 \$2.0400
Weekly Average +\$.0685 \$1.9730

DRY WHEY

WEST MSTLY AVG w/e 8/13/10 \$.3738
NASS w/e 8/14/10 \$.3583

NON-FAT DRY MILK

Week Ending 8/13 & 8/14

Calif. Plants \$1.1211 16,037,142
NASS Plants \$1.1354 22,484,715

CHEESE MARKET COMMENTS: Cheese buyers continue to shrug off all notions that prices should be falling rather than rising. The conclusion is they, or at least some of them, need cheese now and are willing to come to the CME to get it. Immediate needs relate mainly to the need to stock the country's school system, a heavy user of mozzarella and cheddar. Wednesday's report on July's milk production increase and Thursday's report that Mexico will impose substantial tariffs on imports of U.S. cheese (representing about 40% of U.S. exports) were answered with price increases for both styles of cheese. That's some kind of statement. Today's report on the amount of cheese in cold storage at the end of July indicates there was plenty of mozzarella and cheddar on hand to dip into for school requirements – **eleven million more lbs of each style was in storage than a month before.** The spot and futures markets for cheese are currently in close alignment: the August Class III milk futures price of \$15.14 per cwt requires an average NASS cheese price for the month of \$1.60 per lb, just about where last week's report landed. September's milk price of \$15.55 per cwt requires a cheese price of \$1.626 per lb. However, futures traders continue to be on the "show me the money" side, as Class III prices beyond September continue to slide lower.

BUTTER MARKET COMMENTS: Demand for butter from all sources except, perhaps, the restaurant industry continues to be as high as or higher than the current supply. Prices on the CME this week advanced by \$.1225 per lb, one of the bigger increases seen for some time. DMN reports some manufacturers continue to sell cream to anxious buyers at premiums to what they can get for butter. (Prices reported to NASS for sales made last week averaged \$1.85 per lb, which is \$.12 per lb lower than this week's CME average and \$.19 per lb than this week's final price.) The demand for cream for all usages except ice cream manufacturing should continue at or close to current rates through the end of the year. CWT's approved export subsidies for butterfat products for shipments through the end of the year now total 30 million lbs – good for short term price support but still questionable as long term strategy, and contrary to "their" oft-uttered arguments against any supply constraints which, they argue, may cause domestic prices to rise above international levels. Today's report on the amount of butterfat products in storage at the end of July showed little change from where it was a month before, and 63 million lbs less than a year before. Please note that traders in butter futures are slow to respect the current spot prices on the CME; today, September's price did reach \$1.99 per lb but support for prices for later months fall off pretty quickly, to the mid \$1.80's in November and continuing down to \$1.59 next February. That really doesn't mean anything right now except, perhaps, they may be contemplating what is reported to be an expected very large increase in milk production this year in Australia and New Zealand.

POWDER MARKET COMMENTS: Production of buttermilk powder is moving seasonally lower, in line with butter production. Sales in the central and western regions are steady to good, with prices somewhat lower for the week. Production of whole milk powder is also somewhat lower, in line with expected sales. Prices for WMP are unchanged. Sales volume for nonfat dry milk last week increased by about 4 million lbs nationwide; prices fell by a little more than \$.04 per lb. In the west, the price on the low end of the full range of prices rose

\$.05 per lb to \$1.05 per lb. The market in the west is dominated by California plants and is described by DMN as unsettled, as old powder and re-sale offerings continue to affect price levels. Nonfat powder prices on the CME continue to reflect the high side of the “mostly” price ranges; one sale of grade A powder occurred on Wednesday for \$1.20 per lb.

WHEY PRODUCTS MARKET COMMENTS: The market for commodity grade whey protein concentrate continues to be strong; prices edged higher this week, although DMN reports some buyers are showing resistance to increases. Demand for dry lactose also continues to be generally good and very good for some specialty products. The market for dry whey is steady to good, but with prices edging lower. The average price reported to NASS for sales made last week was marginally lower; the west’s midpoint of the “mostly” price lost a half cent. Export interest for dry whey was reported to be fairly good.

FRED DOUMA’S PRICE PROJECTIONS...

August 20 Est:	Quota cwt. \$ 16.55	Overbase cwt. \$14.85	Cls. 4a cwt. \$15.63	Cls. 4b cwt. \$14.38
Last Week:	Quota cwt. \$ 16.50	Overbase cwt. \$14.81	Cls. 4a cwt. \$15.57	Cls. 4b cwt. \$14.32

JULY MILK PRODUCTION JUMPS 2.9% OVER LAST JULY WITH ANOTHER BIG INCREASE IN PRODUCTION PER COW: *(by J. Kaczor)*

First, the facts: at the beginning of July, USDA estimated there would be about 42,000 fewer cows being milked during the month than last July. Production per cow averaged 58 more lbs than last July. Total milk production increased by 462 million lbs. Here’s the math: 0.46% fewer cows and 3.33% more milk per cow means 2.89% more milk than a year ago, which is about the same percentage increase that occurred in June. June’s increase was 2.59% (rounded to 2.6%) and July’s increase was 2.89% (rounded to 2.9%). Although considerably higher than last year, production per cow per day in July was 2% lower than in June, which is about the normal seasonal change.

This is the second month in a row where milk production was more than 400 million lbs higher than the same month a year earlier. Just as was the case last month, the increase in July was a not very pleasant surprise for those hoping for a reason to conclude that current cheese prices are on sound footing, and prices for nonfat dry milk should soon begin to move strongly upward. Most disappointing about this report was the increasing rate in number of cows being added from month to month, and the continuing large increase in production per cow compared to a year earlier. All of the monthly production per cow numbers this year set new highs, the same as last year and the year before and for virtually every month in the past ten years. The average monthly increase so far this year, even with January and February starting out somewhat low, is a bit higher than the record high increase set in 2005.

The comparison of changes in cow numbers from last October for five selected western states (Arizona, California, Idaho, New Mexico, and Texas) and six Midwestern states (Illinois, Indiana, Iowa, Michigan, Minnesota, and Wisconsin) had, through April, shown little change and little difference. October is used as the base month for this comparison because last September marked the end of the year’s big herd retirements. Through April, the five western states added a total of 2,000 head since October and the six Midwestern states added none. Since April, 23,000 cows were added in the west (11,000 in July) and only 3,000 in the Midwest (-1,000 in July). Major differences in production per cow also are seen for July; an average of +72 lbs per cow for the western states and +25 lbs per cow for the Midwesterners. Apparently the heat in the west was overcome but the heat plus humidity in the central part of the country took a toll.

California’s milk production appears to be well along the road to recovery. With 41,000 fewer cows than last July, milk production was an amazing 4.7% above a year ago, 153 million lbs, which amounts to about 96 additional tanker loads per day. Average production per cow was higher by 130 lbs. California still has 20,000 fewer cows than were being milked in October while each of the other four states in the western set have added cows over that time. The biggest expansions are Idaho producers with 21,000 more cows since October and Arizona producers with 13,000 more.

WHAT HAPPENED TO THE EXPECTED LEVELING OFF OF MILK PRODUCTION? *(by J. Kaczor)*

Looking back at last month's report on June's milk production in MPC's Update, I found this comment: "Looking ahead to the report for July, very hot weather in the West and hot and humid weather in the Midwest and East...should affect production per cow, but the growth in number of cows is expected to continue." There is more than one way to interpret that well-supported comment, but the general purpose was to explain why milk production in July would not be 2.9% higher than last July. Following are excerpts from weekly comments published in USDA's Dairy Market News about weekly milk production which provided some of that support. The dates refer to the week that had just ended. Most of these comments could be started with the words "except for the Pacific Northwest."

- **June 25th:** Milk receipts are declining through most of the country with [some exceptions].
- **July 2nd:** Production patterns across the country are trending lower at varying rates, mostly impacted by summer heat and humidity levels.
- **July 9th:** Farm milk production is trending lower seasonally in most regions as high daytime temperatures coupled with high humidity affect cow comfort....Declining butterfat and protein are being chalked up to lesser feed quality compared to one year ago.
- **July 16th:** Weather conditions are having bigger impacts on the milk flow across the United States as the summer season progressed....Production of milk is trending lower in California, Arizona, and New Mexico.
- **July 23rd:** California milk production is trending lower on a weekly basis due to hot and humid weather.
- **July 30th:** July heat and humidity are taking their toll on milk production.

It does take many a sharp eye to catch that lower weekly milk production trend in California in a month when average production per cow decreased by 0.5 lbs per week as it did in July, compared to June. Had the 20,000 cows not been added during the month, nationwide, milk production would still have increased by 2.7% over last July.

Looking ahead, once again. By now it should be perfectly clear to everyone that U.S. milk producers are once again doing what they do best – produce as much milk as they can, as efficiently as they can. We know the reason for that; it's been pointed out by Milk Producers Council, and others, many times over the past three years. It was given a name: "The Magic of Pooling," meaning all producers compete with marginal costs for average prices, and the only winners in that competition are the last ones standing.

Thanks largely to CWT's efforts last year, the number of milk cows in the U.S. decreased from 9.334 million in December 2008 to 9.082 a year later, for a net decrease of 252 thousand cows. By August last year, despite a growth in production per cow, milk production actually fell below the amount produced the same month a year earlier and remained in that negative state for seven months. The wicked milk prices in 2009, along with a lot of other problems, contributed to producers' willingness to participate in that supply-side market "correction." But the truism "money makes milk" is again proving itself. Cow numbers have now grown over the previous month for seven straight months and the rate of that expansion is increasing. Higher milk prices, lower feed costs, and reports that U.S. exports of dairy products are approaching the records set in 2007 and 2008, are among reasons why producers are adding cows. Another explanation is that some former CWT producers who have completed their twelve month "time out" periods may have restarted production, using heifers raised during the interim. If the latter is true, expansion of the national milking herd can be expected to continue to grow at an increasing rate at least through November. USDA's cattle inventory for July reported 100,000 more dairy heifer replacements on hand than a year ago.

How much more milk will be produced, and how soon, you may ask. Assuming the rate of improvement in production per cow will continue, milk production in August should be 2.7% higher than last August. (That calculation takes into consideration the expectation that CWT's current herd removal program will remove about 25,000 cows during the month.) Once cow numbers move above year-earlier levels, which almost certainly will happen by September, expect to see milk production increases of 3.5%, and higher, from thereon. How that milk will be used, and what effect that usage will have on milk prices, depends almost entirely on the currently high levels of dairy product exports continuing for the indefinite future at current or higher prices.