

# Milk Producers Council

5370 SCHAEFER AVE. SUITE A - CHINO, CA 91710 - (909) 628-6018 - Fax (909) 591-7328

E-mail: [mpc@milkproducers.org](mailto:mpc@milkproducers.org)

Website: [www.MilkProducersCouncil.org](http://www.MilkProducersCouncil.org)

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FROM: John Kaczor

## MPC FRIDAY MARKET UPDATE

### CHICAGO MERCANTILE EXCHANGE

Blocks    -\$ .0475 \$1.7125  
Barrels   -\$ .0375 \$1.6625

### CHICAGO AA BUTTER

Weekly Change   -\$ .0350 \$1.6100  
Weekly Average   -\$ .0115 \$1.6400

### NON-FAT DRY MILK

Week Ending 8/15 & 8/16

Calif. Plants    \$1.3559 11,411,567  
NASS Plants     \$1.3621 14,118,520

### Weekly Average

Blocks   -\$ .0525 \$1.7155  
Barrels   -\$ .0635 \$1.6695

### DRY WHEY

NASS w/e 8/16/08 \$.2460   WEST MSTLY AVG w/e 8/21/08 \$.2650

**CHEESE MARKET COMMENTS:** The good news about milk production in July (see report below) that was released by USDA on Monday certainly didn't give cheese prices a boost, as it might have. Cheese prices on the CME this week edged downward again, with blocks losing 4.75 cents per lb, and barrel cheese is again below \$1.70 per lb. Who knows, without the good news on milk production, prices may have fallen much more. With the re-opening of most schools this week, more milk was being used by bottling plants, and the milk coming into the cheese vats has a bit less protein, typical for the summer season. Dairy Market News (DMN) offered nothing much more to explain the continuing slump in prices.

**BUTTER MARKET COMMENTS:** DMN reports that domestic butter demand is fair in the central part of the country and strong in the West. Exports could have something to do with the strong Western sales. Overall, it looks like butter sales continue to keep up with the strong production. No special news this week on what may be happening to export volume this month. Unless something extraordinary happens over the next several weeks to affect butter production or sales, expect to see butter prices continue to move downward in the normal seasonal pattern.

**NONFAT POWDERS:** The word this week from DMN is that more nonfat powders are being produced than the marketplace wants to have. That means the market is weak and prices are moving lower. Part of the weakness is because more cheese plants are using less nfdm and condensed skim to fortify their vats. Another reason given by DMN is that some protein buyers see a better value in milk protein concentrates than in nfdm. The national average nfdm price reported for last week was \$1.3621, down \$.0364 from the previous week; the California plant average increased by almost a half cent. The lower volume reported by NASS last week was corrected upward by 600,000 lbs but still was lower than the volume reported by California plants. This week, some spot prices in the Midwest hit a low of \$1.40 per lb, and a low of \$1.30 per lb in the West.

**WHEY MARKET COMMENTS:** Prices for all products in the whey stream continue to weaken. Current prices for whey protein concentrate (34% protein) are now more than \$.20 per lb below July's average. DMN does not offer particular reasons for this collapse. WPC prices are now more than a \$1.20 per lb lower than where they were a year ago, and DMN attributes the price weaknesses for nfdm, dry buttermilk, and dry whey to what's happening to the WPC market. The West "mostly" price this week averaged \$.2675 per lb; the low end of the full price range was \$.22 per lb.

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## FRED DOUMA'S PRICE PROJECTIONS...

Aug. 22 Est:	Quota cwt. \$18.00	Overbase cwt. \$16.30	Cls. 4a cwt. \$16.29	Cls. 4b cwt. \$16.14
Last week:	Quota cwt. \$18.06	Overbase cwt. \$16.36	Cls. 4a cwt. \$16.30	Cls. 4b cwt. \$16.27

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**HEAT AND FLOODS HELP KEEP MILK PRODUCTION UNDER CONTROL IN JULY:** (By *J. Kaczor*) There was little “give” on the number of cows being milked during July, but other factors, including the high cost of feed, helped to keep the production per cow under control. The result was a total increase in milk production of only 214 million lbs (+1.4%) compared to July 2007.

The following table shows the numbers for the top ten milk producing states, and for the U.S. The number of cows represent thousands; the milk production represents millions of pounds.

	Number of Cows		Milk Production		
	2007	2008	2007	2008	Pct Change
<b>Washington</b>	236	244	472	489	3.6
<b>Michigan</b>	336	348	652	651	-0.2
<b>New Mexico</b>	335	338	620	676	9.0
<b>Texas</b>	348	383	599	709	18.4
<b>Minnesota</b>	463	463	729	736	1.0
<b>Pennsylvania</b>	550	546	886	890	0.5
<b>New York</b>	626	626	1,033	1,058	2.4
<b>Idaho</b>	516	556	1,017	1,095	7.7
<b>Wisconsin</b>	1,248	1,252	2,090	2,097	0.3
<b>California</b>	1,816	1,846	3,450	3,415	-1.0
<b>U.S. Total</b>	9,153	9,281	15,714	15,928	1.4

The most astounding point about these figures is the number of cows being milked during July. It’s almost as if milk producers don’t realize times started to go sour about five months ago and they aren’t expected to get much better very soon. Even when you consider that all of these figures are only estimates (no one goes around actually counting cows every month) they nonetheless have been pretty close to the mark. In addition to high feed costs, weather was definitely a factor this month. Six states that suffered through heavy rains and flooding in May and June had no increase in milk production in July. The heat in Arizona and California contributed to a decrease of 38 million lbs of production. Idaho, New Mexico, and Texas did very well, and the manufacturing and supply plants in those states apparently are well suited to handle the additional milk being produced. Idaho is now the 3rd largest milk producing state.

What is it going to take to keep the monthly production increases under 2.0%? CWT’s herd retirement program? Not likely. Some of their 25,000 cows had already been removed from production in July. The rest should be gone by the end of this month. Of the 25,000, a reasonable estimate is that as many as half represent net removals; the other 12,000 or so were likely heading to the slaughterhouse anyway. It looks like CWT is hamstrung; they have a treasure chest full of money and no apparent good ideas on how to use it. (The following recent quote from a CWT official shows a lot about their planning: “We need to develop a better system for determining the value of bred heifers because we didn’t have very many purchased.” Here’s a suggestion: drop that vile program altogether; it’s a retched idea.) Another HRP later this year would help a bit with the cow numbers, but CWT has to be concerned about being too successful in cutting the U.S. milk supply; it could deprive exporters of enough dairy products to fill their international needs. History has shown that if an assured supply is not available, that seller will be a seller of last resort for the international buyer. That’s where the U.S. dairy industry has been and where it is now. Considering the profits being made in exporting nonfat dry milk and dry whey in recent months, that would make those U.S. exporters really mad.

**USDA RELEASES LATEST REPORT ON DAIRY PRODUCT INVENTORIES:** (By *J. Kaczor*) Based upon reports given to NASS, at the end of **July**, cheese inventories were higher than a year earlier, and butterfat inventories were lower. Following is a recap of the numbers:

- Storage of all types of cheese was about 15 million lbs more than a year earlier;
- Storage of American cheeses was about 12.5 million lbs more than a year earlier;
- Storage of butter, butter oil, and anhydrous butterfat was about 23 million lbs lower than a year earlier.

The amounts of these products produced during July will be available in two weeks.

A comparison for **June** of monthly production and end of month inventories for other major products is recapped below:

- Production of dry whey **fell** by 2.1 million lbs; end-of-month (e-o-m) inventories **rose** by 11.5 million lbs;
- Production of dry lactose **rose** by 126 thousand lbs; e-o-m inventories **rose** by 39 million lbs;
- Production of whey protein concentrate **rose** by 1.2 million lbs; e-o-m inventories **rose** by 15.8 million lbs;
- Production of nonfat dry milk **rose** by 14 million lbs; e-o-m inventories **rose** by 23.2 million lbs;
- Production of dry buttermilk **fell** by 756 thousand lbs; e-o-m inventories **rose** by 2.3 million lbs;
- Production of condensed and evaporated milk **rose** by 7.4 million lbs; e-o-m inventories **rose** by 15 million lbs.

The general pattern of increasing inventories through June, even after production decreases, for all but the butterfat line of products is not one that suggests overall strength in the U.S. dairy industry. July's numbers, because of the lower milk production figures should show some improvement.

**CDFA ANNOUNCES HEARING ON PRICING FORMULAS FOR CLASSES 1, 2 AND 3:** *(By Rob VandenHeuvel)* This past week, the California Department of Food and Agriculture (CDFA) announced that on October 30<sup>th</sup> and 31<sup>st</sup>, they will be holding a hearing to consider changes to the minimum price formulas for milk sold to class 1, 2 and 3 plants.

It has been years since the industry has had any substantive discussion of the class 2 (yogurt, cottage cheese, etc.) and class 3 (frozen products) minimum prices – both of which are pegged to the class 4a (butter/powder) minimum price. **Are you aware that in a half-gallon of generic ice cream, the producer's share of that revenue is only \$0.65?** And that's in a half-gallon – not the shrunken 1.75-quart containers we are seeing more often in the stores. So where is the rest of the revenue going? This hearing will be an opportunity to bring these and many other issues to light.

**IN OTHER CDFA NEWS, THE FINAL DECISION FROM THE JULY 1<sup>ST</sup> HEARING WAS ANNOUNCED THIS WEEK:** *(By Rob VandenHeuvel)* As you recall, CDFA held a hearing on July 1<sup>st</sup> to consider increases in the transportation subsidies that are taken out of pool revenues to subsidize part of the cost of hauling raw milk to class 1 plants. From May 2007 – April 2008, an average of \$2,611,540 was taken out of the pool revenues each month and redistributed as transportation credits and allowances.

This week, CDFA announced their final decision coming out of that hearing. The Department determined that an increase in the subsidies was appropriate, and will be adjusting the payment rates and some of the mileage brackets effective September 1<sup>st</sup>. Using March 2008 hauling figures, CDFA said the new rates would result in an additional \$676,066 being taken out of the pool revenues each month to pay for these subsidies – a 26 percent increase from the current subsidy system. To put it in perspective, this means that under the new rates, we can expect about **\$0.66 per cwt.** to come out of the class 1 revenue each month to pay for these subsidies.

MPC testified at the hearing and argued that any increase in the subsidy costs (in this case, \$676,066 a month) should be recovered from the consumers through a “transportation surcharge” in the class 1 minimum price formula. Unfortunately, as I reported in a prior Update, CDFA determined that they were unable to consider MPC's proposal.

*End*