

Milk Producers Council

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MPC FRIDAY MARKET UPDATE

CHICAGO MERCANTILE EXCHANGE

Blocks $-.0975$ \$1.2700
Barrels $-.0925$ \$1.2475

Weekly Average

Blocks $-.0735$ \$1.3110
Barrels $+.0870$ \$1.2845

CHICAGO AA BUTTER

Weekly Change *N.C.* \$1.1700
Weekly Average $+.0015$ \$1.1700

DRY WHEY

WEST MSTLY AVG w/e 09/03/09 \$.3200
NASS w/e 08/29/09 \$.2914

NON-FAT DRY MILK

Week Ending 8/28 & 8/29

Calif. Plants \$.9206 6,085,548
NASS Plants \$.9287 10,851,194

CHEESE MARKET COMMENTS: Prices on the CME have now fallen seven straight trading days. Blocks have lost \$.12 per lb and barrels \$.1325 per lb over this period. Prices for both types of Cheddar are now about \$.04 per lb **below** the current (August-October) support price levels. *Dairy Market News* (DMN) did not provide any new insight this week into reasons for this weakness; the market is just “unsettled.” Recent USDA reports on cheese usage show that **per capita consumption** fell a bit in 2008 but “disappearance” of all cheese available in the U.S. so far this year is about 2.5% above where it was last year. Cheese production is reported to be edging downward, reflecting normal seasonal patterns of less milk and lower yields. At this point it’s worth mentioning once again that trading on the CME reflects only about 1% of all cheese transactions in the U.S. (the “unsettled” amount?) even though virtually every change on that spot market, through industry practice, affects current wholesale prices, inventory values, and ultimately retail prices for all cheeses.

BUTTER MARKET COMMENTS: For a second straight week, butter prices on the CME have not changed. DMN reports that production is edging lower and sales are steady. Six DEIP export bids were approved this week, totaling 5 million lbs of butter and anhydrous milkfat, at prices competitive with Australia’s and New Zealand’s market prices – and Europe’s subsidies.

POWDER MARKET COMMENTS: As shown above, average prices last week for the two major prices series for nonfat dry milk rose sharply, both reflecting much lower volume for the week. Both were just above the current support price of \$.92 per lb. Manufacturers are apparently working diligently to have far lower stocks on hand by the middle of November with a combination of regular exports, subsidized exports, domestic sales, and sales to the U.S. government.

WHEY PRODUCTS MARKET COMMENTS: The markets for dry whey, whey protein concentrates, and dry lactose are reported to be steady, and prices are steady to slightly higher. DMN calls these markets to be well balanced. The West’s “mostly” price continues to sit at \$.32 per lb.

FRED DOUMA’S PRICE PROJECTIONS...

Sept 4 Est:	Quota cwt. \$ 12.46	Overbase cwt. \$10.76	Cls. 4a cwt. \$10.66	Cls. 4b cwt. \$11.08
August Final:	Quota cwt. \$ 12.14	Overbase cwt. \$10.45	Cls. 4a cwt. \$10.19	Cls. 4b cwt. \$11.29

PRICES AGAIN SHARPLY HIGHER IN FONTERRA'S SEPTEMBER INTERNET AUCTION: (By J. Kaczor) For a second month in a row, prices for whole milk powder (WMP) auctioned through Fonterra's internet auction program were sharply higher. Prices for regular WMP for deliveries in November rose \$.286 per lb, and are now \$.423 per lb higher than the winning bids just two months ago. November's prices have risen to about where they were last November. For the second month in a row, the auction included powder from Australian sources. Fonterra's initial comments about these results cited growing international demand and current low stocks on hand.

DMN reports that WMP prices f.o.b. docks in Europe and New Zealand have risen to levels reflective of the auction prices – which seems to be a pretty good sign that this auction is now considered to be the most acceptable source for reflecting the current value for the highest volume dairy product that is internationally traded. Fonterra apparently is following through on its plan to add products to this auction. The first addition will be anhydrous milkfat (not butter), later this year. (Skim milk powder was the other product mentioned when the auction was first publicly discussed.) No follow-up is available so far to the brief story two months ago about the possible establishment of a futures market for WMP on the New Zealand stock market.

The critics of Fonterra's public auction for WMP were concerned that the auction prices for WMP would influence – even cause – prices for other dairy products to move in the same direction and by about the same amount as the auction prices. Fonterra defended the public auction approach, saying it was developed partly to do away with difficult face to face price negotiations which bound both sides to fixed prices for long periods of time. While prices for WMP, as mentioned above, have indeed followed the auction prices, export prices for other major internationally traded dairy products are now just showing rather small signs of improvement. So far, the critics are wrong on this issue when they might have been right.

JULY DAIRY PRODUCTS PRODUCTION; NO SURPRISES, SOME HOPE: (By J. Kaczor) Milk production in July was virtually unchanged from June and from July 2008. While there were no real surprises in USDA's report of U.S. dairy product production in July, it does look like some favorable patterns can be seen among the categories of products reported. First, the production of "surplus" products (meaning butter and powder) was about 7% lower than a year ago and 10% lower than June's output. Cheese production was 5 million lbs higher than in June (which precisely accounts for the slightly higher amount of milk that was produced in July), and the really good part of that report is that Cheddar production was 6 million lbs lower, while Mozzarella and other American accounted for virtually all of the total increase in cheese output for the month. Also virtually unchanged from June's levels were the whey based cheese by-products: dry whey, whey protein concentrates, and dry lactose. Conclusion: with cheese production accounting for all of the additional milk that was available in July (compared to June), and with butter and powder production 10% lower than in June, and with ice cream, sour cream, and yogurt production also using substantially less milk during the month (according to USDA's report), there is reasonable expectation that consumption of fluid milk (Class 1 usage) should be higher. Let it be so.

ONE MORE WEEK TO CHECK YOUR MILC STATUS: (By Rob Vandenheuvel) As I wrote a couple weeks ago, the Milk Income Loss Contract (MILC) runs on a fiscal year (October 1 – September 30 of each year). That means that even if you've already collected an MILC payment on 2.985 million allowable pounds of milk for "fiscal year 2009," you start over as of October 1st.

While there is no way to know exactly what next year in milk prices may hold, those who project future MILC payments (such as Cornell University's Program on Dairy Markets and Policy – <http://dairy.cornell.edu>; and the University of Wisconsin's Dairy Marketing and Risk Management Program – http://future.aae.wisc.edu/collection/software/current_MILC_est.xls) are estimating that given projections of a gradual increase in the milk price, the MILC payment will gradually decrease over the future months. If that indeed holds true, it would mean it's in everyone's best interests to start collecting the new fiscal year's MILC payments in the earliest possible month (October 2009).

When you all signed up for the MILC program this past February or March, you were asked to choose a start month for the next five years. Some of you may have chosen October 2009 as your start month for “fiscal year 2010,” while others of you may have left that area blank, which by default selects the same month you chose for the previous fiscal year (i.e., February or March). If you aren’t sure what month you chose for fiscal year 2010, you should contact your local FSA office immediately.

If you need to make a change to select October 2009 as your start month, your paperwork **MUST** be submitted by Monday, September 14th. That means this upcoming week is the last week for you to get this cleared up. If you need to make changes to your start month, you’ll need to fill out two forms: the CCC-580M (*MILC Modification*) and the CCC-926 (*Adjusted Gross Income Statement*). MPC members who need assistance filling this out should call the office at (909) 628-6018.

REMINDER: MPC BOARD MEETING IN BAKERSFIELD THIS UPCOMING TUESDAY: (*By Rob Vandenheuvel*) This coming Tuesday (September 8th), MPC will be holding our regular monthly board meeting. This month, the meeting will be held in Bakersfield at 801 S. Mount Vernon Avenue, Bakersfield, CA 93306. The meeting will start at 11 a.m. and lunch will be served.

We strongly encourage any MPC member or prospective MPC member to join us at our board meetings. If you are interested in attending, please give Debi a call at (909) 628-6018 so she can make sure we have enough food. Hope to see you there!