# Milk Producers Council

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**TO: DIRECTORS & MEMBERS** **FROM: John Kaczor**

## *MPC FRIDAY MARKET UPDATE*

**CHICAGO MERCANTILE EXCHANGE**

| | | |
|---|---|---|
| Blocks | +$.0525 | $1.9550 |
| Barrels | +$.0500 | $1.9325 |

**Weekly Average**

| | | |
|---|---|---|
| Blocks | +$.0635 | $1.9260 |
| Barrels | +$.0860 | $1.9155 |

**CHICAGO AA BUTTER**

| | | |
|---|---|---|
| Weekly Change | +$.0650 | $1.7250 |
| Weekly Average | +$.0320 | $1.6920 |

**DRY WHEY**

**NASS** w/e 9/13/08 $.2215 **WEST MSTLY AVG** w/e 9/18/08 $.2100

**NON-FAT DRY MILK**
**Week Ending 9/12 & 9/13**

| | | |
|---|---|---|
| Calif. Plants | $1.2575 | 13,245,838 |
| NASS Plants | $1.2130 | 17,523,565 |

**CHEESE MARKET COMMENTS:** Record high prices were reached for Cheddar blocks and barrels on the CME this week as prices rose to levels never before seen for this week in September. Dairy Market News reports that current sales of all cheese varieties are steady to strong, and demand for Cheddar cheese is strong for current use and for aging. Cheese production in the U.S. has been moderate (through July) and the small increase reported for August milk production is expected to help keep inventories from growing. Exports of Cheddar cheese in July totaled only 4.3 million lbs and are not a factor in helping to keep the U.S. cheese market strong. However, looking ahead, there is no reason to believe cheese prices on the CME will not follow the recent familiar pattern of falling back from an unsustainable level to a point where buyers return to the market.

**BUTTER MARKET COMMENTS:** It was another good week for butter prices on the CME, but there is not much in the way of hard news to justify much more of the same. Next week is the week in September that marks the point where butter prices in the past 4 years have started downward. Reasons for this pattern are not clear because the milk and butter supply-demand situations over those years ranged from weak to strong. Butter prices decreased last year in September despite a surge in butter exports. Currently, domestic sales of butter remain surprisingly strong, export volumes appear to have leveled out, and production is expected to continue to grow.

**POWDER MARKET COMMENTS:** The weekly average sales price reported by NASS for the week ending September 13th is $.1135 per lb lower than the previous week and is $.1817 per lb lower than it was just 3 weeks ago. The $.18 per lb drop translates to about $1.75 per cwt for the federal order Class IV price. The average price reported by California plants to CDFA fell $.0736 per lb this week. DMN reports that buyers and sellers seem to be scrambling to unload product in anticipation of even lower prices. Some contracted prices are said to be adjusted downward in order to keep buyers competitive. New orders for export are slowing down – possibly because increased product availability in Western Europe and New Zealand is anticipated by major foreign buyers. Production of nfdm in July, compared to the previous July, was somewhat lower than the comparisons for recent months, and should be even lower in August and September if the recent trend in lower milk production continues. Once again, DMN reports, but does not comment on, price differences of about $.13 per lb between the west and the central regions. Differences of this magnitude are not sustainable in a free and open marketplace. An explanation will be sought. An offer on the CME on Monday moved the nfdm price down by $.05 per lb, to $1.25 per lb.

**WHEY MARKET COMMENTS:** Prices appear to be leveling out, after a further drop this week in the western region's spot prices. Current prices for current sales seem to be more acceptable to buyers, although DMN reports that some contracted prices are being reset lower to reflect current market conditions. (Like the report for nfdm above, it isn't clear if these price concessions refer to domestic sales, export sales, or both.) Competition for export sales from other major exporting countries is said to be increasing – as expected. Whey protein concentrate (34% protein) prices remain low but steady. Prospects for much, if any, improvement in sales volumes and prices for whey-based products appear at this time to be slim.

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**FRED DOUMA'S PRICE PROJECTIONS…**

| | | | | |
|---|---|---|---|---|
| **Sept 19 Est:** | **Quota cwt. $18.00** | **Overbase cwt. $16.30** | **Cls. 4a cwt. $15.95** | **Cls. 4b cwt. $16.60** |
| **Last Week:** | **Quota cwt. $18.00** | **Overbase cwt. $16.30** | **Cls. 4a cwt. $16.19** | **Cls. 4b cwt. $16.45** |

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**AUGUST MILK PRODUCTION SHOULD GIVE PRODUCERS HOPE:** *(By J. Kaczor)* U.S. milk production in August increased by only 175 million lbs over last August, or 1.1%, the smallest percentage increase so far this year. USDA estimates the number of cows being milked increased by 123 thousand. That means for the first time in more than five years, monthly milk production per cow (PPC) did not increase over the prior year, for two months in a row. The weakness in PPC was unevenly spread over the 23 largest milk producing states. Eleven of the 23 had PPC increases. Texas increased the most, by 100 lbs, and New Mexico was next, by 80 lbs. It was a mixed bag out here in the real west: Arizona PPC increased 5 lbs, Washington 15 lbs, Oregon 20 lbs; Idaho decreased 10 lbs and California fell by 60 lbs. Last August, California added 47,000 cows and PPC increased by 40 lbs.

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

| | **Number of Cows** | | **Milk Production** | | |
|---|---|---|---|---|---|
| | **2007** | **2008** | **2007** | **2008** | **Pct Change** |
| **Washington** | 240 | 245 | 480 | 486 | 1.3 |
| **Michigan** | 338 | 348 | 647 | 640 | -1.1 |
| **New Mexico** | 335 | 337 | 621 | 652 | 5.0 |
| **Texas** | 348 | 385 | 581 | 681 | 17.2 |
| **Minnesota** | 463 | 465 | 720 | 725 | 0.7 |
| **Pennsylvania** | 550 | 548 | 886 | 871 | -1.7 |
| **New York** | 625 | 626 | 1,025 | 1,058 | 3.2 |
| **Idaho** | 520 | 555 | 1,024 | 1,088 | 6.3 |
| **Wisconsin** | 1,248 | 1,252 | 2,053 | 2,072 | 0.9 |
| **California** | 1,819 | 1,843 | 3,456 | 3,391 | -1.9 |
| **U.S. Total** | 9,159 | 9,282 | 15,525 | 15,700 | 1.1 |

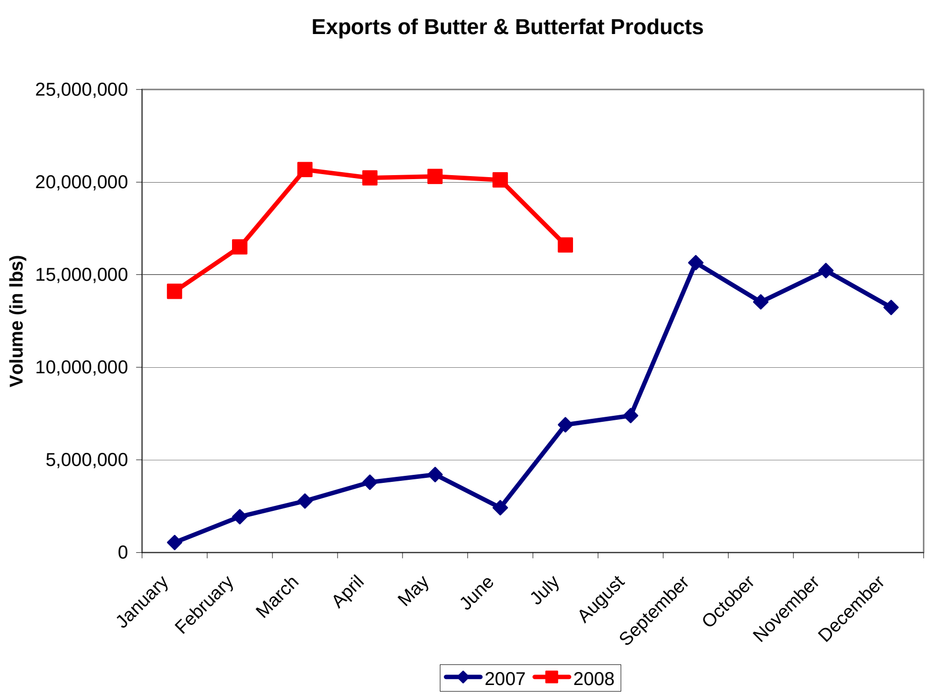
Last month, in our report on July milk production, the question was asked "*What is it going to take to keep the monthly production increases under 2.0%?*" That question presumed lower year-to-year increases are necessary and possible. Two consecutive months below 2% shows that it is possible. The reason why is becoming clearer. It's not fewer cows; culling rates remain high but the availability of lots of calves and heifers have helped producers replace cows that were removed, and to expand. It looks like the main reason for the slow down in milk production may be the obvious: rising feed costs, and the prospect of more increases to come, is causing more producers to modify the rations fed to cows. A switch to feed ingredients with lower costs is often, but not always, at the cost of less milk per cow. Bad weather also could have contributed a small part to the slow down in some areas, but California and Arizona appeared to have close to normal weather during the month. Production management programs also contributed. **The reference to hope** is the hope that manufacturing plants will be able to efficiently handle the milk that is available, and that obvious surpluses will not develop.

Note to those forecasters who are still trying to find out how the milk supply affects milk prices: it really is the other way around. For example, milk production in the January to June 2007 period averaged only 1.05% more than the same period in 2006, in response to **the very low milk prices** in 2006. Milk production in the July to

December 2007 period jumped to 3.18% over the same period a year earlier – yes, in response to **the very high milk prices** that began to develop earlier in 2007. That pattern is repeating itself this year. Milk prices peaked in late 2007; milk **futures prices** in January 2008 on the CME for February and beyond were about $3.00 per cwt lower than January's prices, and feed costs and other operating costs continued to increase. Milk production for the January to June 2008 period, **in response to the expected lower prices**, slowed to an average increase of 2.35% over same period a year earlier. As the months passed, it became apparent that the year's milk prices were not going to recover to where they were last year; milk production this July and August continued to slow, to an average of 1.29% above last July and August. The increases over the same month a year earlier have now decreased three straight months. The industry's guiding principle "***money makes milk***" (and the "less" and "more" variations to it) seems to have withstood the test of time.

**JULY BUTTER EXPORTS CONTINUE WELL ABOVE 2007 LEVELS:** *(By J. Kaczor)* One of the clearly positive export stories so far this year is the amount of butter and other butterfat products such as butteroil and anhydrous milkfat that has found its way from U.S. warehouses and out of the country. **Close to 11.5% of all butter produced this year, through July, has been exported.** The total increase over the same period last year is about 97 million lbs! Another 12 million lbs of milkfat in the form of the concentrated products were also exported. Credit is due to U.S. manufacturers and others active in the export business for seizing the opportunity created by the supply problems in other major exporting countries. The famous "weakening U.S. dollar" also contributed to the increase by allowing a given amount of foreign currency to buy a greater amount of U.S. butter during this period.

There is little question that had butter exports not increased as they did this year, butter prices would not be even within shouting distance of today's $1.725 closing price on the CME. Along with the increase in the volume exported, milk producers also benefited from the somewhat higher prices charged for the sales – something that cannot be said about exports of dry whey and nonfat dry milk. However, in order to continue to shore up butter prices, butter exports may have to increase by fairly large amounts through the rest of this year, and perhaps beyond. The following graph shows very clearly what has happened to butterfat exports since January 2007.




The graph shows that about 15 million lbs of butterfat was cleared away from U.S. warehouses each month from January through June. That's a good part of the 109 million lbs noted above. However, the monthly year-to-year increase in exports in July slipped to about 10 million lbs and will be virtually gone if the volume does not increase in August and beyond. **It's the additional monthly amount of exports above the previous year that helps to clear away the additional monthly production.** If that doesn't happen, the only alternative is to move the products to local warehouses – and watch the current tight supply-demand balance change to a buyer's market.

Of course, if milk production continues to calm down, the amount of butter production will also be reduced and the surplus-reduction job will be somewhat easier. But, regardless of what happens in the way of production, the difficulty in maintaining (much less increasing) butterfat exports is likely to be more difficult from now on. The reasons why include the increasing strength of the U.S. dollar (which reduces buying power of those countries whose currencies "float" against the dollar), the expected increase in the amount of butter available for exports in Western European countries and New Zealand, and the reported slowing in the rate of economic expansion in many "emerging" nations. Considering those obstacles in the way of more of the same success in butterfat exports, the next two months should be closely watched.

**INCOME OVER FEED COSTS:** *(By J. Kaczor)* This review is still a work in progress. It should be ready for next week's issue.

**MPC SENDS LETTER TO CWT COMMITTEE URGING ANOTHER HERD BUYOUT:** *(By Rob VandenHeuvel)* This past week, MPC sent a letter to Charles Beckendorf, the Chairman of the CWT Committee, urging his committee to authorize another Herd Retirement Program (HRP) in 2008 and also requesting detailed financial information about the expenses paid with producers' CWT contributions. The full letter can be seen at http://www.milkproducerscouncil.org/091808cwt.pdf, but I've included most of the letter below:

> "There has been much discussion throughout the dairy industry about the recently-completed HRP in which approximately 25,000 cows were removed from the national dairy herd (which currently consists of about 9 million milking cows). Given the grim economic outlook of the dairy industry by most experts, it is clear that retiring only 25,000 cows fell significantly short of the supply management our industry needs.
>
> "This letter is not meant to imply that more cows should have been retired in the recent HRP. Due to limitations in the program, it would have been imprudent to continue buying cows at higher bids. That is why another HRP must be announced. Based on the very simple 'Financial Update' on your website, following the recent HRP, CWT still had more than $100 Million in cash available (as of July 31st) – with that amount growing as monthly member contributions are deposited into your accounts.
>
> "The struggling dairy families we represent believe it would be a grave mistake to sit on the sidelines at this point in time. American dairy families have entrusted you with a tremendous amount of money and the responsibility to utilize that money in times of need. We are in the midst of possibly the worst economic times for dairy families in recent history, and CWT is the ***only*** tool we have to manage our national milk supply.
>
> "Our board also shares the concern expressed by Gary Genske in a recent letter to the CWT program which asks for a more detailed accounting of how CWT funds are expended, both for program and overhead costs. The dairy industry deserves a full financial accounting of this program that transfers more than $10 million per month of the producers' money into your hands.
>
> "For these reasons, we are making two formal requests. First, that the CWT Committee authorizes an additional Herd Retirement Program in 2008. Secondly, that you provide Milk Producers Council with a comprehensive and current financial report of CWT's activities, including a detailed breakdown of CWT's administrative costs."

*End*