

Milk Producers Council

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MPC FRIDAY MARKET UPDATE

CHICAGO MERCANTILE EXCHANGE

Blocks +\$.0825 \$1.4125
Barrels +\$.0875 \$1.3775

Weekly Average

Blocks +\$.0965 \$1.3880
Barrels +\$.0760 \$1.3560

CHICAGO AA BUTTER

Weekly Change -\$.0100 \$1.2600
Weekly Average +\$.0275 \$1.2640

DRY WHEY

WEST MSTLY AVG w/e 09/24/09 \$.3250
NASS w/e 09/19/09 \$.3017

NON-FAT DRY MILK

Week Ending 9/18 & 9/19

Calif. Plants \$.9570 8,129,995
NASS Plants \$.9850 10,193,226

CHEESE MARKET COMMENTS: USDA's Tuesday report on cheese in cold storage was a bummer; stocks of all natural cheese were 105 million lbs higher than they were a year earlier. Cheese buyers didn't mind. Blocks and barrels both added to their string of daily increases on Wednesday, held for a day, then rose again today. The single small bit of hope taken from the storage report is that the August level was lower, by a very small amount, than the month before for the first time in nine months. As was the case last week, most of the activity began with bidders wanting product, and willing to pay higher prices than the day before. Total price increases over the last two weeks are \$.1425 for blocks and \$.1275 for barrels. Production is up, inventories are up, total sales are lower. The cheese market is acting much stronger than the fundamentals indicate should happen. Let's believe buyers know something good, and are acting on it.

BUTTER MARKET COMMENTS: Butter buyers on Wednesday trimmed a penny from the CME price – a very soft response to the USDA's report on Tuesday that the amount of butterfat in cold storage was 23% higher than a year earlier. That increase in the stored amount was almost half of the entire amount that was produced in July (which is the most recent report available). That makes last week's comment (made here) that supply and demand for butter appears to be well-balanced, somewhat questionable. It looks like it's going to take more than the recently authorized 20 million lbs of subsidized butterfat exports to bring the storage number down. Less production is expected, which will help, but we also need aggressive ads by large chain stores to stimulate retail sales because food service sales are weak. But, the trading was again fairly active this week; let's presume they know what they're doing.

POWDER MARKET COMMENTS: All the news from *Dairy Market News* (DMN) analysts this week regarding nonfat dry milk was positive – no ambiguity whatsoever. Prices continued to rise and the U.S. demand is described as fair. Some manufacturers are said to be building inventories in order to be able to fill orders for near-term delivery. July's production of nfdm and skim milk powder was 12 million lbs less than June's, and shipments were 12 million lbs more – that combination took the end-of-July inventory down by 24 million lbs and is now the lowest it's been in nine months. That's good. Prices continued to edge up on all fronts: extra grade is now \$1.01 on the CME; the West's "mostly" average is \$1.01 and no Western sales were noted by DMN this week at prices lower than \$.97 per lb, so look for the California plant average to add a few more cents to last week's \$.9570 per lb. There have been no approved bids for DEIP subsidies for nfdm exports since September 3rd. All bids approved for nfdm export since this program was re-activated in June provide for shipments to take place by October 31st.

WHEY PRODUCTS COMMENTS: Current sales of dry whey are keeping pace with current production, and prices have started to again edge upward after having leveled off in early July. The Western "mostly" average price showed its first increase since July 10th. Stocks for whey protein concentrate (34% protein) are reported to

be light to moderate and prices this week again moved higher. There's still room between where WPC prices are and what other high quality dairy protein products are presently selling for.

FRED DOUMA'S PRICE PROJECTIONS...

Sept 25 Final:	Quota cwt. \$ 12.73	Overbase cwt. \$11.04	Cls. 4a cwt. \$11.07	Cls. 4b cwt. \$11.40
Last Week:	Quota cwt. \$ 12.65	Overbase cwt. \$10.95	Cls. 4a cwt. \$11.00	Cls. 4b cwt. \$11.26

THE UGLY PAST AND THE PROMISSING FUTURE: (By J. Kaczor) Milk prices have finally begun to rise from what likely was **the worst dairy industry economic depression** since the 1930's. The dairy industry's private depression didn't begin until the second year of the wider U.S. and world-wide recessions. That's not surprising; basic food commodities have a history of being somewhat immune from general economic conditions. Part of the pain being felt by dairy farmers is not so much that prices fell, but by how far they fell so suddenly and how long it has continued. Another is the fact that the higher feed and energy costs over the fifteen months leading up to the point where prices began to fall have not returned to where they were before the crash.

The reasons for what happened can include a number of things. On the price side, increasing milk production is clearly one of them. Beginning with July 2004 monthly milk production increased every month compared to the same month a year earlier, and has continued to do so until July 2009. This, despite CWT's founding and its eight herd removal programs which removed more than a third of a million cows over that period. Maybe that milk expansion shouldn't have happened, but over that period low milk prices occurred only once, in 2006. Milk producers had no reason to believe they should not continue with their individual business plans, which were at least partly in response to their cooperatives' genial encouragement to do so. The windfall boom in export demand and prices, which lasted for about fifteen months ending in early 2008, only added to the expansion craze.

The first sign of a problem was when cheese production and end-of-month inventories began to increase last Spring. The next was when the sales of nonfat dry milk from California plants began last October. When those sales continued through November and beyond, the fate of U.S. skim prices was pretty much sealed. Two months later cheese prices on the CME, which had been averaging about \$1.80 per lb since April 2007 – nineteen months! – collapsed. Butter prices followed. In the months following, butter, powder, and cheese prices at one time or another were under support price levels. The average price for milk used for butter/powder in California over the past nine months was \$9.87 per cwt. The average price for milk used for cheese manufacture in California over the past eight months was \$9.96 per cwt. Those averages include the prices that were announced yesterday, covering the month of August.

Here comes the part about the promising future. The butter/powder price for August was up by \$1.19 per cwt, and was the highest it's been in that nine month period. The cheese milk price was up by \$1.90 per cwt, and was the highest it's been in that eight month period. There is reason to believe that those prices will continue to increase, based upon a fairly long list of different events and activities which all are working on the same problem, in the same direction. Following is a listing of them, in no necessary order in terms of chronology or effect. They all help the cause.

- Preliminary numbers from CDFA's cost-of-production studies for California producers for this year's second quarter show that costs have fallen by \$1.30 per cwt compared to the first quarter. Feed costs comprised the largest part of the decrease.
- Current prices for corn and alfalfa hay are now considerably lower than they have been.
- More attention is being paid to the need for all milk producers to take advantage of existing risk management tools to avoid higher than expected future feed costs and lower than expected future milk prices.
- Sales of nonfat dry milk to the CCC have stopped, at least for the time being.
- Prices for butter, nonfat dry milk, and Cheddar cheese have all risen above their current support prices.

- USDA continues to work down by converting into other foods containing dairy ingredients that 200 million lbs of nonfat dry milk that had been stored in California warehouses.
- The activation of the Dairy Export Incentive Program has assisted non-manufacturing exporters (and manufacturers) to boost exports by making them price-competitive with Europe and New Zealand.
- Exports of nonfat dry milk, dry whey, whey protein concentrates, and cheese in July have climbed back to where they are at least close to where they were a year ago.
- The U.S. dollar is again back to its very weak level relative to almost all countries who either buy dairy products from us or who sell dairy products to us. That means imports are again more expensive to us and exports less expensive for our customers.
- CWT's eighth herd removal program, nearly complete, is clearing more than 74,000 cows from the U.S. milking herd, which could bring the total number of dairy cows down to where they were in 2004 and 2005.
- Milk production in the U.S. in July and August was below the same months a year earlier, for the first time since July 2004. That trend is expected to continue for some time.
- Dairy commodity prices f.o.b. ports in Europe and Oceania recently have been increasing, despite higher milk production in both of those major exporting regions.
- There are reports that some nations believe their recessions have ended.
- There is near unanimity that one of the major causes of the world-wide recession, the freezing of credit offered by major lending institutions, has eased to the point where those who have sound business plans can proceed.
- USDA secretary Vilsack recently announced plans for an Advisory Committee to find additional ways to raise milk prices and to reduce milk price volatility.
- Congress appears to be ready to appropriate an additional \$350 million dollars to be used to help boost milk prices.
- That 50 member House Dairy Caucus is standing by ready to help however they can.
- National Milk Producers Federation announced last Friday that their special Task Force Study Committee has reached a decision to work for specific long-term reform in federal order price formulas and other of the orders' disruptive provisions.
- There are a number of bills before Congress designed to either increase the level of milk prices or to reduce milk price volatility. Milk price volatility is on everyone's list as one of the most detested aspects of the present milk pricing system. How about it, House Dairy Caucus?
- Fonterra's *globalDairyTrade* internet auction program announced they will add anhydrous milkfat to the line of products offered in November, as the first step towards adding skim milk powder and butter. The *gDT* is the first effective program designed to improve price transparency for buyers and sellers of internationally traded dairy products. Its expansion is eagerly awaited.
- Through this all, fluid milk sales in the U.S. continue to be steady, if not strong.

Full recovery will not come nearly as fast as the price crash happened late last year but the above partial list of potentially helpful events offers realistic hope that a break-even situation brought about by a combination of higher prices and lower production costs is reachable in time for the industry to survive. Those of you who have been active in urging administrative and legislative solutions – keep at it. You have been heard.