



# Milk Producers Council

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## MPC FRIDAY MARKET UPDATE

### CHICAGO MERCANTILE EXCHANGE

Blocks +\$.0100 \$1.7600  
Barrels N/C \$1.7350

### Weekly Average

Blocks +\$.0090 \$1.7560  
Barrels +\$.0050 \$1.7350

### CHICAGO AA BUTTER

Weekly Change +\$.0050 \$2.2350  
Weekly Average +\$.0098 \$2.2350

### DRY WHEY

WEST MSTLY AVG w/e 9/24/10 \$.3775  
NASS w/e 9/25/10 \$.3626

### NON-FAT DRY MILK

#### Week Ending 9/24 & 9/25

Calif. Plants \$1.1000 15,443,336  
NASS Plants \$1.1494 16,054,481

**CHEESE MARKET COMMENTS:** The CME cheese spot market remains quiet. No trades occurred this week; one bid for blocks on Wednesday went unfilled but raised the price \$.01 per lb. Dairy Market News (DMN) reports orders for mozzarella, aged cheddar, and cream cheese to be rising **and inventories for some in the east to be on the verge of falling behind.** However, cheese production is expected to begin to increase as more milk becomes available, and milk components rise. Last week's report on the amount of cheese in cold storage (the sixth month in a row above one billion lbs) apparently was anticipated and didn't faze the market. The opening class III milk futures price for October, \$16.58 per cwt, fully supports the current prices for blocks and barrels; the price for February, \$13.90, along with anticipated lower prices for butter and dry whey, supports a cheese price of only \$1.50 per lb.

**BUTTER MARKET COMMENTS:** No sales occurred this week on the CME, although a single bid on Monday added a half cent to the price. DMN reports butter production is increasing throughout the country as cream intakes increase. Butter inventories are very low; buyers are beginning to place orders for the heavy sales period that is rapidly approaching. Retailers are reported to be surprisingly upbeat, with feature activity being planned for the holidays. Food service orders are reported to be steady. Butterfat appears to continue to be tight worldwide. Wow. Nonetheless, the CME's cash-settled futures price for butter for February 2011 is \$.62 per lb lower than the current price.

**POWDER MARKET COMMENTS:** Buttermilk powder continues to sell at a nice premium to nonfat powder; prices are unchanged this week. Supplies are adequate and production is beginning to increase as butter output moves up. Prices for whole milk powder are reported to be slightly higher and production is beginning to increase as more milk becomes available. For nonfat dry milk, the puzzle continues; DMN reports stocks are light to moderate in the west but prices are not moving towards the higher world skim milk powder prices. Well, actually, prices have moved up for both major price series, for a third week in a row. The NASS price is now back to where it was three weeks ago but the California average price is still one cent below where it was, and is now \$.05 per lb below the national average. See the prices and volumes reported in the above table.

**WHEY PRODUCTS MARKET COMMENTS:** The market for whey protein concentrate continues to look solid. Production is limited, in line with cheese production, and sales continue to be strong. DMN reports low inventories to be affecting order filling, with some shipments having to be delayed. Dry whey prices reported to NASS for shipments last week rose for a third straight week, by a small amount. The "mostly" price in the west edged upward this week and held even in the central region. Supplies are reported to be relatively tight throughout the country.

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## FRED DOUMA'S PRICE PROJECTIONS...

Oct 01 Est:        Quota cwt. \$ 17.74    Overbase cwt. \$16.04    Cls. 4a cwt. \$16.69    Cls. 4b cwt. \$15.82  
Sept 2010 Final:    Quota cwt. \$ 17.28    Overbase cwt. \$15.58    Cls. 4a cwt. \$16.63    Cls. 4b cwt. \$15.48

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**DO GROWING INVENTORIES OF CHEESE THREATEN FUTURE PRICES?** (By J. Kaczor) The purpose behind the use of prices for butter, nonfat dry milk, and cheddar cheese in determining prices for the various classes of usage of milk is that they supposedly reflect the balance between supply and demand for those basic commodities. Shortages result in higher prices and surpluses result in lower prices. In a perfect dairy world with timely communication and good management, supply shortages of any one, or all, of them should cause buyers to offer higher prices which signal producers to add cows to produce more milk which would be used to increase the supply of whatever is in short supply – or cause manufacturers who need more milk to pull some away from plants that are producing lower-priced surplus products. Either way, the imbalance between what is wanted and what is available eventually is corrected. But our world is not perfect. Over-corrections occur, competing interests stand in the way of cooperation, and timely communication of important information is not always available or used.

Presently, for reasons not at all clear, it's apparent there is a global shortage of butterfat. Butter prices on the CME are presently at levels seen only four times in the past twenty years. Exports of butter and butteroil are currently high, but approximately 90% of U.S. butter production is still being consumed in the U.S. It's also apparent there's a surplus of nonfat dry milk, at least in the U.S. (The CEO of Dairy America recently estimated powder prices will average between \$1.00 and \$1.05 per lb "by year end," while Fonterra's global auctions for skim milk powder in April, May, and June for shipments in November and December averaged \$1.54 per lb f.o.b. docks in New Zealand.) Approximately 60% of U.S. nonfat powder production is consumed in the U.S.

But what's the situation for cheese? It's generally agreed that the price for cheddar cheese is the most important factor in determining the level of monthly milk prices for producers. That's because more milk is used to produce cheese in the U.S. than butter and powder, and almost all the cheese produced in the U.S. is consumed in the U.S. (exports at their current record high levels account for 4% of current production). Production of all types of cheese has been increasing annually in the U.S. as has production of the price-setting cheese, cheddar. Following are the percentage **increases in production** for all cheese and cheddar cheese for 2008, 2009, and the first seven months of 2010.

- All cheese in 2008 was 1.6% higher than in 2007; cheddar was 4.9% higher;
- All cheese in 2009 was 1.8% higher than in 2008; cheddar was 2.9% higher;
- All cheese in the first seven months of 2010 was 2.8% higher than in the same period in 2009; cheddar was 1.9% higher.

Over this three and a half year period, monthly average prices for block cheddar cheese on the CME, which determine California's class 4b prices, averaged \$1.76 per lb in 2007, \$1.86 in 2008, \$1.30 in 2009, and \$1.49 so far this year. Today's price is \$1.76 per lb and this week's average is \$1.756 per lb. Prices for class III milk usage in federal milk orders are based on sales prices reported by plants to NASS, which are said to be based on CME prices and generally follow the CME pattern of prices. After plunging from \$1.70 per lb in December to \$1.27 per lb in March prices rose somewhat unsteadily to \$1.37 in June and from there quite steadily to where they now are. What happens next, because of growing cheese inventories?

The NASS report on cold storage at month end is specifically limited to places where the product is normally stored for thirty days or more. Those levels have been growing. Cheese in cold storage in 2007 and 2008 averaged 64 million lbs per month more than the monthly amounts that were produced during those years, increasing by about the same amount that production increased. However, the amount of cheese in cold storage at month end in 2009 and 2010 has increased faster than the production of cheese. In 2009, the monthly average of cheese in storage was 131 million lbs per month more than production and so far this year (through July), it is averaging 151 million lbs more than production.

The largest year to year increase occurred in 2009. The U.S. recession affected domestic sales that year and exports of cheese dropped sharply from the year before. The discussion could end right there, but U.S. cheese consumption has turned upward this year and exports are at record highs. So, do the recent levels of cheese in cold storage indicate surplus production and, if so, does a surplus of all cheese affect the supply/demand balance for cheddar cheese and therefore its price on the CME? The second part of that question is the most critical, and raises questions about the continuing use of CME prices, directly or indirectly, for purposes of setting milk prices – but not here.

A plausible argument **against** considering the rising levels of cheese in cold storage to be an indication of a real or pending surplus is that the industry is expanding, plants are increasing in size, sales are increasing, and the marketing channel is becoming more complex. Add to those points the following: it's costly to store cheese, so plants won't intentionally let inventories rise unless there's a reason to do so; the larger stocks of cheese in storage may have resulted from a "push back" by cheese buyers (jobbers, wholesalers, distributors, and chain stores) to limit their stocks while ordering "just in time;" the amounts reported in cold storage at the end of each month are just that – the amount in those warehouses at month's end regardless of how long it's been there; and a large percentage of cheddar production is kept in storage for aging purposes. The increase in export volume could also involve extra short term storage at a plant.

Unfortunately, there's no answer to be found here to the question asked above, but traders on CME's class III milk futures market do not appear to be confident that current prices will hold – quite the contrary. The September price closed at \$16.28 per cwt. October opened at \$16.58 today, drops to \$15.20 in December and to \$13.90 in February. Those prices reflect the combined interests of cheese and milk buyers and sellers, and speculators. Rightly or not, part of their concern, or caution, likely is related to the growing levels of U.S. cheese in cold storage. A brighter outlook comes from Dairy Market News reporters who are hearing that current cheese production is moving readily to buyers; yes, at current market prices. Perhaps clarity will come with the new year.

**CONTINUED PROGRESS IN DEVELOPING NATIONAL DAIRY POLICY:** *(By Rob Vandenheuvel)*  
Last week, I wrote in this newsletter about the need for our industry to move quickly to develop and implement long-term policy changes to address the boom/bust nature of the dairy industry. If you missed that article, I encourage you to check it out at [http://www.milkproducerscouncil.org/092410\\_needactionnow.htm](http://www.milkproducerscouncil.org/092410_needactionnow.htm).

The good news is that progress continues to be made on that front. Over the summer, the Costa/Sanders Bill (also known as the "Dairy Price Stabilization Program," H.R. 5288 or S. 3531) has received additional co-sponsors in the U.S. House of Representatives. H.R. 5288 now boasts nine Congressmen from coast-to-coast formally signing their names in support of the bill: Representatives Jim Costa (CA), Peter Welch (VT), Rick Larsen (WA), Joe Courtney (CT), John Larson (CT), Joe Baca (CA), Michael Arcuri (NY), Brian Baird (WA) and Lynn Woolsey (CA). S. 3531 continues to have the support of Senators Bernie Sanders (VT), Patrick Leahy (VT) and Patty Murray (WA). These two virtually identical bills continue to be the only long-term Federal policy proposal to have garnered coast-to-coast support – a seemingly rare occurrence in the dairy industry. MPC and our partners working on promoting this legislation greatly appreciate the support of these leaders in the House and Senate.

In related news, the National Milk Producers Federation (NMPF) has released more information on their package of Federal reforms known as the Foundation for the Future. This package takes the concept of production management (which is the focus of the Costa/Sanders bill) and adds some other bold ideas such as replacing the MILC and Support Price programs with a "margin protection program," and making reforms to our nation's Federal Milk Marketing Orders. This past week, NMPF released a new website on the proposal: [www.futurefordairy.com](http://www.futurefordairy.com). **I encourage each of you to visit the site and learn more about the details of the FFTF proposal.** Our industry is at a critical juncture, and major policy changes are likely to occur over the near future. It's vital that producers equip themselves with as much information as possible about proposals such as the Costa/Sanders Bill and NMPF's "Foundation for the Future."