

# Milk Producers Council

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## MPC FRIDAY MARKET UPDATE

### CHICAGO MERCANTILE EXCHANGE

Blocks -\$0.0900 \$1.7900  
Barrels +\$.0650 \$1.9000

### Weekly Average

Blocks +\$.0200 \$1.8700  
Barrels +\$.0765 \$1.8920

### CHICAGO AA BUTTER

Weekly Change +\$.0375 \$1.7400  
Weekly Average +\$.0520 \$1.7500

### DRY WHEY

NASS w/e 10/11/08 \$.1928 WEST MSTLY AVG w/e 10/16/08 \$.1850

### NON-FAT DRY MILK

Week Ending 10/10 & 10/11

Calif. Plants \$.9996 14,236,006  
NASS Plants \$1.0230 20,215,179

**CHEESE MARKET COMMENTS:** Evidence of slowing demand for cheese popped up today on the CME, when the price for blocks lost 10 cents per lb. The barrel price was unchanged. Block prices had increased 5 straight days through Monday of this week – all on uncovered bids. Today's change was caused by a number of sales, and ended with an unfilled offer at \$1.79 per lb. Next Monday's market should tell us if the apparent surplus of cheese is shared by many or few, and if it includes barrel cheese as well. The ending price of \$1.79 per lb is 8 cents lower than the week's average price, which usually keeps those buyers who use the previous week's price to put off decisions until prices level off. No signs of panic, but many stories of consumer concern over the state of the economy, and a clear slow down in retail sales.

**BUTTER MARKET COMMENTS:** The report on unexpectedly strong butter exports in August (see article below) appeared to contribute to buyers' continuing concern about whether enough butter will be available at reasonable prices – or at any price – later this year. However, projections of sales over the next several months indicate that wholesale and retail sales are expected to slow, and **butter prices are now \$.45 per lb higher than they were a year ago.** Considering that, it would take an extraordinary combination of events, including continuing strong exports, to cause a real shortage of butter this year. Yes, it's supply and demand, and that ten-thousand pound gorilla that is the economy, that should continue to be the key factors in determining future price levels.

**NONFAT POWDER MARKET COMMENTS:** Another 6.7 million lbs of nfdm moved from California plants to the Commodity Credit Corporation last week, on top of the 8.3 million lbs that were sold the week before. However, the sales to the CCC were not reported by Dairy America or any of the individual plants; the products were first sold or transferred to a broker who then made the final sale. Interesting, isn't it? The California plant average price for last week fell below the \$1.00 per lb level, and the average is close to where it was in 2005 and 2006. While the lowest price for the week in the West was \$.80 per lb (the CCC purchase price), **the lowest price in the Central region was \$.24 per lb higher.** What is happening now seems to be anything but the open and transparent marketplace that buyers were pleading for a year or so ago. International prices are reported to be continuing to weaken as supplies continue to rise.

**WHEY MARKET COMMENTS:** The market for the full line of products in the whey stream is weak but prices appear to have stabilized. U.S. exports through August continue to be below where they were a year ago, and international prices are falling. The economic problems facing the U.S. are affecting other major industrialized countries as well as those of the prized "emerging" nations, which doesn't hold out much hope for greater demand or higher prices for whey products anytime soon.

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**FRED DOUMA'S PRICE PROJECTIONS...**

Oct. 17 Est: Quota cwt. \$17.21    Overbase cwt. \$15.51    Cls. 4a cwt. \$13.88    Cls. 4b cwt. \$16.64  
 Last Week: Quota cwt. \$17.35    Overbase cwt. \$15.65    Cls. 4a cwt. \$13.95    Cls. 4b cwt. \$16.88

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**EXPORTS OF BUTTER AND NONFAT POWDERS LEAD AUGUST EXPORTS:** *(By J. Kaczor)* The following table updates U.S. exports for five major dairy commodities through August 2008, with comparisons to a year earlier. The volumes reflect millions of pounds. Prices, where shown, reflect calculated prices per pound.

	Jan-July		August		Jan-Aug
<b>Nonfat Powder</b>	<b>Vol.</b>	<b>Price</b>	<b>Vol.</b>	<b>Price</b>	<b>% of Production</b>
<b>2007</b>	326.7	\$1.18	33.8	\$1.84	32.0
<b>2008</b>	584.5	1.66	79.6	1.53	50.9
<b>Butter</b>					
<b>2007</b>	18.5	1.03	6.6	1.35	2.5
<b>2008</b>	115.5	1.41	26.8	1.23	12.9
<b>Cheese (all)</b>					
<b>2007</b>	120.4	--	17.6	--	2.1
<b>2008</b>	180.5	--	25.7	--	3.2
<b>Whey Prot. Conc.</b>					
<b>2007</b>	103.4	--	18.8	--	46.6
<b>2008</b>	98.4	--	13.6	--	40.3
<b>Dry Whey</b>					
<b>2007</b>	346.7	.48	50.3	.49	51.9
<b>2008</b>	250.9	.51	44.7	.44	40.6

The figures for nonfat powders include nonfat dry milk and skim milk powder, which are included in a single product code in the export document which is submitted for each shipment. The butter category includes butter with 80% and 82% butterfat, but excludes butter oil and anhydrous milkfat in order to be able to compare sales and production (production of BO and AMF is not reported to NASS). Prices for cheese and WPC exports were not calculated because those categories include a variety of products with different values.

The amount of butter and nonfat powders that were shipped out of the U.S. in August obviously helped keep inventories from becoming unbearable. In the case of butter, the volume that was exported in August jumped by 11 million lbs over July's level, and contributed to a strong price move on the CME during the month. Exports of cheese continue above year-earlier levels, but the volume of those sales, particularly cheddar cheese, is not large enough to influence domestic prices. Exports of dry whey and whey protein concentrates continue to lag below last year's levels, but are essential for market-clearing purposes.

The average price shown for exported butter in August includes CWT's subsidies that were offered earlier in the year. (Subsidized sales are not reportable to NASS, so domestic prices are not affected.) Why and how the average prices for exported nonfat powder and dry whey in August (and since the beginning of the year) continue to be substantially higher than domestic prices remains a mystery. The California plant average price for nfdm sold in August was \$1.35 per lb; the NASS price, reflecting sales by all U.S. plants that are required to report sales, was \$1.38 per lb. AMS has been asked by Milk Producers Council to investigate the possibility that bogus or unnecessary sales transactions are made for the purpose of reporting prices that are not representative of current market conditions.

**Looking Ahead.** As production of milk and dairy products in Australia and New Zealand increases over the next three or four months, it will be interesting to see how effectively they compete to regain the sales that were lost to the U.S. when their milk output fell. Australia's three year long drought has abated, but rainfall has not returned to normal levels; milk production is expected to increase this year by about 2-3% over last year. New

Zealand is projecting a 6-7% increase in milk production, and has the strategic ability to direct their milk to products that have the highest value. Both countries, as well as the U.S. and Western Europe, face a world market that appears to be far weaker than it has been for some time. The increase in exports of certain dairy products from the U.S. that began last year has been described as “opportunistic” because it resulted from product shortages elsewhere, at a time when world demand for those products was increasing. That has changed, and it’s beginning to look like that window may be closing. China’s need for an assured supply of high quality dairy products could present a short term opportunity for the U.S. and New Zealand, but will not likely avert an eventual confrontation between the U.S. and New Zealand that New Zealand cannot afford to lose. Perhaps CWT’s strategic plan to expand exports should be set aside for a time in favor of concentrating on a supply management program. Do you think?

**NO HOPE SEEN IN SEPTEMBER’S MILK PRODUCTION REPORT:** *(By J. Kaczor)* U.S. milk production in August was revised upward by 54 million lbs over last August, to 1.5%, still the smallest percentage increase so far this year. The revision came from a higher production per cow estimate than was first used. The figures for September: 130,000 more cows, 9 more lbs of milk per cow, and an increase of 247 million lbs of milk (+1.7%).

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
<b>Washington</b>	240	244	457	464	1.5
<b>Michigan</b>	339	350	620	620	--
<b>New Mexico</b>	336	336	605	632	4.5
<b>Texas</b>	348	385	571	658	15.2
<b>Minnesota</b>	463	465	688	698	1.5
<b>Pennsylvania</b>	550	548	853	838	-1.8
<b>New York</b>	626	626	983	995	1.2
<b>Idaho</b>	521	554	979	1,036	5.8
<b>Wisconsin</b>	1,248	1,253	1,966	1,986	1.0
<b>California</b>	1,822	1,841	3,252	3,277	0.8
<b>U.S. Total</b>	9,166	9,269	14,871	15,118	1.7

The increase in production over year-earlier levels stayed at less than 2% for the third month in a row, but the three-month trend towards progressively smaller increases was broken. That’s a huge disappointment because it’s becoming quite clear that the U.S. economy is in a recession and domestic consumption has been and is expected to be flat at best, or to continue to decrease. The last U.S. recession was mild and short, and milk production and the number of cows leading into it were lower than the year before, and dairy product prices held up very well. The numbers in the above table show this time the industry is well behind the curve, by at least 140,000 cows, and that immediately after the conclusion of CWT’s latest anemic effort to control output.

A month ago, in reporting August’s milk production, it was mentioned that the dairy industry’s adage “money makes milk” has been consistently right in forecasting changes in milk production. Considering the dire economic situation not only in the U.S. but now also evident in many other countries, expect to see the experts project sharply lower milk prices over the next six to nine months. One way or another, sooner or later, milk production must start to slow down or the consequences could be of a “train wreck” proportion.

**REMINDER FOR CENTRAL VALLEY DAIRIES:** *(By Rob VandenHeuvel)* Next week, there will be three more workshops delving into the December 31<sup>st</sup> requirements under the new “waste discharge requirements.” Dairies in Stanislaus (Tuesday), Kings (Wednesday) and Fresno (Thursday) Counties are encouraged to attend. For more info, please see CDQAP’s flyer: <http://www.milkproducerscouncil.org/fall08wdrworkshops.pdf>

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