



Milk Producers Council

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MPC FRIDAY MARKET UPDATE

CHICAGO MERCANTILE EXCHANGE

Blocks +\$.0525 \$1.7725
Barrels +\$.0775 \$1.7675

Weekly Average

Blocks +\$.0085 \$1.7270
Barrels +\$.0350 \$1.7400

CHICAGO AA BUTTER

Weekly Change +\$.0200 \$1.8800
Weekly Average +\$.0135 \$1.8720

DRY WHEY

DAIRY MKT NEWS w/e 10/28/11 \$.6338
NASS w/e 10/22/11 \$.6208

NON-FAT DRY MILK

Week Ending 10/21 & 10/22

Calif. Plants \$1.4771 14,652,580
NASS Plants \$1.4969 20,467,659

CHEESE MARKET COMMENTS: Last week's trading on the CME ended with the block price up \$.03 and barrels unchanged. Trading was moderate. The trading activity through the week, and the ending prices on Friday, appeared to reflect a balanced market for cheese. That thought lasted until this Monday, when sellers offered higher prices on both styles. Tuesday's trading for blocks was marked by a sharp change of opinion when a previous day's seller ripped \$.0425 per lb from the price. Apparently, that would not do; very decisive bids for both styles were entered over the rest of the week, resulting in a recovery of \$.0825 per lb for blocks and \$.0575 for barrels. Those kinds of price movements go beyond the "choppy" description often used when prices move back and forth. Concern about inventory valuations may best explain those aggressive bids. Speaking of which, USDA's report last Friday on cheese in cold storage at the end of September provided somewhat good news for the cheese industry. Stocks of American cheese dipped lower than last year's levels for a second time this year, and stocks of other natural cheeses were lower than last year for a second month in a row. The 105 million lb difference between 2009's stocks of American cheese in January, compared to this year's, dropped to only 35 million lbs in September. Futures traders for class III milk and cheddar cheese contracts were not asleep; prices for all months moved higher for the week; the biggest moves for class III contracts were for November and December which now average \$17.99 per cwt, while the average for the first quarter of next year is \$1.30 per cwt lower.

BUTTER MARKET COMMENTS: Butter prices on the CME gained another penny per lb this week, supported by a moderate amount of trading. While cheese trading rounded out the week decisively, butter trading appeared to be more persistent and stubborn. Friday's \$1.88 price is within sight of New Zealand's low end of the price range reported this week by *Dairy Market News* – which is \$1.81 for butter containing 82% butterfat. (The continuing fall in prices bid for anhydrous milkfat in Fonterra's auctions continues to mystify; different products, different usages, different markets?) The report on butterfat products in cold storage at the end of September contained some positive and negative signs. The good sign is those stocks were below the previous month's level for a 2nd month in a row, and September's level was at its 2nd lowest level in six years. Offsetting those points, the August to September decrease in stock levels was the lowest it has been in ten years, and the end of month levels are again above where they were in August and September last year. Futures traders apparently did not like what they saw; the price for November did increase \$.01 per lb this week, but prices for the following eight months fell. The low price for that period is \$1.70 per lb, for February, and the high is \$1.8075, for July.

POWDER MARKET COMMENTS: Prices for sales of nonfat dry milk throughout the U.S. continue to slip downward. The California plant average fell \$.0331 per lb below the previous week and is now \$.148 below July's high and \$.123 below August's high. NASS prices have been moving by similar amounts in the same direction. [Last week's prices are reported above.] DMN's comment on competition for sales of nonfat dry milk sounds a bit like the industry is feeding on itself. First buyers (direct from manufacturers) find their prices are being undercut by sales of product previously sold, either very old product or product that was first bought at a

somewhat higher price. Last week's sales volumes were about average. According to CDFA's report on production in September, NFDN output fell by 14 million lbs and skim milk powder jumped by at least a like amount. The average price received for U.S. exports of nonfat powders in September was \$1.585 per lb, which is about \$.14 higher than the current low end of the price range reported for SMP in New Zealand. All signs point to continuing price decreases for NFDN. Demand for buttermilk powder is reported to be good in all regions, with slightly higher prices in the west and steady prices in the rest of the country. Production of whole milk powder is reported to be increasing, as expected, to meet increasing seasonal demand.

WHEY PRODUCTS MARKET COMMENTS: The market's demand for dry whey simply continues to amaze and surprise. Strong exports are one big reason for the current tightness in supply, but domestic demand also appears to be steadily improving. DMN reports negotiations for the right to even get a contract for a supply next year (for those without one) are difficult, as manufacturers are having to balance inquiries from a number of directions. For current sales, ties appear to go to the exporters. Prices throughout the country this week moved higher, with the northeast moving "significantly" higher. The west's "mostly" price moved up by \$.0038 per lb, which continues to support California's Class 1 and 4b (within limits) prices and comparable prices in federal order areas as well as their cheese milk price class, Class III. The market for more concentrated whey protein products continues to be strong. DMN reports what may be a growing interest in fluid condensed whey, which would tighten the supply of WPC. Despite the reduced prices for all other dairy powders, the average price for WPC-34 in September came in at a record high for the month, above the previous record set four years ago.

FRED DOUMA'S PRICE PROJECTIONS...

Oct 28 Final:	Quota cwt. \$18.93	Overbase cwt. \$17.23	Cls. 4a cwt. \$18.22	Cls. 4b cwt. \$15.78
Last Week:	Quota cwt. \$18.96	Overbase cwt. \$17.26	Cls. 4a cwt. \$18.29	Cls. 4b cwt. \$15.79

TOO MANY OUTLOOKS FOR PRODUCERS TO KNOW WHAT TO DO: (by J. Kaczor) The need for the dairy industry to know at least the direction it may be going is so fundamental it sometimes gets lost amidst daily routines, inevitable unforeseen problems needing immediate attention, and issues so broad or so profound they are beyond comprehension. The need to know what lies ahead begins with milk producers – to help decide what to do, and when and how to go about doing it. Every other company or person in the entire marketing channel is likely either looking ahead or being hit from behind.

Questions about "direction" include product volumes, prices, costs, and timelines for each. "Costs" include the obvious – money, its availability and cost – but also what is given up by choosing any one thing instead of all other options. Timelines could range from the immediate moment to decades in the future. Prices are prices.

This subject was brought to mind by the number of recent meetings, reports, stories or events that touched, either directly or indirectly, on current and future supply and demand estimates for milk and dairy products. They vary in their outlook. Cheese makers met in Idaho; they all seemed to have grandiose visions of great demand for their products. *USDEC* had a meeting in Chicago; they are excited about industry prospects for exports but concerned about differences between "physical prices" being lower than prices reported to major agencies. *USDA's* latest supply-demand estimates forecast more milk and lower prices for the rest of this year and for 2012. Those estimates change monthly. *Fonterra's* great global auction for a growing number of dairy commodities changed course this year and is now churning out much lower prices than were evident this Spring. *CME's* futures market for milk and dairy products, reflecting a combination of business hedgers and speculators, are pointing downward. The *Innovation Center for Dairy's* expert consultants continue to point out, to them, obvious opportunities of almost unimaginable magnitude for future dairy product exports.

Another form of forecast, taken from a model of the U.S. dairy sector developed in the *Department of Agricultural, Resource and Managerial Economics, Cornell University*, shows continuing milk price volatility at

increasing degrees is to be expected under current industry regulatory policies. And another came this week, from Fonterra's Chairman: a downward revision to the company's price forecast made five months earlier because of weaker international demand, increased international supplies, and international currency fluctuations. Fonterra reserves the right to make further revisions, up or down, as developments dictate. How about the industry's final customers, the U.S. consumer? Consumer confidence is measured monthly through surveys by the Conference Board, an independent agency. The index reflects how consumers feel about the overall state of the economy and their personal financial situation, and influences their spending activity which ultimately determines about 70% of the U.S. gross national product. Last week's report, for October, showed the index at 39.8 – lower than it was in three out of the last four U.S. recessions, and close to the lowest point reached in the latest recession. An index of 90 is considered an indication of sustainable growth.

Let's not leave out the industry's two national trade associations and their decidedly divergent views of what is not only best for the industry, but what is needed for many milk producers to survive and prosper. Can one be so right and the other so wrong?

The obvious reason for saying the need to know what direction the industry is heading begins with milk producers is because all those great plans and visions depend on a continuous abundant supply of milk, regardless of levels of prices or costs. The glove has been thrown; decisions must be made. There are a great many sources of information needed to help make important decisions. Some of them are mentioned above. They range from private to public, from free to costly, from objective to subjective, from hidden or obscure to transparent, from helpful to not so helpful. Imagine, if you will, the number of dairy industry business decisions being made at all levels, by all companies, by sellers and buyers – last week, this week, and those to be made from here on – all based on the presumption that milk will be available when and where it is wanted. It is worth asking yourself who or what is to be trusted and who or what is worthy of your trust. Try not to be hit from behind.