

Milk Producers Council

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TO: DIRECTORS & MEMBERS

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MPC FRIDAY MARKET UPDATE

CHICAGO MERCANTILE EXCHANGE

Blocks -\$.1300 \$1.6075
Barrels N.C \$1.6850

CHICAGO AA BUTTER

Weekly Change -\$.0650 \$1.6850
Weekly Average -\$.0290 \$1.7190

NON-FAT DRY MILK

Week Ending 10/24 & 10/25

Calif. Plants \$.9065 18,562,379
NASS Plants \$.9224 22,269,335

Weekly Average

Blocks -\$.1195 \$1.6630
Barrels -\$.1320 \$1.6850

DRY WHEY

NASS w/e 10/25/08 \$.1923 WEST MSTLY AVG w/e 10/30/08 \$.1700

CHEESE MARKET COMMENTS: The price for block Cheddar on the CME this week again fell sharply, and is now lower than it has been in the last 18 months. Few sales this week; all of the weakness came from offers to sell lower. The dismal prices for nonfat dry milk appears to be causing milk to shift to cheese plants, away from butter-powder usage, and cheese plants may also be using more condensed skim and nfdm to fortify their vats. That means more cheese is on the way. Buyers seem satisfied that cheese can be had at good prices whenever they need it. The depressed economy has affected domestic cheese sales, and exports add little to total sales. It looks like inventories will continue to be higher than year-earlier levels, and prices to be lower. The “dairy story of the last year” may be turning into the “dreary story of this year.” A better balance between supply and demand could result from the continuing smaller increases in milk production, and CWT’s latest herd thinning program should also help. So there is some hope, but the professionals who work the futures market are projecting cheese prices to be in the \$1.50 to \$1.70 range through next Fall.

BUTTER MARKET COMMENTS: Butter prices on the CME slipped below the \$1.70 level this week. Domestic sales are not as strong as expected (no surprise) but export volume apparently continues to clear the market of the higher production. Prices typically flatten in the Fall as higher demand absorbs increased production. *Dairy Market News* reports that exports look good through the end of the year, but new orders are not showing up. Milk production in New Zealand is strong, and international butter prices are now well below the levels on the CME.

NONFAT POWDER COMMENTS: More sales to the CCC occurred this week and more are expected until inventories fall well below present levels. Next week’s report on September dairy product production will show which direction inventory levels are moving. International prices are following U.S. prices downward, and are now also below \$1.00 per lb. There doesn’t appear to be any news anywhere that would suggest anything other than prices continuing close to or even below \$.90 per lb. CWT’s expansion of their export assistance program to include skim milk powder (see story below) appears to be a questionable move, and needs to be explained.

WHEY MARKET COMMENTS: Prices for dry whey continue to weak, but the lower production of dry whey so far this year appears to have helped. How much lower could prices go, anyway? Prices for whey protein concentrate, which apparently have been the controlling factor for prices for the full line of whey-based products over the past year, have stabilized. However, international prices for dry whey continue to fall. International demand is very weak; prices continue to fall.

FRED DOUMA'S PRICE PROJECTIONS...

Nov. Est:	Quota cwt. \$15.75	Overbase cwt. \$14.05	Cls. 4a cwt. \$12.24	Cls. 4b cwt. \$14.39
Oct. 31 Final:	Quota cwt. \$17.16	Overbase cwt. \$15.46	Cls. 4a cwt. \$13.75	Cls. 4b cwt. \$16.63

COOPERATIVES WORKING TOGETHER: WITLESS OR BRILLIANT, YOU DECIDE: (By J. Kaczor) The strategists at CWT announced the latest expansion of their dairy product export subsidy program yesterday, adding **skim milk powder** to the list of products they will subsidize when exported. That's the same skim milk powder (SMP) that is virtually identical to nonfat dry milk (NFDM). SMP costs the same as NFDM, can be used interchangeably with NFDM, competes directly with NFDM for international sales, but is not used in the formulas used to set milk prices for California or federal order areas. The rate of manufacture of SMP has increased **by more than ten times the rate for NFDM this year**, and is readily exported without any assistance of any kind. The most immediate effect of this decision is likely to be even greater production of SMP, lower production of NFDM, depressed prices for international sales of SMP and NFDM, and no increase whatsoever in total U.S. sales of the two products. Let's see how this works: sell NFDM to the CCC at \$.80 per lb and export SMP at less than \$.80 per lb. CWT leaders believe that is a good way to use their members' money, and Fonterra may qualify for the subsidies because they broker products for Dairy America (we're checking on this). If CWT believes this is how to start an international price war with their members' money, it may work. CWT's full reasoning behind this latest idea is being sought.

While on the subject of CWT's programs, here are a few thoughts about their herd retirement program. First, why not describe it for what it is rather than to say that they pay a dairyman "*for the volume of milk produced by that herd in a 12 month period.*" That's not what they do; they pay the difference between the current market value of the cows, less the slaughterhouse value of the cows (which the bidder keeps). A bidder can ask for more, but the starting point is what results from the simple calculation mentioned above. There's no need to complicate, confuse, or mislead. Next point, if the objective is to remove as many cows as possible for a given price, why exclude anyone who would otherwise qualify? Why exclude producers who had successfully bid in earlier programs, and why exclude producers who have more than one operation who would like to shut one or more of them down? In this case, it is pointless and non-productive to put principal ahead of practical results. And finally, if you really believe the payoff is as great as your hired economist says it is, why don't you spend a little more of the money you have on hand and offer enough to those marginal bidders in order to have a meaningful effect on total milk production? [Note to CWT: your usual answer to these questions is not acceptable.]

CDFA HOLDS HEARING ON CLASS 1, 2 & 3 MINIMUM PRICE FORMULAS: (By Rob VandenHeuvel) Yesterday, the California Department of Food and Agriculture (CDFA) held a hearing to consider changes to the minimum price formulas for milk sold to California's class 1 (*fluid*), 2 (*cream, yogurt, etc.*) and 3 (*frozen*) processing plants. Approximately 24 percent of California's pooled milk is sold to plants making these products.

Three proposals were offered at the hearing: (1) The Alliance of Western Milk Producers, Western United Dairymen and the California Dairy Women Association offered a proposal to **temporarily increase** the Class 1, 2 and 3 formulas by about \$1 per cwt for the months of January – June 2009; (2) The Dairy Institute of California (representing many of California's milk processors) offered a proposal to **permanently reduce** the Class 1 formula by \$1.35 per cwt., and to reduce the Class 2 and 3 formulas by about \$0.26 per cwt; and (3) MPC offered a proposal to **permanently increase** the Class 1 minimum price to recover part of the revenues that are removed from the producer pool to pay for the transportation subsidies – an increase of about \$0.14 per cwt to the class 1 price. (Note: since about 24 percent of California's pooled milk is sold to class 1, 2 and 3 plants, a \$1 per cwt increase or decrease in these three formulas would amount to an increase or decrease of about \$0.24 per cwt in the overbase price). My testimony on behalf of MPC can be found on our website at: <http://www.milkproducerscouncil.org/103008mpc.pdf>.

The discussion at the hearing was very predictable. Producer advocates described the bleak economic conditions facing California dairy families and the need for addition revenue from our milk sales. Processor advocates did what they do best – argue for the lowest milk price possible. *(To give you a taste of processors' arguments for lower class 1, 2 and 3 prices, I've posted a copy of the Dairy Institute's testimony on our website: <http://www.milkproducerscouncil.org/103008di.pdf>)*

The questions asked by the CDFA hearing panel seemed to be focused on what impact a potential price increase or decrease would have on (1) processing capacity in California; and (2) whether a change would invite more or less competition from out-of-state interests. Secretary AG Kawamura now has about two months to determine whether or not the Department will make any changes to the price formulas, and what – if any – those changes might be. Stay tuned...

OCTOBER “CARES COLUMN” PUBLISHED: *(By Rob VandenHeuvel)* The October “Dairy CARES Report” has been published, and is posted on our website at: <http://www.milkproducerscouncil.org/cares/oct08.pdf>. This month's column looks at the recent lawsuit filed by environmental extremists against the Central Valley Air District over their approval of a dairy permit for Charlie Vander Kooi in Fresno. Our industry continues to be under attack from extremists with an anti-dairy agenda and deep legal pockets. CARES has played an increasingly large role in beating back these attacks, and they should be commended for that. It is vital that we stand together as an industry and fight these anti-dairy extremists head on.

TWO MORE WORKSHOPS NEXT WEEK ON UPCOMING WASTE DISCHARGE REQUIREMENTS FOR CENTRAL VALLEY DAIRIES: *(By Rob VandenHeuvel)* Next week, there will be two more workshops looking at the paperwork that must be filed by December 31st under the new “waste discharge requirements” for dairies in the Central Valley. The workshops will be held in Merced (Tuesday) and Kern (Wednesday) Counties. For more information on times and locations please see CDQAP's flyer posted on our website: <http://www.milkproducerscouncil.org/fall08wdrworkshops.pdf>.

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