

Milk Producers Council

5370 SCHAEFER AVE. SUITE A - CHINO, CA 91710 - (909) 628-6018 - Fax (909) 591-7328

801 S. MOUNT VERNON AVENUE - BAKERSFIELD, CA 93306 - (661) 833-2549

E-mail: mpc@milkproducers.org

Website: www.MilkProducersCouncil.org

DATE: November 25, 2009
TO: DIRECTORS & MEMBERS

PAGES: 3
FROM: John Kaczor

MPC FRIDAY MARKET UPDATE – SPECIAL WEDNESDAY EDITION

CHICAGO MERCANTILE EXCHANGE

Blocks +\$.0500 \$1.6500
Barrels +\$.0100 \$1.5100

CHICAGO AA BUTTER

Weekly Change N.C. \$1.5250
Weekly Average N.C. \$1.5250

NON-FAT DRY MILK

Week Ending 11/20
Calif. Plants \$1.1145 8,958,499
NASS Plants N/A N/A

Weekly Average

Blocks +\$.0423 \$1.6283
Barrels +\$.0527 \$1.5076

DRY WHEY

WEST MSTLY AVG w/e 11/19/09 \$.3738
NASS N/A

CHEESE MARKET COMMENTS: Trading activity was slow on the CME this week; shipments to fill orders for the holiday were completed last week. Buyers are now assessing how they did so far, and are considering what they expect to do over the next three to seven weeks of expected heavy sales. The CME weekly average prices for blocks and barrels have been close to their Friday closings since October 30th, reflecting a balanced market which gives buyers time to focus on customer needs rather than on inventory issues. Prices for blocks increased every day in this shortened trading week, finishing \$.05 per lb higher for the week, reflecting steady demand. Barrels added a penny on Tuesday. The price spread between the two styles has widened again to \$.14 per lb, but is expected to tighten because of unsustainable wholesale price differentials or manufacturer production responses.

BUTTER MARKET COMMENTS: Trading was again fairly active on the CME, but prices were unchanged. *Dairy Market News (DMN)* reports food service sales were fair at best; retail sales were good. Butter buyers, like cheese buyers, now take a look at what's ahead. Butter production should jump this week as fluid milk usage drops with school closings. Next week, production of holiday related products will again pick up and draw milk and cream from churning operations. According to DMN, international interest in U.S. butter is still being shown. If a significant order (or orders) happens, that is just what is needed to help reduce U.S. stocks, as some manufacturers would switch to 82% butterfat production. But cheap U.S. butter is no longer available, although the cheap U.S. currency in some cases acts as a huge discount to a buyer's nominal market price.

POWDER MARKET COMMENTS: DMN reports limited interest from buyers for light offerings from manufacturers – and prices steady to slightly higher. Export sales are fair to good. The West's "mostly" price range increased slightly; the California weekly average for last week rose by more than \$.02 per lb and edged up into the bottom of the range reported of all California sales reported by DMN. Inventories are reported to be on the light side and should be replenished as production of nfdm picks up this week as milk for all other usages slips down for the week. Demand and prices for dry buttermilk is strong; the West "mostly" price is \$1.23 this week. Prices for whole milk powder are strong, but supplies are low.

WHEY PRODUCTS MARKET COMMENTS: The market for whey-based products continues to be strong, and prices continue to creep upward. Export activity continues at about where it was last year. Prices for whey protein concentrate continues strong, prices continue to rise, and supplies are tight.

FRED DOUMA'S PRICE PROJECTIONS...

Nov 25 Est: Quota cwt. \$ 14.72 Overbase cwt. \$13.02 Cls. 4a cwt. \$12.97 Cls. 4b cwt. \$13.76
Last Week: Quota cwt. \$ 14.70 Overbase cwt. \$13.00 Cls. 4a cwt. \$12.97 Cls. 4b cwt. \$13.72

OCTOBER MILK PRODUCTION: RECENT TRENDS CONTINUE: (By J. Kaczor) USDA released its estimate of October milk production last week. There were 226 thousand fewer cows in the dairy herd producing 175 million lbs less milk than was produced a year ago (5.6 million lbs per day), and 3.3 million lbs less per day than in September. October's output was 1.1% below a year earlier, which makes it the largest decrease since April 2004. October's decrease has brought the year-to-date milk production total down to where it was a year ago. November's and December's results should move 2009 to the negative side of the ledger – the first time in eight years that annual production will be lower than the previous year, and only the second time in the last twenty years.

The decreases were coast to coast, but didn't include all. For the third month in a row, fewer than five of the twenty-three largest milk producing states had more cows than the same month a year earlier. The four this month were all in the Midwest. States with the largest percentage decreases in milk were Arizona, California, Colorado, and Missouri. States with the largest percentage increases were Illinois, Indiana, Ohio, and Wisconsin. The shifting pattern in milk production, from the West to the Midwest, at least over the relatively short term of three years, is shown by the sample of states in the following table. The cow numbers reflect thousands; the milk numbers reflect millions of lbs.

	California/Arizona		Wisconsin/Michigan/Minnesota	
October	Cows	Milk	Cows	Milk
2007	2,010	3,755	2,053	3,340
2008	2,031	3,727	2,072	3,412
2009	1,933	3,512	2,082	3,510

The comparisons wouldn't change much if two or three states were added to the West's column and four or five were added to the Midwest's. Just what these numbers may be next year is anyone's guess; mine is that Midwestern dairies could continue to grow. The amount of investment in new and expanded dairy farms in the Midwest over the past year or so is impressive, reflecting at least in part a response to the benefits of less costly feed and a growing demand for their milk. The existing plant capacity in Western states and rising milk prices give strong signals for more milk production. There's a will to do it. Is there a way?

California continues to lead the way in number of cows removed from production with 78 thousand fewer than a year ago, and was one of two of the largest milk producing states reported to have less production per cow than a year ago. There was 179 million lbs less milk produced in California in October than a year ago. Based upon what happened to September's usage, all of the state's October shortfall should come from supplies that had been used to produce butter and powder.

In December, the number of cows being milked in the U.S. is expected to be down to about the number that were being milked in December 2005, a decrease of 270 thousand, 3% lower than the recent peak month of December 2008. That's three years of herd growth eliminated in a single year. Despite the fewer cows, the average annual increase of 1.25% in production per cow since 2005 means the amount of milk produced this December may be about 5% higher than four years earlier. More recent per cow production rates are lower than the four year average; +1.0% over the last three years and +0.7% over the last two years. So it looks like milk production over the next quarter or so, on a month to month basis, should continue to be below the year earlier. January, 2010, should be more than 2% below January, 2009.

It would be great if the industry could take pride in the successful effort that has been made to cut back in order to re-balance supply with demand, but it's hard to do that when you consider the financial carnage that caused such extreme action. Take pride anyway; it's well deserved. The next great effort lies just ahead – to take the necessary steps to prevent a repeat of what has happened over the past year. Unfortunately, some of the industry's present leadership appears to have gone fishing instead of repairing a badly damaged industry structure. Producers, you deserve better; you shouldn't have to go through another bust cycle after the present recovery period runs its course.

BUTTER AND CHEESE INVENTORIES: *(By J. Kaczor)* USDA's report on stocks of butterfat products and cheese in storage at the end of October didn't show much of a change from patterns earlier in the year. There was 45 million more lbs of butterfat products in storage (mostly butter, of course) than a year ago, but 17 million fewer lbs than at the end of September. The gap between this year and last year is falling, and should continue to fall because sales for most months this year have been higher than production. Stocks of American cheese also remained higher than last year, but is apparently of little concern to buyers and sellers; current sales appear to be keeping up with production, which may be all that is needed to maintain the present optimism in the marketplace.

A FRIENDLY REMINDER FROM YOUR REGIONAL WATER BOARDS: *(By Rob Vandenheuvel)* While California has not had a lot of rain this fall, we are quickly approaching winter and with the possibility of a wet winter, the Regional Water Board would like to remind all dairies to make sure you have adequate capacity in your storm water storage ponds.

A SPECIAL THANKS TO OUR 2009 ASSOCIATE MEMBERS: *(By Rob VandenHeuvel)* While a majority of the funding for Milk Producers Council comes from the dairy families we represent, MPC is proud to have strong support from other businesses and individuals that have an interest in maintaining a vibrant dairy industry in California. These Associate Members recognize the value MPC brings to the California dairy industry and their financial support plays an integral role helping us be a strong voice our members. **A special thanks on behalf of the MPC board of directors, members and staff goes out to:**

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Thanks again to all of our Associate Members for your support!

Anyone else interested in supporting MPC with an associate membership should contact the MPC office at (909) 628-6018. **Our dairy members greatly appreciate all the support we get.**

Have a wonderful Thanksgiving!