

Milk Producers Council

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MPC FRIDAY MARKET UPDATE

CHICAGO MERCANTILE EXCHANGE

Blocks - \$.0100 \$1.2800
Barrels - \$.0375 \$1.2600

Weekly Average

Blocks +\$.0175 \$1.2860
Barrels +\$.0090 \$1.2840

CHICAGO AA BUTTER

Weekly Change -\$.0075 \$1.1800
Weekly Average -\$.0060 \$1.1800

DRY WHEY

WEST MSTLY AVG w/e 04/03/09 \$.2100
NASS w/e 03/28/09 \$.1745

NON-FAT DRY MILK

Week Ending 3/27 & 3/28

Calif. Plants \$.8065 20,300,120
NASS Plants \$.8152 28,891,877

CHEESE MARKET COMMENTS: Things were a lot calmer this week in cheese trading on the CME. Prices for both styles of cheddar lost some ground. The imaginary ceiling of \$1.30 per lb may stay a while until something happens to change the mind-set of traders. Last week's news that CWT has scheduled another herd retirement program was greeted with a yawn and a price dip. Today, February's cheese production numbers were released after the market closed. February's production of all types of cheeses, **except cheddar**, on a per day basis, was slightly higher than January levels. *Dairy Market News* (DMN) reports that cheese sales in the U.S. were good to very good during the week.

BUTTER MARKET NEWS: Butter production in February was 30 million lbs lower than in January, about 7% on a per day basis. However, DMN reports some manufacturers seem willing to produce more now and store it for later sale, rather than offer it on the CME spot market. Let's hope it pays off for them. Once again, little activity and little news for butter traders. The price dropped \$.0075 on Monday, to \$1.18 per lb where it stayed. CME futures sees butter at \$1.34 by September. Concern about the lack of export volume overhangs the market. CWT is apparently out of the business, at least for a time.

POWDER MARKET COMMENTS: Spot prices in the central region this week range from 85 to 87 cents, with some buyers having difficulty finding as much product as they want to have, while prices in the West are 5 cents per lb lower. Same old, same old. Production of nfdm by California plants in February was down substantially from January, while milk production was slightly higher – and the solids didn't show up as skim milk powder or condensed or cheese. Nationally, production of skim milk powder increased in February – indication that the orders for exports may have increased a bit.

WHEY MARKET COMMENTS: DMN reports that sales of dry whey continue to rise, with buyers for domestic and export markets very active. The average of the West's "mostly" price range increased another cent this week. Prices are now back to a level where some manufacturers can make a small profit and the demand side continues to look strong. February's exports will be available next week.

FRED DOUMA'S PRICE PROJECTIONS...

April 03 Est: Quota cwt. \$ 11.75 Overbase cwt. \$10.05 Cls. 4a cwt. \$ 9.70 Cls. 4b cwt. \$10.94
March Final: Quota cwt. \$ 11.54 Overbase cwt. \$ 9.84 Cls. 4a cwt. \$ 9.67 Cls. 4b cwt. \$10.45

SOME SIGNS OF IMPROVEMENT, AND SOME HOPE: (By J. Kaczor) It's not a program, as such, but there are enough encouraging things happening right now in the industry to bundle them together in a single place to give the impression they are somehow connected, because they all point to something better than the present.

Here they are:

- Price levels for all major dairy products (those that combine to generate milk prices) are clearly above their recent lows, or (as is the case with nonfat dry milk) are poised to move above their lows;
- USDA's decision to use almost all of the nonfat dry milk recently purchased by the CCC to supplement existing food and nutritional programs indicates that the message has gotten through to the right people in Washington that practical assistance is needed now in order to speed dairy industry recovery; we'll see what's next;
- Futures prices on the CME point to higher prices for butter, dry whey, nonfat dry milk, and cheese. The Class III futures prices project increases averaging about \$1.00 per cwt per month through September; Class III is the counter-part to California's Class 4b;
- The rate of increase over year-earlier levels for milk production in the U.S. continues to move closer to the magic number of zero. Producers have been doing what has to be done when prices fall to unbearable levels: trim herds and reformulate rations. In the last three and a half months 131,000 more dairy cows were culled than in the same period a year earlier, and there is a reasonable chance that next week's report on milk production will show cow numbers in March to be below a year earlier; less milk equals less surplus, equals higher prices per cwt;
- CWT's latest herd retirement program is expected to encourage more producers to leave the industry, taking perhaps another 25,000 or so cows out of production by the end of July;
- Those who have signed up for March's MILC payment will receive \$2.05 for milk produced during the month – covering milk produced by about 1,600 cows; those with smaller herds will receive payments on the balance of qualifying milk produced in April and beyond, but at lower rates.

Call these bits of encouraging news. Every little bit helps.

FONTERRA'S GLOBALDAIRYTRADE AUCTIONS; THE REST OF THE STORY: *(By J. Kaczor)* The April 1st monthly auction of Fonterra's whole milk powder (wmp) resulted in a second price increase in two months. The weighted average price for the regular, instant, and UHT products that were contracted to be sold in the June through December period increased by 3.5% from the March auction, which covered the May through November period. The increase was \$.035 per lb; the new average is \$1.01 per lb. Small though it was, this uptick brought wmp prices close to where they were before the "boom" period of 2007-2008. Prices in the later delivery months for this auction increased more than those for June – a good sign, according to Fonterra. The higher prices from the last two auctions came from continuing firm demand as the supply lessens toward the end of Fonterra's production year.

Before outlining the concerns and criticisms that have been leveled at the auction and Fonterra, here's a little more information about what it is. Fonterra commits a given volume of products for each auction period; the monthly volumes follow Fonterra's expected monthly production pattern. According to estimates by USDA's Foreign Agricultural Service, the volume of wmp offered in this first year, 400 million lbs, represents about 30 percent of Fonterra's expected annual production – which is also about one third of its expected annual exports. Opening prices in each auction for each product for each of the three time period contracts are set 15% below the previous month's closing prices (this can be changed if circumstances warrant). Prices are in U.S. dollars, f.o.b. New Zealand ports; the buyer pays for freight, insurance, customs clearance, and import tariffs, on top of the winning bid price.

As a matter of fact, **the auction operates a bit like the fixed priced long term contracts it replaced:** fixed prices are set for seven month over-lapping delivery periods which begin almost 60 days after the prices are set. **The significant differences are no price negotiations and complete transparency.** The prices are posted shortly after the end of the bidding. Fonterra says the auction is designed to reflect market clearing prices for core commodities; their "value added" business for wmp remains separate.

There was no shortage of questions, comments, suggestions, and accusations directed at Fonterra after its plan for the internet auction was announced last April. Fonterra heard from its members, customers, competitors, co-suppliers, and some industry experts about what they thought. Little of it was favorable. All the questions that were asked can be incorporated into a single all-inclusive question.

Why did Fonterra, the world's largest dairy products exporter, with its extensive world wide sales network and vast knowledge of current and future supply and demand, abdicate its leadership role by giving control of wmp prices to its customers through an auction that starts with lower prices, thereby causing unduly sharp price drops for wmp and most other dairy products, which interferes with normal trading patterns, and led the European Union (EU) to re-introduce its export subsidies?

Fonterra answered all clearly and directly, through press releases, interviews, and public statements. They explained that the extreme price volatility that began in late 2006 called for better ways to arrive at fair prices. They say that with the auction approach they were showing industry leadership by providing the fairest and most reliable way to discover the current value of products for international trading. The auction is open, simple, objective, and fair. It is operated by an experienced, independent manager. They pointed out that the principal cause of the crash of wmp prices as well as prices for other major dairy and non-dairy products such as oil, corn, soybean oil, and barley, was the over-exuberant buying in 2007 followed by the global economic crisis that stifled growth and crippled international finances.

Fonterra has said they see their *globalDairyTrade* auction expanding to include other products (skim milk powder and anhydrous milkfat were two that were mentioned), co-suppliers, and possibly even competitors. They make no apology for its affect on existing trading patterns, for reasons listed above. Their vision is that it will grow to the point where the auction prices will be seen as the most reliable reference points for a number of core commodities in international trade.

To their credit, Fonterra had the fortitude to stand behind the auctions even as prices fell precipitously from their starting points, while the chorus of complaints and questions grew. Another sign of optimism comes from a comment made by a Fonterra spokesman yesterday about EU's use of export subsidies. The EU is using its subsidies "responsibly" and they are not pulling down world prices. That could be taken as an invitation for the EU to see the auction prices as the benchmark Fonterra would like them to become. That's way softer than the earlier accusations that had been exchanged between the two major exporting regions about who was causing depressed prices.

A number of questions remain about what may become a widely recognized international auction platform. Questions such as possible effects of different trading strategies, the effects of exposed prices trailing six months after a current auction, the effects of competitors nibbling away at prices and encouraging bidders to reduce their volume commitments, and the effects on use of fixed priced long term contracts. And here's one from the good old U.S.A. – when skim milk powder is added to the products available, will nonfat dry milk be included, and if so will it be at a discount to skim milk powder, as *Dairy America* has claimed has been the case? More to come on this interesting subject, but only when there is a reason.

SOUTHERN CALIFORNIA DAIRIES – KEEP YOUR EYES OUT FOR TRESPASSERS: *(By Rob Vandenheuvel)* This week, I received word from an Ontario dairyman that a truck registered to an individual that works with "Animal Acres" has been **boldly driving onto local dairies** and taking pictures and video on those dairies. For those of you unfamiliar with Animal Acres, they are an extreme animal rights group with a "farm" near Santa Clarita. They were featured in a tv show called "30 Days" last year where, among other things, they "rescued" (code for "stole") a calf, presumably from a Southern California dairy. In that show, they also trespassed on a local calf ranch and told outrageous lies about how the dairy industry operates (such as implying that dead cows picked up by renderers end up in the food supply). If anyone sees a suspicious vehicle on their dairy, please contact the Ontario Police Department (909-395-2001) and leave a message for Office David Irvine.

LAST WORKSHOP FOR CENTRAL VALLEY DAIRIES PREPARING THEIR JULY 1ST ANNUAL REPORT FOR THE WATER BOARD: *(By Rob Vandenheuvel)* Next Thursday, the California Dairy Quality Assurance Program will be wrapping up their spring series of workshops assisting dairies as they prepare to submit their July 1, 2009 annual report. You should have all received a flyer from CDQAP announcing the workshops, which have been held up and down the Central Valley over the past couple weeks. But for any dairy that hasn't been able to attend, there will be a final workshop on April 9th at the Tulare County Ag Center. For more info, see CDQAP's flyer: <http://www.MilkProducersCouncil.org/cdqapspring09.pdf>.

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