

Milk Producers Council

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TO: DIRECTORS & MEMBERS

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MPC FRIDAY MARKET UPDATE

CHICAGO MERCANTILE EXCHANGE

Blocks +\$.0825 \$1.7850
Barrels +\$.1425 \$1.7750

CHICAGO AA BUTTER

Weekly Change +\$.0475 \$1.6600
Weekly Average +\$.0563 \$1.6638

NON-FAT DRY MILK

Week Ending 8/29 & 8/30

Calif. Plants \$1.3293 13,435,001
NASS Plants \$1.3682 11,682,587

Weekly Average

Blocks +\$.0135 \$1.7200
Barrels +\$.0304 \$1.6844

DRY WHEY

NASS w/e 8/30/08 \$.2352 WEST MSTLY AVG w/e 9/04/08 \$.2425

CHEESE MARKET COMMENTS: The wide price difference between blocks and barrels on the CME was corrected this week, as prices rose sharply after a brief dip on Tuesday. Buyers who were waiting to see if prices would fall more, once the price for blocks fell below the \$1.70 per lb level on Tuesday, didn't find the experience very rewarding. This bounce back in prices was not based on any particular thing that Dairy Market News commentators had to offer this week. The price support for cheese at recent levels appears to be magical, and certainly is necessary to avoid a collapse in milk prices this year.

BUTTER MARKET COMMENTS: Butter prices on the CME this week changed course, moving up for the 1st time in 4 weeks. Not many sales were made during the week; the increases came mostly from offers to buy at prices higher than were posted at the time. The CME average price for this week is now the highest it's been in 3 years, but there doesn't seem to be any clear reason for this strength. DMN commented that the strengthening U.S. dollar and the increase in international butter supplies are expected to have a negative effect on U.S. exports. This apparently was overshadowed by expectations that butter production should be decreasing and the fact that amount in cold storage is lower than it was at this time last year. We will have the report on July's butter exports next week. Production of butter in July, reported after the CME market closed today, was virtually unchanged from a year earlier.

NONFAT POWDER COMMENTS: How stupid can buyers be? Well, based upon the comment made by DMN this week that more interest is being shown for **rBST free nfdm**, I'd say, if that report is correct, the stupidity level is high. Now who could have planted that idea? Ditto for those drying plants said to be reserving some production capacity for **organic nfdm**. Dumb and dumber, I say, but then sometimes even dumb ideas pay off. Also in the news this week is a report that China, the major supplier of cheap and harmful products to the U.S., is rejecting some U.S. nfdm (or skim milk powder) because of high levels of nitrate. Spot prices and weekly average prices continue to move downward, and DMN reports that demand is lower across the board. The low end of the spot market price range in the West this week fell by 5 cents per lb, and the "mostly" average fell by 3.5 cents. The California plant average reported this week is 4 cents per lb lower than the national average price, and the volume is about 2 million lbs greater. Maybe what this market needs to stimulate demand is more variety: regular powder, rBST free powder, organic powder, and even some powder that meets China's quality standards.

WHEY MARKET COMMENTS: Prices for dry whey and whey protein concentrate appear to be at or nearing the bottom. Dry whey prices are now at or lower than what it costs to produce the product, and WPC 34 prices are very competitive with all other products in terms of protein content. U.S. export volume has been edging upward, but represents only about a third of the amount that is produced, and inventories continue to increase. The Western "mostly" average price this week fell by more than 1 cent per lb. The WPC average price for August is the lowest it's been in 4 years, and is now only one-third of what it was a year ago, and production is the highest it's been over the 4 year period. It doesn't look like it can get much worse.

FRED DOUMA'S PRICE PROJECTIONS...

Sept 5 Est: Quota cwt. \$17.70 Overbase cwt. \$16.00 Cls. 4a cwt. \$16.17 Cls. 4b cwt. \$15.78
Aug Final: Quota cwt. \$17.98 Overbase cwt. \$16.28 Cls. 4a cwt. \$16.25 Cls. 4b cwt. \$16.14

UPDATE ON CALIFORNIA MILK PRICES: *(By J. Kaczor)* The following table includes minimum prices announced by CDFA to date. The Class 1 prices are those for Southern California. Quota prices are \$1.70 per cwt higher than the Overbase prices.

	2007				2008			
	Class 1	Class 4a	Class 4b	Overbase	Class 1	Class 4a	Class 4b	Overbase
January	\$14.00	\$11.92	\$12.47	\$12.00	\$23.23	\$16.40	\$16.91	\$17.44
February	15.37	12.34	13.20	12.75	21.98	14.28	17.54	16.72
March	16.01	13.24	14.13	13.58	19.17	14.36	16.94	16.01
April	16.71	14.53	15.20	14.63	20.19	14.31	16.79	15.86
May	17.71	16.00	18.05	16.59	19.05	15.19	18.66	16.77
June	20.28	17.03	21.18	19.00	20.50	15.61	19.12	17.42
July	23.26	19.84	20.54	19.90	22.77	16.08	17.77	17.35
August	23.76	21.21	19.41	20.04	19.79	16.24	16.14	
September	23.10	21.62	19.34	19.99	19.51			
October	23.81	21.32	17.65	19.46				
November	23.43	20.66	19.75	20.23				
December	23.26	19.14	18.58	19.09				

Milk prices through May of this year have averaged higher than 2007 for California producers, but have since been lower, following lower prices for cheese, nonfat dry milk, and dry whey. **Fred Douma's price calculator projects an Overbase price for August of \$16.28 per cwt**, \$3.76 per cwt lower than last August. Unless something very unusual and very positive happens between now and the end of the year (such as much less milk production here and elsewhere in major exporting nations, or a burst of buying activity similar to that experienced last year) it appears that Overbase milk prices in California from September onward may not reach much beyond the \$17.50 per cwt level.

Last Fall and early Winter, the consensus opinion of the industry's forecasters was that 2008 milk prices were expected to be strong, but would fall somewhat below 2007's record highs. At the time that sounded great, but *MPC Friday Market Update* readers were cautioned about what that could mean to milk margins in the second half of the year. Prices in the above table suggest that the range from high to low for 2008 will be much less than what happened last year (which is good), and prices will in fact average somewhat lower than in 2007 (which was expected, but is not good). The lack of price volatility so far this year is because of an unusual combination of events, and avoidance of a projected price crash is very welcome. But the combination of lower income and higher feed and other operating costs does mean that milk margins will be substantially lower than they were in the latter half of last year.

Next week, I hope to have a number of estimates of milk income over feed costs (IOFC) for comparison purposes. An accurate IOFC is a good starting place to help find out what is left over after paying for feed to handle all other expenses, pay down debt, and just possibly put something "back" for the future.

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