

Milk Producers Council

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MPC FRIDAY MARKET UPDATE

CHICAGO MERCANTILE EXCHANGE

Blocks -\$2.000 \$1.6500
Barrels -\$1.775 \$1.8025

CHICAGO AA BUTTER

Weekly Change NC \$1.2200
Weekly Average +\$.0025 \$1.2200

NON-FAT DRY MILK

Week Ending 1/11 & 1/12

Calif. Plants \$1.6257 4,561,364
NASS Plants \$1.6452 9,806,067

Weekly Average

Blocks -\$2.275 \$1.7405
Barrels -\$1.665 \$1.8495

DRY WHEY

NASS w/e 1/12/08 \$.4359 WEST MSTLY AVG w/e 1/17/08 \$.3350

CHEESE MARKET COMMENTS: The \$1.80 "support" level for cheddar cheese on the CME that had held 4 times in the past 5 months didn't hold this week. Over that same period barrel weekly average prices, which are still above \$1.80, were tested and held 3 times. On several occasions in the past it was noted here that cheese prices should continue to be firm until there is a reason for them not be. That time has come but the reason or reasons are not at all clear. The only usable comment on what may be happening comes from Dairy Market News (DMN): uncertainty and price volatility is causing buyers to delay placing new orders while selling off higher cost inventory. There are some hopeful things to point out. 1. Some buyers are said to be using the current low prices to begin to rebuild their aging stocks. 2. The experts in the futures market do not agree that cheese prices will remain as low as they are. 3. Today's block-barrel price inversion of 15.25 cents per lb will correct itself. If cheese plants continue to follow the approach they started last year, to control inventories by producing only to existing orders, reason may return to this market.

BUTTER MARKET COMMENTS: Prices were unchanged on the CME this week. DMN reports that a good part of the production for exports appears to be ending. New orders are possible but prices in Europe have come down to a level where huge subsidies would be needed for continuing shipments. Production remains heavy, although some cream is being diverted to Class 2 plants for Super Bowl weekend products.

NONFAT DRY MILK: This market is described as weak. NFDM production is increasing and buyers realize there is no need to make commitments when each successive week brings out lower-priced offers. DMN reports that there still is some fairly old product still in storage – not a good sign. Inventories continue to build. It is clear that prices received for nfdm being exported are higher than spot prices (which probably explains why last week's California plant average price (CWAP) increased by 13 cents only to drop back this week by 14 cents – a shifting mix of domestic and export sales). The average price received for exported nfdm in November was about \$1.96 per lb (\$1.00 per lb above a year-earlier), whereas the November CWAP, which contained a mix of domestic and export sales priced under short and long term contracts, was about \$1.97 per lb. Current relationships are much different. The only conceivable way the present inventory can be drawn down is by a large increase in export volume, but European sellers have announced that they also have product available beyond current customers' needs.

WHEY MARKET COMMENTS: The western area "mostly" average price this week fell another 5 cents per lb, and DMN reports some sales were as low as 23 cents per lb. However, the NASS price survey through last week continues to report prices that are about 5 cents above what might be expected. Short term, the current low spot prices should lead domestic buyers and users into concluding that it is again safe to include dry whey in their operations. The net amount of dry whey sales lost because of last year's price spike cannot be calculated but is certain to be significant. Export sales, which had been strong through November, are reported to have tapered off. Sales for domestic and export use of concentrated whey products seem to be steady but prices continue to slide lower. WPC prices are still well above year-earlier levels.

FRED DOUMA'S PRICE PROJECTIONS...

Jan 18 Est:	Quota cwt. \$19.35	Overbase cwt. \$17.65	Cls. 4a cwt. \$17.05	Cls. 4b cwt. \$16.81
Last week:	Quota cwt. \$19.63	Overbase cwt. \$17.93	Cls. 4a cwt. \$16.68	Cls. 4b cwt. \$17.55

DECEMBER MILK PRODUCTION ROARS ALONG: (By J. Kaczor) Money does make milk. Last year, the total number of cows being milked in the U.S. fell by 13,000 from June through December. This year, that number increased by 85,000, a net difference of + 98,000. This December there are 87,000 more cows being milked than a year ago. The total estimated amount of the increased production in December was 405 million lbs, or 2.7%. The total increase for the year was 2.1%. Of the 23 largest milk producing states, 17 increased production in December and 5 decreased production.

California had 3,000 more cows than November and 50,000 more than a year-earlier. December production was 34 million lbs higher than a year ago, or 4.5%. Arizona, with one-tenth the number of California's cows, increased production by an amazing 17 million lbs. Severe weather conditions in the Mid West caused production per cow to decrease in 5 states, which trimmed a small amount from the expected total.

IS A RECESSION COMING? HOW WILL IT AFFECT MILK PRICES?: (By J. Kaczor) While not all agree just yet, there is a growing consensus among financial experts that the slow down in the U.S. economy has gotten to the point where a recession this year **is inevitable**. Three major financial institutions last week said a recession is a certainty; another said it already started in December. There doesn't seem to be any favorable news to offset the bad. Recent reports on the effects of the housing downturn, unemployment, job creation, credit constraints for individuals and businesses, business failures, health care costs, energy and food prices, weak retail sales, lower real net individual income, and falling consumer optimism are factual and **all negative**. The situation is being described by some as a crisis. As if to verify the squeeze on consumers the U.S. Department of Labor reported this week that the increase in consumer prices in 2007 was the highest in 17 years.

Congress and the President seem to be in agreement about the need to do something to stimulate the economy. Continuing reductions in interest rates, tax rebates, extending unemployment benefits, expanding the food stamp program, and providing financial aid to states is what is being talked about and is about all that Washington can do. Those same financial experts referred to above also are saying **at best** a government stimulus package may minimize the depth and duration of the recession but, because of the severity of the credit situation, it may not even do that.

The first thing to be said to milk producers about U.S. recessions is that they do not seem to affect milk prices. During the last recession, which lasted from March through November 2001, monthly average U.S. **all-milk prices rose** from \$13.10 in February to \$17.10 in September. Over the following 6 years of general economic expansion milk prices found ways on their own to fall twice and to rise twice. Are milk prices completely immune to general economic conditions as is suggested by what happened 6 years ago? No. Is the present situation much different from the past? It seems so.

The reason for talking about a recession here is because the projections of 2008 milk prices that have been reported and discussed in this *Update* seem to have included presumptions that the U.S. economy will continue at about where it has been for the past year. In a recession it is likely that U.S. consumption of dairy products on a per capita basis will slow down, which should create downward pressure on prices. On the other hand, it is likely that the U.S. dollar will continue to weaken, which will make exports less costly and imports more costly. Those two likely results tend to offset each other, leaving the industry with the basic questions about the amount of milk that will be produced this year and whether net exports of butter, powder, and cheese will continue to clear away a sufficient amount of surplus production. The answers to those remain to be seen.

2001? Easy answer. It was a mild recession and **the dairy industry gave itself an immunity injection**. The

number of cows in the U.S. milking herd fell below year-earlier numbers, milk production fell, and production of butter, powder, and cheese fell. Dairy product prices increased over the course of the recession.

TRACKING 2008'S MILK PRICE PROSPECTS: *(By John Kaczor)* A comprehensive review of production, sales, prices and inventories of major dairy products will be presented next week.

MEETING THE MILK PRODUCERS COUNCIL STAFF, PART TWO: *(By Rob VandenHeuvel)* As you know, this month we are featuring a different MPC staff member each week, giving you all more background on their history and their role within MPC. Last week, we featured John Kaczor, editor of the *Friday Market Update*. This week, we'll take a closer look at Betsy Hunter, our Central Valley Representative.

A Closer Look at Betsy Hunter

By Betsy Hunter

My ties to agriculture date back to my childhood, spending time on my family's farm in Buttonwillow, CA. My mother's family still operates that farm where they raise commercial sheep, cows and calves, and also grow cotton.

My interest in the dairy industry began when I was in grammar school showing animals in 4-H. I began my time in 4-H showing sheep, but eventually I started showing dairy cattle and was immediately attached. I attended Cal Poly San Luis Obispo where I continued my interest in the dairy industry and received a degree in Dairy Science.

After graduation I worked for a family that owned several dairies in Kern County. My responsibilities were to balance the feed rations as the moisture in the silages changed, monitor feed shipments and manage the fresh cows. Within three months I was managing one of the dairies. That dairy then relocated to a new facility where I continued to manage all aspects of the dairy.

For the past two years, I have been serving Milk Producers Council as its Central Valley Representative. In addition, I also work for the Kern County Ag Commissioner's office as Agricultural Biologist. In my role at MPC, I have worked closely with regulators and other local farming interests as we look to strike the right balance in the environmental regulations that affect dairies. I have also been MPC's representative in CARES, the statewide coalition of dairy industry representatives tackling the difficult environmental issues facing the California dairy industry.

While attending meetings is always fun, the *real* reason I work with MPC is it gives me a chance to work with each of you directly. As MPC's Central Valley Representative, I am here to help each of our members in the San Joaquin Valley better understand the regulatory environment that we now live in. If any of you ever have a question or concern, please don't hesitate to call me on my cell (661-205-6721) or email me at betsy@milkproducers.org.

MANAGERS NOTE: *As our "eyes and ears" in the San Joaquin Valley, Betsy is an excellent resource for our Central Valley members. She has been particularly active lately assisting our members with the new Waste Discharge Requirements that began in 2007. If any of you have not had the opportunity to meet and get to know Betsy, I encourage you to call or email her and take advantage of her local knowledge of the regulatory world that dairies live in.*

Next week, we'll take a closer look at Pat Boldt, our environmental specialist in Southern California.

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