

# Milk Producers Council

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## MPC FRIDAY MARKET UPDATE

### CHICAGO MERCANTILE EXCHANGE

Blocks   -\$0.0150 \$1.8850  
Barrels   +\$0.0400 \$1.8900

### Weekly Average

Blocks   +\$0.0550 \$1.9150  
Barrels   -\$0.0060 \$1.8820

### CHICAGO AA BUTTER

Weekly Change   +\$0.0025 \$1.3175  
Weekly Average   +\$0.0035 \$1.3275

### DRY WHEY

NASS w/e 9/29/07 \$.4234   WEST MSTLY AVG w/e 9/29/07 \$.4000

### NON-FAT DRY MILK

#### Week Ending 9/28 & 29

	Price	Volume
Calif. Plants	\$2.0694	16,093,915
NASS Plants	\$2.0648	20,828,930

**CHEESE MARKET COMMENTS:** The price inversion is back, at least for the week. Apparently responding to a shortage of product, prices for barrels increased by 4 cents on Tuesday, and blocks moved up by 3 cents. Barrel prices held the increase, but blocks gave up 4.5 cents today. That doesn't necessarily mean that blocks are long; it merely could be a message that barrel buyers need product. The report for August cheese production (see article below) shows a slight decrease from a year-earlier, and from July -- definitely a bullish sign for future prices.

**BUTTER MARKET COMMENTS:** Butter production in August is up from a year-earlier but down from July, nationwide and in California. USDA's current assessment on sales is somewhat positive in that there are more reports of plants devoting substantial time to producing butter for export purposes and, they say, there may be indications that inventory levels are beginning to drop. The international supply situation still has not changed appreciably, so we are glad to have the business as long as it lasts. The current relatively low butter prices should help to spur sales as the "season" approaches.

**NONFAT DRY MILK:** Prices continue to edge upward, and the market tone is described as steady. Monthly production and sales volumes continue to be relatively high. The California plant average price has now been above the NASS average for 3 of the last 5 weeks. It's a strange situation; nfdm, dry buttermilk, and whey protein concentrate prices are the only dry dairy products whose prices have remained firm over the past three months.

**WHEY MARKET COMMENTS:** Prices for dry whey and lactose are now back down to around where they were about a year ago. What a ride! But just what is the reason from the rather abrupt turn-around has not been explained. It could be that the seller taught the buyers a valuable lesson -- find a reliable source for suitable lower-cost alternatives. One such alternative for some buyers is a derivative of wpc production, whey permeate. It is low priced, concentrated, even dried, and available in large quantities. For some, it is a fair substitute for lactose. The only whey product whose prices are still appreciably above last year's levels is whey protein concentrate. For some time we have been repeating the comment that buyers are searching for a price bottom. There are indications that it is in sight, if not already here. The average of the western "mostly" series this week was up by one-half cent, to \$.40 per lb, the first increase in a very long time.

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### FRED DOUMA'S PRICE PROJECTIONS...

OCT 05 EST: Quota cwt. \$21.15   Overbase cwt. \$19.45   Cls. 4a cwt. \$21.37   Cls. 4b cwt. \$17.80

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**Following is a “Note” to the dairy industry from Corrie and Marian Vanderham.** The Vanderham’s, in partnership with their son Rick, operate a new dairy in Shafter, California; they have submitted to every demand, applied for all proper permits, paid all required fees, performed a broad and expensive Environmental Impact Report, and suffered many delays and other inconveniences in their quest to build and operate a 1,300 cow dairy. Lawsuits and legal wrangling over technicalities have dogged them from the beginning. Last week a major court decision was lost by the Vanderham’s in favor of AIR (Association of Irrigated Residents).

*We would like to thank MPC for their involvement and concern with the attacks against us by the Center for Race, Poverty and the Environment (CRPE) and AIR.*

*After contacting Milk Producers Council at the end of 2006, our case was presented to the Environmental Justice Fund – a CARES Committee – by Geoffrey Vanden Heuvel. Geoff was a knowledgeable spokesperson for our case in presenting the request for assistance to CARES. CARES stepped up to the plate and provided “friend of the court” assistance.*

*We have been challenged by the “anti-dairy” activists (radicals) for about seven years while attempting to establish our dairy near Shafter, CA. Two issues on the EIR lawsuits were ridiculous, but were all met. This is a small dairy compared to other new projects.*

*Our dairy in Shafter was constructed and operates under all proper Air District regulation requirements, but CRPE and AIR continue their relentless attacks as they search for loopholes, technicalities and discrepancies.*

*In the past few years, Syp Vander Dussen has written many paragraphs in MPC’s weekly reports urging dairymen to band together to present reasonable solutions to the “anti-dairy” activists’ lawsuits. “Not my problem” seems to have been the response from our industry.*

*It amazes us that we didn’t have more support from the dairy industry during these past seven years. Do you all think this isn’t going to be your problem as CRPE and AIR bullies their way past unconcerned and passive “not my problem” attitudes?*

*Remarks have been made by local dairy families that we must have done something wrong to be sued by CRPE and AIRS. WRONG assumption!*

*When these “anti-dairy” activists are finished with us, will you be next?*

**-- Corrie, Marian and Rick Vanderham**

**THOUGHTS ABOUT AUGUST'S DAIRY PRODUCTS PRODUCTION STATS:** (*J. Kaczor*) Two weeks ago USDA reported that U.S. milk production in August was 1.1% below July's production but 3.4% above a year earlier. California's August production was virtually unchanged from July, but was 4.9% above a year earlier. Yesterday, USDA reported how the August milk was used.

While all milk usages are important, what is especially important is how much milk was used to produce the basic, storable, dairy commodities in relationship to their sales, and relative to normal levels of production and sales. The obvious reason for their importance is that they are the principal components in the basic milk price formulas for California and the federal orders. As the prices for butter, powder, and cheese go, so goes minimum milk prices. And while there is a tendency to first look at the most recent numbers, August in this case, it is often helpful to consider a wider base in order to get a feeling for what buyers consider in making their decisions. Its fundamental: they first consider current and future supplies, then current and future prices. So, what has been happening recently to the cheese and butter markets to explain why one is strong and the other is not?

**Cheese:** Cheese production in January was 5.5% above a year earlier, but that differential fell each successive month until it reached 1.1% in April, and has since averaged only 0.5% above 2006 levels. **That consistent control over total cheese output is the dairy story of the year so far.** USDA market experts commented on it; buyers saw what was happening. There was concern whether cheese supplies would be adequate later in the year, so buyers stepped in to the point where purchases equaled or even exceeded monthly production. Inventories flattened out, and are now lower than last year. This perception of a tight supply situation through this point and into the approaching heavy holiday sales season, and the resulting decisions by buyers to clear product from the market before inventories grew, has resulted in historically high prices. Prices should continue to be firm until something happens to change the forecasts for future supply.

**Butter:** The butter market experience this year is almost the exact opposite of the cheese market. Through June of this year, U.S. butter production was less than 1.0% above the same period in 2006, and sales were up by 15%. The butter inventory in May, which was reported in mid-June, was only 8 million lbs above 2006. Butter prices on the CME had been steadily increasing through May, and held at around the \$1.50 level for three months. But sales began to slow down in May, and continued at the slower rate through September, while butter production started to grow. Butter production in June was 9% above 2006; in July it was up by 22%; in August it was up by 24%. Sharp increases in inventories resulted. Buyers became convinced that there should be no shortages in the Fall and therefore began to time their purchases to take advantage of price weaknesses or merely to avoid unnecessary inventory buildups. And that situation should continue until something happens to change the forecasts for future supply.

The essential difference between the two product lines is that butter is one half of the two milk market clearing products, while cheese is not. As cheese production was consciously controlled, the milk that would normally have gone into those plants was diverted to butter-powder plants. Here are the numbers for July and August, compared to year-earlier numbers.

	<u>U.S.</u>	<u>California</u>
<b>Milk Production</b>		
July	+3.8%	+10.6%
August	+3.4%	+ 4.9%
<b>Butter Production</b>		
July	+21.9%	+53.6%
August	+23.6%	+21.8%
<b>Cheese Production</b>		
July	+2.6%	+11.6%
August	-0.1%	+ 1.1%

Please keep in mind that the California numbers for July are skewed because of last year's disruption to milk supply. Numbers for August appear to be more representative of the current situation.

**ALERT! IMPORTANT HEARING NEXT WEEK – PRODUCER ATTENDANCE IS ENCOURAGED** (By *Rob VandenHeuvel*) As reported last week in this newsletter, CDFA is holding a hearing next Wednesday (October 10<sup>th</sup>) to discuss changes to class 4a (butter and powder) and 4b (cheese) formulas. The small cheese manufacturers that requested this hearing have asked CDFA to remove the dry whey factor from the class 4b formula. MPC has worked closely with Western United Dairymen and the Alliance for Western Milk Producers to produce a unified alternative proposal that will address the concerns raised by the small cheese makers while still maintaining a dry whey value for producers. If you missed last week's article, you can see it here: <http://www.milkproducerscouncil.org/092807.pdf>.

**Any producer willing and able to attend the hearing next week is strongly encouraged to do so.** This is a

significant hearing for producers and MPC will be testifying on behalf of our members, but the more support from the industry, the better. **The hearing is scheduled to begin at 9:00 am on Wednesday, October 10<sup>th</sup> at the CDFA Auditorium, 1220 N Street, Sacramento, CA.**

**MORE DETAILS AVAILABLE ON DISASTER RELIEF PROGRAM** (*By Rob VandenHeuvel*) This week, representatives from USDA's Farm Service Agency (FSA) offices in six counties met with a room full of Southern California dairymen to discuss the details of the Livestock Indemnity Program (LIP). This program, which was approved by Congress earlier this year, provides cash payments to dairy farmers for the loss of animals during significant disaster periods in 2005 and 2006. Flooding and heavy rain in 2005 and extreme heat in 2006 were responsible for the death of many animals. The eligible disaster periods vary by county, so for more details on your eligibility or to obtain the proper forms, MPC members are encouraged to contact either your local FSA office or the MPC office at (909) 628-6018.

**MPC BOARD MEETING:**

The next Milk Producers Council board meeting is scheduled for Tuesday, October 9<sup>th</sup> at our office in Chino at 11:00 a.m. **All MPC Members are welcome to attend.** Please call Debi at 909 628-6018 if you plan on attending.

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