Milk Producers Council

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DATE: July 15, 2011 **PAGES: 3**
TO: Directors & Members **FROM: John Kaczor**

MPC FRIDAY MARKET UPDATE

CHICAGO MERCANTILE EXCHANGE

Blocks	*- $.0525*	$2.0575
Barrels	*+$.0075*	$2.1100

Weekly Average

Blocks	*- $.0636*	$2.0495
Barrels	*+$.0021*	$2.1040

CHICAGO AA BUTTER

Weekly Change	*N/C*	$2.0300
Weekly Average	*- $.0063*	$2.0300

DRY WHEY

WEST MSTLY AVG	w/e 07/15/11	$.5700
NASS	w/e 07/09/11	$.5416

NON-FAT DRY MILK
Week Ending 7/8 & 7/9

Calif. Plants	$1.6252	10,545,872
NASS Plants	$1.6667	14,051,371

CHEESE MARKET COMMENTS: Well, well. From Monday through Thursday the CME cheese market was a picture of one sided negative trading: a daily parade of offers to sell block cheese at prices lower than the day before; buyers stepping in to accept the offers; prices steadily falling. Today began like the others (except a single bid was slipped in, apparently to break the routine or maybe to send a message) and the block price had lost another cent per lb after four trades. By then, 36 carloads had changed hands into early trading and the block price had fallen to $1.9925. Then it all changed. Trading ended with a net increase of 6.5 cents from the day's low and 5.5 cents higher than Thursday's close. Four offers and a big bid moved seven more carloads of blocks. The final action on blocks was significant – a definitive bid that raised the price by 5.5 cents per lb. Picture the resulting activity on the futures desk. The spread between the cash price for block cheese and the futures price for blocks and for class III milk futures had reached the equivalent of about $4.00 per cwt of milk just two weeks ago, and then began to narrow with a combination of cheese price decreases and futures increases. The price premium is now down by about $.105 per lb of cheese this week for the August-November months, but that doesn't necessarily mean there is growing support for cheese prices to remain above $2.00 per lb. It's more likely only prudent covering of positions no longer strongly held by some very smart people. On the other hand, the fair representation of cheese buyers throughout the week has to indicate interest in cheese at these prices, at least for now. Milk production is being affected by the extreme weather throughout much of the south and southwest and, with it, cheese production. However, that would not explain the week's very unusual activity on the CME.

BUTTER MARKET COMMENTS: There's increased interest in cream for manufacture of soft and frozen products, which gives some butter plants the option to sell cream rather than build butter inventories. Buyers are having to roll the dice – buy now for the fall and be sure of a full supply or wait until prices come down. *Dairy Market News* reports butter sales are at about normal levels for this time of year – a surprising observation considering the level of retail prices and the listless restaurant business. Butter exports in May were slightly higher than the year before, but there are signs that the end of the global shortage of butterfat may be in sight. Prices on the CME this week were steady, with no activity whatsoever. The futures prices added a penny for August and September; November's price is sitting at $2.00 per lb; December's price has fallen to $1.93 per lb.

POWDER MARKET COMMENTS: "Desultory" might be the single best word to describe the powder markets this week. DMN, on the feedback they get from sellers and buyers, says it looks like the market for nonfat dry milk is unsettled to weakening, and demand is either slow, uneven, or limited. It's desultory. Production is slowing down and inventories are either staying level or growing slightly. The two major price series for last weeks' shipments of NFDM each were higher, with the California average rising to within $.04 per lb of the national price. DMN reports cheese plants may be switching between powder and condensed skim for vat fortification, depending of the best price available. Re-sale offers are being reported throughout the country. CME's NFDM futures prices were somewhat higher for nearby months, but fell below $1.40 per lb for October and all months following. May exports of nonfat powders, estimated to be about 60% NFDM and 40% skim milk powder, was about 12 million lbs below last May, at about April's level.

WHEY PRODUCTS MARKET COMMENTS: Buyers of dry whey may be more interested in looking ahead than are manufacturers. Supplies are tight in the eastern part of the country and in balance elsewhere. Demand is steady from domestic users while exports in April and May were lower than the year before as well as the two preceding months. Production is being controlled by the rate of cheese manufacturing, which is being influenced by the amount of milk that is available, which is being affected by the weather. DMN reports spot prices this week were a bit higher than last week, while the NASS average for shipments last week on steady volumes was $.006 per lb lower than the week before. Dry whey futures prices this week were generally lower for all months through the end of the year, with December sitting $.08 per lb below the current NASS price of $.542 per lb. The "mostly" price for WPC (34% protein) averaged $1.565 per lb this week. DMN hears that some buyers are carefully comparing prices for alternative dairy products, with an eye on the downward moving NFDM futures trend.

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FRED DOUMA'S PRICE PROJECTIONS…

July 15 Est:	**Quota cwt. $21.17**	**Overbase cwt. $19.47**	**Cls. 4a cwt. $20.23**	**Cls. 4b cwt. $19.09**
Last Week:	**Quota cwt. $21.30**	**Overbase cwt. $19.61**	**Cls. 4a cwt. $20.19**	**Cls. 4b cwt. $19.40**

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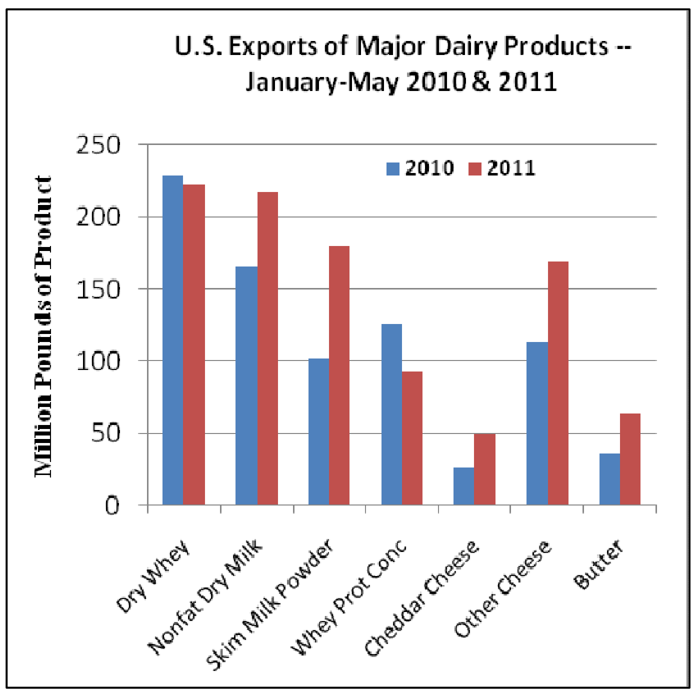
DAIRY PRODUCT EXPORTS THROUGH MAY CONTINUE AT OR NEAR HISTORIC HIGHS; WHAT COULD POSSIBLY CHANGE: *(By J. Kaczor)* USDA's report on exports of major dairy products for May gives reassurance that international buyers continue to look to U.S. suppliers for a good share of their needs. There have been reports that domestic price levels for some products, particularly butter and cheese, were causing some buyers to consider using the U.S. to a lesser extent they have been. However, the fact the U.S. has products readily available for shipment at prices made especially competitive because of the continuing weakness of our currency makes it somewhat unlikely for major changes to occur in the short run. The U.S. Dairy Export Council estimates the equivalent of 12.8% of total U.S. milk solids was exported in May, and 13.0% for the first five months of the year, up from 11.3% for the same period last year. USDA this week projects exports to continue at about current levels through next year.



By far, the largest volume category of dairy product exports continues to be nonfat powders. Although off a bit from last May, the combined volume of nonfat dry milk and skim milk powders exported over the first five months of the year is substantially up from last year. The product having the second largest export volume is dry whey. The all cheese category is a close third in volume. The graph shown here compares export volumes for seven product categories for the first five months this year compared to last year. While relatively low in total volume, exports of cheddar cheese and butter reflect major percentage increases for the periods compared. Total volume of dry whey is down slightly, and whey protein concentrate volume is off by about 25%.

While having the greatest volume decrease for this comparison, WPC exports still represent the highest percentage of U.S. production of the products compared, 53.3%, but down from 70.9% last year. (Skim milk powder, all of which is exported, is a "purpose" product, designed solely for exports, and therefore is not included in these comparisons.) Dry whey exports, at 49.4% of production is about the same as last year, and a close second to WPC. Nonfat dry milk is the other product with a major percentage exported, 33.5%, up from last year's 23.8%. Butter exports have climbed to 8% of production. Exports of cheeses other than cheddar, have risen to 5.5% of production and cheddar exports have risen to 3.7% of production.

The exported volumes for nonfat powders and all cheeses appear headed to new record highs, but interest in dry whey needs to pick up a notch or two for it to join that elite group. What could keep these high and mostly growing volumes from continuing upward and onward? Unfortunately, a lot could happen, but a substantially stronger U.S. dollar will not likely be among them. Most forecasters continue to focus on Oceania (New Zealand and Australia) and their major international customers when they talk about possible changes in international dairy product supply and demand, and prices. And well they should. That Oceania pair have the edge in contacts, relationships, experience, and trade agreements necessary to continue to be the first to be contacted by the major Asian nations that are so often mentioned as being the source for present and future growth in demand for dairy products. Increasing populations, substantial improvements in economic well being, and a low starting point in western style diets are what make them so.

The U.S. dairy industry has not only benefited from the growing international demand and dairy product shortages that have come and gone, and then reappeared, over the past five years – it has also learned and appears ready to do what is necessary to improve its standing. These include product and packaging improvements, building relationships that should last rather than vanish when other supply sources recover or when demand weakens, and even a possible restructuring of our regulatory and pricing system.

Future growth (and with it, we hope, prosperity) depends on the U.S. dairy industry becoming a reliable source for international customers. For that to happen, U.S. milk producers will be expected to supply the raw product needed for manufacturers to get and keep international customers. Unfortunately, up to this point, it appears that milk producers must take it on faith that fair prices will be paid for the milk they say will be needed – for exports. After all that has happened in terms of milk price and feed cost volatility over the past several years, that's really too much to ask of producers. Faith that fair prices will be paid if milk prices are de-regulated? Sure, that's to be expected when global supply and demand balance is as tight as it is now, but what happens if and/or when New Zealand and Australia out-thinks, out-flanks, and out-waits the U.S. sellers? What happens when the European Union's restriction on milk production ends? What happens when demand falls off? If IDFA's answer to these questions is for producers to get busy with loading up with risk management protection, maybe producers should ask the same of IDFA. Robust and extensive use of risk management tools is what most (non-U.S.) international sellers do. There's a need for U.S. manufacturers to become very comfortable in doing the same.

CONGRESSMAN COLLIN PETERSON RELEASES DAIRY REFORM LEGISLATION: *(By Rob Vandenheuvel)* This week, the process of debating much-needed reforms to our nation's dairy policy took a huge step forward. Congressman Collin Peterson, Ranking Member on the U.S. House Agriculture Committee, released a "discussion draft" of dairy reform legislation he intends to introduce in the coming weeks. The legislative text would implement a program that National Milk Producers Federation has been crafting for the past two years – their "Foundation for the Future" plan. The discussion draft, as well a press release and summary, can be found at http://democrats.agriculture.house.gov/press/PRArticle.aspx?NewsID=1118.

We've written numerous articles in the past on NMPF's proposal, which includes a Dairy Market Stabilization Program *(which is designed to be a stand-by program to help quickly address market imbalances when needed)*, a Dairy Producer Margin Protection Program *(which is designed to be a safety net that replaces the MILC and Dairy Price Support Program)* and reforms to the Federal Milk Marketing Order regulations. The legislative text released by Congressman Peterson is largely identical to what NMPF has been proposing, although there are a couple differences that I'll be exploring in more detail in next week's issue. So stay tuned… In the meantime, it's a very positive step forward to have a prominent agricultural leader in Congress ready to work with the dairy industry and take a reform proposal to his colleagues for consideration and debate.

JUNE DAIRY CARES COLUMN POSTED ON OUR WEBSITE: *(By Rob Vandenheuvel)* The latest "Dairy Cares Report" has been posted on our website at: http://www.milkproducerscouncil.org/cares.htm. This month's column focuses on the Central Valley Dairy Representative Monitoring Program (CVDRMP), a common-sense effort by dairymen to comply with some of the monitoring requirements in our water quality regulations in a collective manner, rather than through burdensome dairy-by-dairy groundwater monitoring. I encourage everyone to check out the latest update on this important effort.