Milk Producers Council

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TO: DIRECTORS & MEMBERS **FROM: John Kaczor**

MPC FRIDAY MARKET UPDATE

CHICAGO MERCANTILE EXCHANGE

Blocks	+ *$.0500*	$1.2500
Barrels	+ *$.0975*	$1.3175

Weekly Average

Blocks	+ *$.0640*	$1.2410
Barrels	+ *$.0840*	$1.2800

CHICAGO AA BUTTER

Weekly Change	+*$.0175*	$1.1850
Weekly Average	+*$.0195*	$1.1785

DRY WHEY

WEST MSTLY AVG	w/e 03/13/09	$.1619
NASS	w/e 03/07/09	$.1800

NON-FAT DRY MILK
Week Ending 3/06 & 3/07

Calif. Plants	$.8031	17,342,049
NASS Plants	$.8149	25,782,973

CHEESE MARKET COMMENTS: Prices for blocks and barrels moved steadily up this week on the CME. Retail sales are reported to be "excellent" and food service sales "not as bad" as they have been – and buyers were active. Barrel prices ended the week 6.75 cents per lb higher than blocks, and above the $1.30 per lb level that *Dairy Market News* says is the point at which buyers have been backing away. These price increases have helped the Class III futures prices to move up, but the June price is only $1.60 above California's February 4b price. Cheese production is reported to be about normal for this time of year, and some plants are reported to be using powder to fortify their vats.

BUTTER MARKET COMMENTS: DMN reports retail sales of butter to be strong, supported by feature activity and prices even better than that substandard substitute product. However, food service sales are only so-so and orders for export are down, about back to where they historically have been. Prices on the CME have increased 13 out of the last 14 trading days. Butter production is moving lower (from the all-time January high) with cream supplies less available for churning, as other uses increase. CME's futures market has butter at $1.30 per lb by the end of June and continuing up, slowly, through the rest of the year. That looks like a safe bet; no speculation.

POWDER MARKET COMMENTS: Good news about prices this week; they're moving up a bit, with reports of increased buying interest. "Marginally higher," "marginally stronger," says DMN about prices and the market. Export demand is weak, but domestic demand is definitely improving. (Exports of powder in January fell by 32% below January 2008 to 48.4 million lbs, one-third of which was **skim milk powder**.) Sales to the CCC have continued through this week, although at less than half of what had been the case in the weeks and months before. DMN reports that there seems to be a sentiment on the part of sellers that prices really didn't have to be as low as they were in order to sell the product. Production of nonfat powders is reported to be somewhat lower than it has been, as fluid milk sales have picked up and milk production has slowed. The CME futures price for nfdm is above $.90 per lb by August. To get much higher than that, USDA is going to have to start emptying those warehouses in California.

WHEY MARKET COMMENTS: Rounding out the reports of price increases, prices for dry whey and lactose are also moving up. The west's "mostly" price for dry whey this week is $.18, an increase of $.0125 per lb. Remarkable. Sales volumes are increasing, and some shortages of product are reported in the central part of the country. Less product is available and more is wanted, including increasing orders for export. It appears that stocks of dry whey are fully committed for current and contracted sales. Prices for lactose moved up by a full cent this week. Prices for whey protein concentrate are unchanged, and production is flat and demand is steady.

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FRED DOUMA'S PRICE PROJECTIONS…

March 13 Est:	**Quota cwt. $ 11.49**	**Overbase cwt. $ 9.79**	**Cls. 4a cwt. $ 9.65**	**Cls. 4b cwt. $10.35**
Last week:	**Quota cwt. $ 11.34**	**Overbase cwt. $ 9.64**	**Cls. 4a cwt. $ 9.61**	**Cls. 4b cwt. $10.05**

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MPC TESTIFIES AT SENATE FOOD AND AG COMMITTEE HEARING: *(By Rob Vandenheuvel)* This past Thursday, Senator Dean Florez (D-Bakersfield), Chairman of the California Senate Food and Agriculture Committee, held an informational hearing entitled *"Evaluating the Ongoing Necessity of the Milk Pool Subsidy and Its Impact on Consumer Prices."*

I testified at the hearing on behalf of Milk Producers Council. While most of the testimony at the hearing was obviously focused on the milk pooling regulations in California, I focused MPC's testimony on what actually hurts both consumers and producers of dairy products – **extreme milk price volatility**. I pointed out that if you really want to help consumers, it's that extreme volatility that should be focused on.

Below are some excerpts from my submitted testimony. You can see my full testimony at http://www.milkproducerscouncil.org/031109agcomm.pdf.

> *There is a major problem with the dairy industry – a problem that affects both producers and consumers of milk. That problem is* ***extreme milk price volatility****; and the problem is not isolated to California. The entire U.S. dairy industry has been caught in a vicious boom-bust cycle that will continue to get worse until we make fundamental changes on a national level to the way we regulate milk.*
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> *Regardless of what is done to the California pooling regulations, it will have no effect on this vicious boom-bust cycle in the dairy industry. How do I know this? Idaho has tried. Their dairy industry is unregulated – they do not "pool" their milk. And yet, their consumers and producers deal with this same milk price volatility we deal with here in California.*
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> ***So why is volatility in the price of milk so bad for consumers?*** *As the price for raw milk moves up, so does the price of dairy products at the store. In 2007, when the price paid to the farmer went to historic highs, the price at the stores reflected this new increase. However, as the farm price for raw milk dropped to the low levels we are at today, the prices at the store have not come down as fast. Some have called this the "stickiness" of retail milk prices.*
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> *In my opinion, a more stable national price at the farm level would equate to a more stable price in the stores. The fact is that retailers would be not be able to quickly ratchet up the prices in their dairy case if we can avoid the "boom" periods of high-priced milk. And the only way we are going to have a more stable price at the farm level is to have a better balance of supply and demand – not just in California, but on a national scale.*
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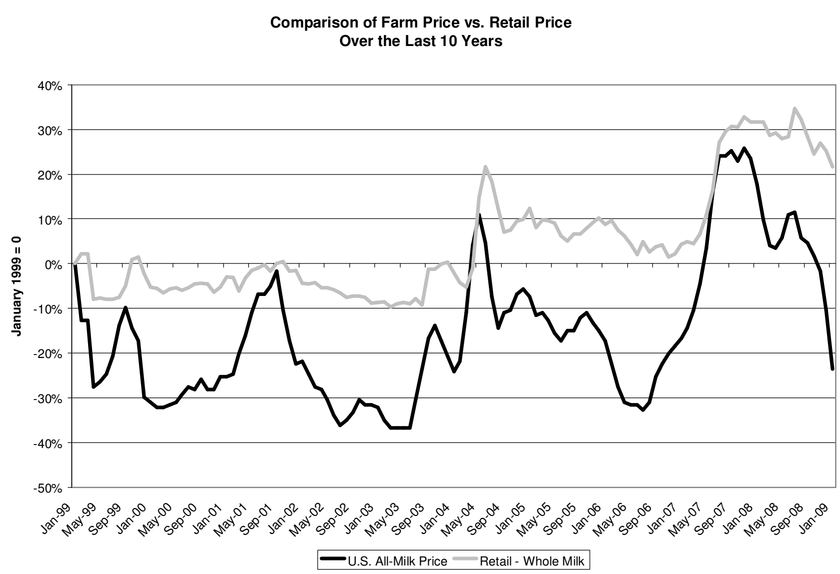
> *If this committee is really interested in protecting consumer interests, it is the extreme milk price volatility that we should be addressing; the type of volatility that allows retailers to hike up the price of their products when raw milk prices are increasing – blaming dairy farmers for that increase – but only slowly bringing those prices back down when the raw milk price goes down.*



Take a look at the chart on the previous page. The black line represents the movement of the U.S. All-Milk Price that dairy farmers receive over the past ten years and the gray line represents the average U.S. retail price for whole milk. For the purposes of that graph, I've made 1999 the "base" year for both farm-level milk prices and average retail prices for whole milk.

As you can see, farm-level milk prices have seen highs and lows throughout the past ten years, with each cycle getting more and more volatile. But retail prices have been steadily moving up. Whenever milk prices move higher during the "boom" parts of the cycle, retail prices have gone up to reflect that new higher raw milk price. However, as those farm-level prices decreased during the "bust" parts of the cycle, average retail prices reflect only a portion of that price decrease.

Consumers don't necessarily realize what dairy farmers are receiving for their milk, and retailers take advantage of this. Once consumers are accustomed to higher prices, retailers feel very little pressure reduce prices as farm-level prices drop. What if we didn't have massive boom and bust periods in the dairy industry? What if our price was stable? Would retailers be able to pad their margins the way they do now? I doubt it.

As the readers of this newsletter have heard many times, the Growth Management Plan is one of the only ideas being discussed that would fundamentally address this milk price volatility. And while we have focused on the benefit a stable price would have on producers, we have rarely discussed the benefit that **consumers** would see. (For those who haven't seen the information on the Growth Management Plan, I'd recommend you take a few minutes to read http://www.milkproducerscouncil.org/q&a_gmp.htm.)

ANOTHER LOOK AT JANUARY'S MILK SALES: *(By J. Kaczor)* Last week, it was correctly reported that Class 1 usage **of pool milk in California**, compared to January 2008, decreased by 150,000 gallons per day. That was followed by a statement that most of the decrease resulted from an increase in imports of packaged milk from an unregulated bottling plant in northern Nevada. That was incorrect. That loss was a substantial part of the 150,000 gallons, but far short of the total. About 11,000 gallons of the total could be accounted for by the increase in imported bulk milk that is assigned to Class 1 usage, which leaves about two-thirds of that drop unexplained.

Another correction to last week's report: the total amount of Class 1 sales expected to be lost if all of the major "box stores" in northern California are lost to the Nevada plant is close to 1.7 million gallons of milk per day, not the 4 million gallons used in last week's article.

And, lastly, it was reported that the decreased amount of total solids assigned to Class 1 in January's pool still amounted to 14.5% of pool usage – correct. However, had the total pool volume not decreased by 187 million lbs for the month, the Class 1 usage would have fallen to 13.6% of the total.

CWT MEETS ITS MEMBERSHIP GOAL, AND A TWO-YEAR COMMITMENT: *(By J. Kaczor)* CWT announced this week that its membership has reached two-thirds of U.S. milk production, thereby satisfying a requirement for obtaining third party financial support, if needed, for acceleration of its programs. The program viewed as most effective in the short run in helping to reduce the amount of milk used to produce surplus dairy products in the U.S. is their herd retirement program. Fewer cows means less milk means better prices. MPC and other producer trade associations have already urged CWT to launch another of them as soon as practical. Let's keep the chorus going.

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