

Milk Producers Council

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DATE: May 01, 2009

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TO: DIRECTORS & MEMBERS

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MPC FRIDAY MARKET UPDATE

CHICAGO MERCANTILE EXCHANGE

Blocks - \$.0275 \$1.1525
Barrels - \$.0200 \$1.0875

Weekly Average

Blocks - \$.0210 \$1.1570
Barrels - \$.0170 \$1.0920

CHICAGO AA BUTTER

Weekly Change +\$.0075 \$1.2300
Weekly Average +\$.0175 \$1.2270

DRY WHEY

WEST MSTLY AVG w/e 04/30/09 \$.2450
NASS w/e 04/25/09 \$.2068

NON-FAT DRY MILK

Week Ending 4/24 & 4/25

Calif. Plants \$.8087 21,296,281
NASS Plants \$.8221 27,371,146

CHEESE MARKET COMMENTS: Prices on the CME this week moved lower again. Last week's unsustainable block-barrel price spread of 7.25 cents per lb narrowed this week by a half cent, but not in the way that was hoped for. Blocks lost 2.75 cents per lb and barrels lost 2 cents. Barrels ended the week 1.25 cents per lb below the CCC support price. (Blocks and barrels were three to five cents per lb below their support price levels in early January, but no product was offered to the CCC.) *Dairy Market News* reports that cheese production is in step with the Spring flush of milk, and sales are steady. Buyers seem to be asleep at their order desks – prices at these low levels are simply not representative of fundamental values. Cheddar production in February was just about as low on a per day basis as it has been in the last five years, and less milk was available in March and possibly even less in April. The March cheese production numbers will be published on Monday.

BUTTER MARKET COMMENTS: Butter prices moved up again this week on the CME. The price trend so far this year is following the patterns of 2007 and 2008 but, of course, at quite lower levels because the combination of factors that contributed to those record highs no longer exist. Production is reported to be normal for this time of year, and the firmness of the market, considering general economic conditions, continues to surprise. Maybe the lesson learned from thinking the U.S. can be a mover and shaker in the international marketplace (except, of course when buyers have no other source and the U.S. prices are the lowest available) has set in. Export opportunities will likely return, and will be welcomed, but meanwhile it would be well for this industry to continue to build a solid foundation for future price increases based on U.S. sales to U.S. buyers before re-tracing the slippery path to the land of Oz.

POWDER MARKET COMMENTS: Weekly sales of nonfat dry milk and skim milk powder continue to keep pace with production – with a bit of important help from continuing sales to the CCC at \$.80 per lb. Without the **normal level** of export sales (this is not a contradiction to the above comment about butter exports), the CCC continues to be a critical outlet for excess nfdm production. Prices on the CME increased again, this week by a half cent per lb. Buttermilk powder is in short supply; DMN describes the buttermilk market as “firm” with prices rising rapidly. Questions on how the transfer of the 200 million lbs of nfdm to the Food and Nutritional Service is going have not been answered but in recent weeks the CCC has been shipping the product it buys from California plants to warehouses outside of California – presumably to avoid having to handle it a second time. Note: the reason why CCC does not buy instantized powder from manufacturers rather than regular powder (which then has to be reshipped to other plants to be “agglomerated” and repackaged) is simply because the support price differential for instantized powder does not cover the costs related to that process. That means no offers are made. Second note: California producers continue to be financially hurt by Dairy America's continuing use of California plants for its sales to the CCC even though some of that powder is now being transported by CCC to warehouses in other states. The widening price differential, shown above, between the CWAP weekly price that is used to set certain California milk prices and the NASS price that is used to set milk prices for comparable uses in federal order areas, is a direct result of Dairy America's decisions.

WHEY MARKET COMMENTS: Prices for dry whey show continuing strength. DMN describes the market as “firm” throughout the country. The national average price for current dry whey sales has increased 3 cents per lb over the past three weeks. Not so, however, for whey protein concentrate; those prices are slightly lower this week. Despite there being little product available beyond contracted amounts, DMN reports that re-seller attempts to sell at the top of the price range are not always successful.

FRED DOUMA’S PRICE PROJECTIONS...

May 01 Est:	Quota cwt. \$ 11.47	Overbase cwt. \$ 9.77	Cls. 4a cwt. \$ 9.91	Cls. 4b cwt. \$ 9.66
April Final:	Quota cwt. \$ 11.56	Overbase cwt. \$ 9.87	Cls. 4a cwt. \$ 9.79	Cls. 4b cwt. \$10.41

MAJOR DEVELOPMENT FOR THE GROWTH MANAGEMENT PLAN: *(By Rob Vandenheuvel)* This week, the Holstein Association USA, which boasts 30,000 members nationwide, unveiled the “Dairy Price Stabilization Program.” This program is virtually identical to the Growth Management Plan (GMP), which readers of this newsletter have been hearing about for quite some time *(and for those that haven’t, I would encourage you to check out http://www.milkproducerscouncil.org/q&a_gmp.htm)*. Like the GMP, the “Dairy Price Stabilization Program” would create a tangible financial incentive for dairies to manage the amount of milk they produce, thereby keeping a better balance of supply and demand *(more information on the “Dairy Price Stabilization Program” will be provided in upcoming articles)*.

MPC is extremely excited about this development, and supports the work of the Holstein Association. The opportunity to make positive changes to our national dairy industry is upon us, and folks throughout the country are recognizing that. As I wrote in our newsletter last month, MPC has been meeting with producer groups from all over the U.S. and there is increasing momentum for implementing a program like what MPC and the Holstein Association are promoting.

Our leadership in California needs to be engaged in this debate. An industry task force that MPC President Syp Vander Dussen serves on is meeting next Monday (May 4th), and I would urge the task force members to move quickly and come up with industry recommendations. **We have a window of opportunity for rallying the dairy industry around positive change** and we just don’t know how long it will last. We have all seen the short memories this industry tends to have.

So whether our industry leaders support the Growth Management Plan or not, it is time to take a position. **Because one thing is abundantly clear: if we do nothing, we are guaranteeing ourselves that at some point in the near future, we’ll be right back on the losing end of this extremely volatile milk price.**

FONTERRA’S MAY AUCTION OF WHOLE MILK POWDER: *(By J. Kaczor)* Fonterra’s next internet auction of its whole milk powder, via **globalDairyTrade**, will be next Tuesday. The quantities of powder being made available are slightly higher than were offered in March and April. A recap of the volumes, prices, and time periods: for shipment in July (the 1st contract period), 8.8 million lbs; for August, September, and October (the 2nd contract period), 3.7 million lbs per month; for November, December, and January (the 3rd contract period), 4.4 million lbs per month. Those volumes include regular, instantized, and UHT whole milk powder. Separate bids apply to each product for each contract period.

The reason the gDT auctions are worth mentioning is because of the interest and concern manufacturers and buyers around the world have shown about the results – and the importance Fonterra has placed on it as well as on how it may evolve to include other products and even other suppliers. The interest and concern of others is about possible affects on prices for other dairy products as well as their ability to buy or sell whole milk powder at prices different from the auction prices. Thus far, similar interest has not been shown by the price spotters at *Dairy Market News*, although they do mention it in passing.

As has been the case from the second auction held last August, **the auction opens with prices offered by the auction manager for each product in each contract period at 15% below the previous auction’s winning prices.** There was speculation that the opening gambit would change once prices began to move up, as they did in April’s auction. A recap of the results will be made in next week’s *Update*.

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