

Milk Producers Council

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MPC FRIDAY MARKET UPDATE

CHICAGO MERCANTILE EXCHANGE

Blocks -\$.0050 \$1.1150
Barrels +\$.0100 \$1.1000

Weekly Average

Blocks - \$.0035 \$1.1150
Barrels +\$.0228 \$1.0988

CHICAGO AA BUTTER

Weekly Change -\$.0125 \$1.1925
Weekly Average -\$.0094 \$1.1956

DRY WHEY

WEST MSTLY AVG w/e 07/02/09 \$.3150
NASS w/e 06/27/09 \$.2720

NON-FAT DRY MILK

Week Ending 6/26 & 6/27

Calif. Plants \$.8173 12,696,077
NASS Plants \$.8493 22,685,384

CHEESE MARKET COMMENTS: The CME is closed for the holiday on Friday. Cheese prices on the CME appear to have steadied this week. Barrels rose a full cent, apparently in response to an increase in resort area sales, and the price is now at the support level. Blocks lost a half-cent on Monday, and held there for the next three days. *Dairy Market News* (DMN) reports that production of all cheese in the U.S. was 1.0% higher over the first four months of this year than last year but **commercial usage** of cheese was **1.6% higher**, and still the amount in cold storage at the end of April was almost 50 millions lbs higher. Go figure. Unfortunately, today's report of cheese production in May showed an increase of 22 million lbs more than last May (+2.6%). For whatever reason (more plants, more capacity, more competition, **guaranteed profit on all production provided you have average costs and average prices??**) too much cheese is being produced than is wanted – and prices are sitting at or just below support levels. DMN reports that buyers seem to have sufficient stocks on hand and do not want to add to what they have even at the current prices. CWT reported today that they have completed clearing away more than 100,000 cows in their latest herd removal program. That fact, along with more heat currently in the West and more heat and humidity in the Midwest, should result in less milk in June and July – and even, possibly, less cheese production.

BUTTER MARKET COMMENTS: Butter prices fell a bit on the CME on Tuesday. DMN reports that buyers and sellers say they do not understand why butter prices are so weak, considering the positive news on production (down), usage (up), and inventories (down). The amount of butter and butterfat products in cold storage at the end of May was the lowest it's been in four years, and the expected reduction in milk supply this summer should only improve the demand/supply equation. The last minute DEIP export approvals showed that, with the right amount of assistance, foreign buyers can still be found. No word yet from USDA on approving the program for another year.

POWDER MARKET COMMENTS: Close to 44 million lbs of nonfat dry milk were approved for export under the DEIP program in just three weeks. Subsidies ranged from \$.05 per lb to \$.12 per lb, and the product is scheduled for shipment out through October. In May, 18 million more lbs of nonfat dry milk was produced than a year earlier, but was offset by 19 million fewer lbs of skim milk powder production. Cumulatively, about 16 million fewer lbs of the two products were produced over the first five months of the year. And yet, at the end of May, there was 58 million more lbs of nfdm in storage than a year ago. The weekly average price for current sales of nonfat dry (the NASS series) rose to almost \$.85 per lb last week, while the California plant average lagged behind, and is now \$.032 per lb lower. Let's review what's been happening: California producers lost out big time in 2007 when nfdm prices were rising very fast, and lost out big time in 2008 when nfdm prices were falling, and have now been losing out since prices hit bottom, apparently going nowhere. Give another cheer to the stewards of our industry and to the CDFA hearing panel who has made all of this possible.

WHEY MARKET COMMENTS: The news about whey product sales and prices continues to be very positive. Production is lower, demand is higher, exports are holding, and inventories are lower. The West's "mostly" weekly price average added another half-cent.

FRED DOUMA'S PRICE PROJECTIONS...

July 03 Est:	Quota cwt. \$ 11.15	Overbase cwt. \$ 9.46	Cls. 4a cwt. \$9.85	Cls. 4b cwt. \$ 9.27
June Final:	Quota cwt. \$ 11.31	Overbase cwt. \$ 9.61	Cls. 4a cwt. \$10.06	Cls. 4b cwt. \$ 9.52

PRICES CONTINUE TO FALL IN FONTERRA'S INTERNET AUCTION: (By: J. Kaczor) This week's internet auction for whole milk powder (Fonterra's *globalDairytrade*) was another disappointment for those of us who are looking for that major moment when international prices for milk's basic manufactured products reverse course and begin the long journey back to levels reflective of their true value.

To refresh your memory about how this auction is structured, it's divided into three "contracts." The first contract covers a single month; the next two each cover three months. In effect, it simulates a medium length contract with pre-negotiated price changes covering a seven month delivery period with shipments beginning (in the case of the July 1st auction) in September and extending through next March. Continuing with the analogy, prices are "negotiated" to change over the course of the full contract. The products include regular, instantized, and UHT whole milk powder, with the vast majority of sales being commodity-grade regular powder.

Fonterra calls the first month of the seven month period the "spot" month, and the winning prices for that month are the "spot" prices. This time the spot price for regular whole milk powder fell \$.066 per lb, to \$.830 per lb. The price for the next three months fell by \$.037 per lb from what was bid last month, and **rose** by \$.011 per lb for deliveries in the December through February period. The weighted average price for all products for the full seven month period fell by about \$.025 per lb. Fonterra's take on these results is a bit heavy on "spin." Today's media release says "*We saw increased customer demand but they remain wary about paying too much in an uncertain environment.*" In other words, they need the product but not badly enough to outbid each other for it. More to the point Fonterra says "*today's result reflects that the market is in a rebalancing phase.*" [We agree.] Global milk supply "*is declining sharply*" but recessionary conditions continue to suppress sales. [We partly agree.]

This time Fonterra chose not to comment on the success and effect of export subsidies for various dairy products presently being offered by the European Union and USDA. The EU subsidies include whole milk powder; the U.S. subsidies do not. **Important Note:** That sharp decline in global milk supply referred to is notably absent in New Zealand and Australia.

ASSEMBLY AG COMMITTEE BLOCKS SENATOR FLOREZ BILL: (By Rob Vandenheuvel) This week, the Assembly Agriculture Committee rejected S. 362, a bill introduced by Senator Dean Florez (D-Bakersfield). This legislation (which was originally drafted as a complete abolishment of the California pooling regulations and then narrowed down to specifically address producer-handlers and raw milk producers) was dramatically amended before even coming to the committee. The bill, as amended, had no specific provisions regarding the five major producer-handlers or the raw milk producer-processors. Instead, the bill would have expanded an exemption that was aimed at exempting the very smallest producer-handlers in the State from pooling regulations. That bill proposed to create an exemption for any producer-handler that produced and processed less than 1,500 gallons per day (the current exemption is 500 gallons per day).

MPC joined our fellow producer groups as well as the major processors in opposing the legislation, and in the end, four of the eight Committee members voted against the legislation, blocking the bill from moving out of the Committee. A special thanks to **Assembly Members Tom Berryhill (R-Modesto), Connie Conway (R-Tulare), Jean Fuller (R-Bakersfield) and Mariko Yamada (D-Davis)** for their opposition to the bill.

Our thanks also go out to those of you who called the members of the Committee expressing your opposition to the bill. This was a team effort and it was clear that the members of the Committee had been hearing from our dairy families.

DAIRY INDUSTRY TO BE THE FOCUS OF AN UPCOMING CONGRESSIONAL HEARING: *(By Rob Vandenheuvel)* While banks, automakers and “global warming” have gotten a bulk of the attention in Washington, DC this year, the House Agricultural Subcommittee on Livestock, Dairy and Poultry has scheduled a hearing on July 14th at 10 a.m. ET **“to review economic conditions facing the dairy industry.”**

Given the literally *billions* of dollars in dairymen’s equity that has already been converted into mounting debt over the past year, and the *continued* financial hemorrhaging as we see no recovery in the immediate horizon, this hearing couldn’t come soon enough.

California Congressmen Jim Costa (D-Fresno), Dennis Cardoza (D-Merced) and Joe Baca (D-Ontario) all serve on this subcommittee. For those of you who wish to listen into the hearing, it will be broadcast live on the Committee’s website (<http://agriculture.house.gov/hearings/audio.html>) at 7 a.m. Pacific Time on Tuesday, July 14th.

JUNE CARES COLUMN HAS BEEN POSTED ON OUR WEBSITE: *(By Rob Vandenheuvel)* The latest “Cares Column” is now on <http://www.milkproducerscouncil.org/cares.htm>. With “cap-and-trade” being the hot issue in Congress these days, the Cares Column appropriately addresses dairies and our industry’s place in this debate over greenhouse gas emissions.