



# Milk Producers Council

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**TO:** DIRECTORS & MEMBERS

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## MPC FRIDAY MARKET UPDATE

### CHICAGO MERCANTILE EXCHANGE

Blocks N/C \$1.6025  
Barrels +\$.0100 \$1.5675

### Weekly Average

Blocks N/C \$1.6025  
Barrels +\$.0035 \$1.5620

### CHICAGO AA BUTTER

Weekly Change +\$.0350 \$1.8500  
Weekly Average +\$.0410 \$1.8450

### DRY WHEY

**WEST MSTLY AVG** w/e 7/30/10 \$.3788  
**NASS** w/e 7/31/10 \$.3648

### NON-FAT DRY MILK

#### Week Ending 7/30 & 7/31

Calif. Plants \$1.1432 17,901,918  
NASS Plants \$1.1751 27,769,342

**CHEESE MARKET COMMENTS:** Cheese prices on the CME held steady again this week, with very little activity. Blocks were unchanged with no sales; barrels gained a full cent, over three days. Dairy Market News (DMN) is getting reports of “lackluster” sales except for interest in Mozzarella, normal governmental buying for summer school usage, and CWT’s continuing efforts to boost exports. Current cheese production continues to edge lower, following the normal summer seasonal pattern of lower milk production. Vat fortification (milk protein concentrate, nonfat dry milk and condensed skim) is helping manufacturers maintain production efficiencies. Questions continue to be asked about the firmness of the current cheese prices. Because CME prices have essentially been flat for the last two weeks, the most recent prices reported to NASS, which normally lag CME cash prices by two to three weeks, have virtually caught up. In order for the class III milk futures price for September, \$15.31 per cwt, (\$.09 per cwt lower than last week, but still the highest price for any month over the next twenty-four), prices for dry whey, butter, and cheese need merely to hold about where they are. Because answers to the major uncertainties affecting dairy prices (consumer spending, imports/exports, milk production) won’t likely become clear before this fall (if by then), “hope” may have to continue to be a major part of a producer’s business plan.

**BUTTER MARKET COMMENTS:** An already tight supply/demand situation for butter is getting even tighter. Seasonal drops in milk production and butterfat, along with heavy demand from other fresh cream users, CWT’s recent questionable decision to offer subsidies to exporters of butter and anhydrous milkfat, lower production, tight supplies in Europe and Oceania, and falling U.S. inventories all combine to point to continuing strong prices. Prices advanced another \$.035 per lb this week on the CME. Futures traders are not so certain; cash-settled butter futures for December are \$.19 per lb lower than current cash prices, and move even lower through the first half of next year. Higher retail prices do mean lower retail sales but, on balance, it looks like the futures traders may have it wrong.

**POWDER MARKET COMMENTS:** Prices for buttermilk powder continue to be affected by the weakening market for nonfat dry milk. BMP demand is steady and supplies are limited, but buyers have options. U.S. production of whole milk powder this year is 38% higher than for the same period last year, and sales have kept pace. WMP is not generally considered to be an alternative BMP or NFDM, and prices thus far still carry a substantial premium to those nonfat products. The market for nonfat dry milk is weak; some sales this week are reported to be as low as \$1.00 per lb in the west. DMN reports that stocks continue to build and buyers continue to bargain for better prices. Average prices reported to California plants and to NASS this week (for sales made last week) were about \$.011 per lb lower, but volumes for both were substantially higher. The winning price for skim milk powder in Fonterra’s monthly internet auction for October deliveries fell to \$1.23 per lb.

**WHEY PRODUCTS MARKET COMMENTS:** A recent reduction in production capacity and continuing strong demand for domestic and export purposes has resulted in higher prices for whey protein concentrates (34%

protein). Prices for dry whey, after undergoing some changes last week, are reported to be steady. Production is tailing off in line with cheese production, and total demand appears to be in balance with current supplies.

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

<b>August 6 Est:</b>	<b>Quota cwt. \$ 16.19</b>	<b>Overbase cwt. \$14.49</b>	<b>Cls. 4a cwt. \$15.38</b>	<b>Cls. 4b cwt. \$14.22</b>
<b>July 2010 Final:</b>	<b>Quota cwt. \$ 15.96</b>	<b>Overbase cwt. \$14.26</b>	<b>Cls. 4a cwt. \$15.62</b>	<b>Cls. 4b cwt. \$13.37</b>

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**PRICES CONTINUE TO FALL IN GLOBAL AUCTION:** *(by J. Kaczor)* Bidders in Fonterra's August 3<sup>rd</sup> internet auction, globalDairyTrade, continued to be more concerned about future prices than availability of product. Average prices for all three lines of products, whole milk powder, skim milk powder, and anhydrous milkfat, fell again – for a third straight month for WMP and SMP, and for a second month for AMF. The price for WMP for deliveries in October is now \$1.32 per lb, \$.50 per lb lower than the price bid for deliveries in July. The price for SMP for deliveries in October is \$1.23 per lb, \$.44 per lb lower than the price for deliveries in July. The price for AMF for deliveries in October is \$2.01 per lb, \$.79 per lb lower than for deliveries in August. Buttermilk powder, newly offered this month, was bid at \$1.27 per lb for deliveries in October.

Fonterra's press release issued the day after the auction said the results reflected a continuing "rebalancing amid increasing supply and an uncertain economic outlook." The percentage price decreases from July's auction are 7.7% for WMP, 8.9% for SMP, and 7.6% for AMF.

The reference to product supplies is based upon current and future milk production estimates, and to levels of stocks of a particular product. Regarding global milk supply, decent weather and recent rainfall in Australia and New Zealand has resulted in upbeat projections for the next twelve months. Based upon results for the latest two months, Australia's milk production is expected to be about 5% higher than for the past year. Based upon recent surveys of New Zealand producers, milk production is expected to be about 7 to 8% higher than for the past year. Those increases, along with a projected increase in U.S. milk production for the next twelve months of 2 to 3% (more cows and more production per cow), translate into a potential significant increase in the amount of basic dairy commodities expected to hit the global market. (At present, Europe's milk production is not expected to be significantly higher than recent levels.)

The concern about levels of stocks is directed to nonfat powders: Europe has in storage about 440 million lbs of skim milk powder (twelve months old, and apparently unwanted) and the U.S. has about 175 million lbs of nonfat dry milk. Australia and New Zealand are uniquely able to route current milk supplies to products likely to generate the highest returns, which means cheese, WMP, and AMF.

The reference to "uncertain economic outlook" likely refers mainly to continuing high unemployment and high local, state, and federal debt in the U.S., and to what is described as a financial crisis in Europe so serious as to be threatening what is now that region's most common currency, the Euro. On the other hand, most Asian countries appear to be well on a recovery path.

Beginning next month, the auction will be held twice monthly, with monthly volumes split evenly between the two sessions. This change should result in more timely information, in a practical way, on changes in global dairy product supply and demand.

**MAY AND JUNE USAGE OF MILK, COMPARED:** *(by J. Kaczor)* June's U.S. milk production was 687 million lbs less than in May. The following table compares May's usage to June's usage in terms of production of major dairy products reported by USDA. These products represent approximately 65% of total U.S. milk usage. The major usage not yet available, except for California, is fluid milk usage. California's fluid usage (class 1) in June was 4.0% lower than May's usage (-1.0% on a per day basis). The numbers in the table below

represent 1,000 lbs of product. Products in this table represent direct usage of milk; no by-products are reported.

<b>Product</b>	<b>May</b>	<b>June</b>
All Cheese	879,255	881,802
Cheddar Cheese	287,213	286,343
Butter	130,489	118,335
Nonfat Dry Milk	154,327	136,081
Skim Milk Powder	17,146	32,708
Milk Prot. Conc.	12,289	10,337
Whole Milk Powder	7,233	5,597
Sour Cream	93,408	98,815
Yogurt	339,906	352,215
Frozen Mixes	74,871	83,217
Condensed Skim	137,103	139,106
Evaporated Milk	41,030	46,154

The number reported for cheddar cheese is included in the all cheese category. Another important product not shown (because of confidentiality issues) is anhydrous milkfat.

**REMINDER – ANIMAL WELFARE WORKSHOP SCHEDULED IN CHINO ON AUGUST 18 & 19:** *(By Rob Vandenheuvel)* Earlier this year, the California Dairy Quality Assurance Program (CDQAP) conducted workshops throughout the Central Valley to educate dairy farmers on a new national industry program called the National FARM (Farmers Assuring Responsible Management) Program. While the FARM program is a national initiative, California cooperatives and creameries have taken the lead in implementing the program here in our state. Later this year, the first step of the program will begin, with your co-op staff conducting a walk-thru of your dairy.

The point of the CDQAP workshops is to prepare dairymen for what the program will mean for your dairy. **I strongly encourage all dairies to send a representative to the meeting to learn more about this program.** A flyer is being mailed out to dairymen with the details of the workshop (*it's posted at [www.milkproducerscouncil.org/aug10farm.pdf](http://www.milkproducerscouncil.org/aug10farm.pdf)*), but Part I of the workshop is scheduled for **1 – 4 pm on Wednesday, August 18<sup>th</sup>**, and Part II is scheduled for **9 am – 12 pm on Thursday, August 19<sup>th</sup>**. The meeting will be held in Brinderson Hall at the Chino Fairgrounds (*5410 Edison Avenue, Chino, CA 91710*).

**This is not just for Southern California dairymen.** If you are in the Central Valley and missed your opportunity to go to a closer workshop, you're encouraged to come attend this one. CDQAP would like to know how many folks are planning to attend, so **please RSVP for the meeting by calling the MPC office at (909) 628-6018 or send an email to [office@milkproducers.org](mailto:office@milkproducers.org).**

**MPC BOARD MEETING NEXT TUESDAY IN BAKERSFIELD:** *(By Rob Vandenheuvel)* Our August Board of Directors meeting is scheduled for next Tuesday (August 10<sup>th</sup>) at 11 a.m. in the Kern County Farm Bureau Board Room. The address is 801 S. Mount Vernon Avenue in Bakersfield. All current and prospective MPC members (both regular and associate) are welcome to attend. Lunch is provided, so **please RSVP to [office@milkproducers.org](mailto:office@milkproducers.org).**