



Milk Producers Council

13545 S. Euclid Avenue, Unit B ~ Ontario, CA 91762 ~ (909) 628-6018
801 S. Mount Vernon Avenue ~ Bakersfield, CA 93307 ~ (661) 833-2549
Fax (909) 591-7328 ~ office@milproducers.org ~ www.MilkProducers.org



DATE: December 31, 2010
TO: Directors & Members

PAGES: 2
FROM: John Kaczor

MPC FRIDAY MARKET UPDATE

CHICAGO MERCANTILE EXCHANGE

Blocks +\$.0200 \$1.3425
Barrels - \$.0150 \$1.3400

CHICAGO AA BUTTER

Weekly Change +\$.0175 \$1.6700
Weekly Average +\$.0050 \$1.6575

NON-FAT DRY MILK

Week Ending 12/24 & 12/25
Calif. Plants \$1.1309 28,258,675
NASS Plants \$1.1417 28,607,516

Weekly Average

Blocks +\$.0080 \$1.3305
Barrels - \$.0375 \$1.3350

DRY WHEY

WEST MSTLY AVG w/e 12/24/10 \$1.3938
NASS w/e 12/25/10 \$1.3822

CHEESE MARKET COMMENTS: The unfinished business on the CME cheese market, the price inversion of blocks and barrels, was taken care of this week. Blocks gained two cents per lb and barrels lost a cent and a half. A surprising amount of trading took place during what is normally one of the slowest trading weeks of the year. Buyers apparently like to buy cheese when it's priced in the low \$1.30 per lb area regardless of convention. Signs that cheese has bottomed out include buyers stepping up and prices advancing on unfilled bids. Let's hope that common sense and good business decisions by cheese makers characterize the industry next year and beyond. **Folks, cheese is supposed to be the market clearing product of last resort!**

BUTTER MARKET COMMENTS: Butter prices gained 1.75 cents per lb this week on the CME. It took four sales over two days to do it. Butter demand for domestic and export markets are reported to be strong. Manufacturers have been increasing output since October, but are barely keeping up with sales. They, and their brothers in other major exporting countries, will catch up eventually but, meanwhile, expect to see prices continue to show strength. The January cash-settled futures price reflects today's spot market price, and prices for all months next year are consistently higher – topping out at \$1.77 per lb in October.

POWDER MARKET COMMENTS: *(See Article Below)*

WHEY PRODUCTS MARKET COMMENTS: DMN reports interest in spot loads of whey protein concentrate is active, prices are steady, and supplies are tight. In other words, not much has changed over the past several months. A similar positive note describes the dry whey market. Prices are steady to firm, supplies are tight, and spot loads are priced at a premium when they can be gotten.

FRED DOUMA'S PRICE PROJECTIONS...

Dec '10 Final *: Quota cwt. \$15.61 Overbase cwt. \$13.91 Cls. 4a cwt. \$14.70 Cls. 4b cwt. \$12.22
Last Week *: Quota cwt. \$15.69 Overbase cwt. \$13.99 Cls. 4a cwt. \$14.92 Cls. 4b cwt. \$12.22

* These final December numbers were revised this week after accounting for an unexpected drop in nfdm prices.

NONFAT DRY MILK PRICES SURPRISINGLY DROP SHARPLY: *(by J. Kaczor)* The sharp price drop reported on Wednesday for last week's shipments of nonfat dry milk by California plants came as a surprise to many market-watchers. The reason it was surprising is because most market indicators of demand and prices for U.S. nonfat dry milk were supportive of recent levels, which have been heading upward since early Fall. Here is a sampling of those market indicators:

- **Inventories:** end of month stocks were 294 million lbs in January (including government held product), 194 million lbs in July (manufacturers only), and 123.9 million lbs in October (mfrs only);
- **CME spot market prices:** grade A and extra grade nonfat powder have been at \$1.225 per lb or higher since September 2nd *(It should be noted that the volume is nfdm traded on the CME is very small);*

- **CME NFDN futures prices:** the January through June monthly average cautiously rose \$.127 per lb (to \$1.234 per lb) from mid October through December 30th; (*Same note as above*)
- **The NASS weekly survey of NFDN sales:** prices rose fairly steadily from September 11th to December 18th, increasing by \$.0965 per lb, to \$1.2163 per lb;
- **Western and Central regions price range weekly averages:** western region prices rose fairly steadily from \$1.12 per lb on August 28th to \$1.22 per lb on December 25th; Central region prices rose to \$1.27 per lb over that same period;
- **Adverse weather conditions in Western Europe, Argentina, Australia, and New Zealand:** Snow, severely low temperatures, flooding, and droughts variously have significantly affected milk production in these major dairy product exporting countries;
- **Prices for skim milk powder in Western Europe and Oceania:** Dairy Market News, in its latest report covering December 13th to the 24th, finds that supplies of skim milk powder **for export** are tight and prices are firm (\$1.361 per lb in Europe; \$1.406 in Oceania); Fonterra has recently shifted some of its production of SMP to WMP in order to fulfill its commitments to China;
- **International auctions:** winning prices for skim milk powder in Fonterra's internet auctions have risen from this year's low of \$1.256 per lb, on August 4th, to \$1.403 per lb (December 1st and 15th average price);
 - *While Fonterra's bi-monthly auction provides important information on the international market, it should be noted that the volume of skim milk powder sold in the auction is significantly less than the volume of nfdm that is marketed by California's powder makers. The most recent update of the volume of skim milk powder offered by Fonterra for bidding is 252,098,300 lbs for the next 12 months, or about 20 million lbs per month. By comparison, California's powder makers have average 73.2 million lbs of production per month in 2010. This doesn't diminish the value of the information coming from the Fonterra auction, because Dairy Market News verifies that the prices from the auction establish a useable base for all exports sales of skim milk powder from Oceania.*
- **U.S. export volume and prices:** the volume of exports of nonfat dry milk and skim milk powder this year will be a close second to 2008's record volume, which averaged 71.8 million lbs per month, but is well below 2008's average price (2008, \$1.58 per lb; 2010, \$1.20 per lb).

Looking collectively at the market indicators above, it appears there are many reasons to believe the powder market should be relatively strong. *It should be noted that the NASS price, which captures only "current" sales (sales of product prices less than 30 days before delivery) had a similar drop this week, so this does not appear to be an issue with long-term contracts vs. current sales.* So the question on many people's minds is why the sudden drop? With only one week of data to point to, it's difficult to answer that question with any level of certainty. We'll see what the coming weeks and months look like.

SIGNIFICANT STRUCTURAL CHANGE ABOUT TO OCCUR IN THE CALIFORNIA POWDER MARKET: (*By Rob Vandenheuvel*) A major change in California's powder marketing is set to occur tomorrow. According to reports, as of January 1, 2011, Land O'Lakes will end their association with Dairy America, a well-known exporting marketing-agency-in-common. According to their website, Dairy America will be made up of California Dairies Inc., United Dairymen of Arizona, O-AT-KA and Agrimark (both are cooperatives in the Northeast).

While Dairy America will still represent a significant portion of the powder production in the West, this change could be significant for the California powder market. For several years, it has been noted that Dairy America plants have made up nearly all of the California Weighted Average Price (CWAP) – our weekly/monthly report of the prices received for nfdm sales. With Land O'Lakes leaving Dairy America, we will now have multiple significant powder manufacturers individually reporting their sales to CDFA for inclusion in the CWAP. Exactly what impact this may have on our powder markets remains to be seen.

DECEMBER "DAIRY CARES" REPORT POSTED ON OUR WEBSITE: (*By Rob Vandenheuvel*) This month's "Dairy Cares Report" has been posted at: <http://www.milkproducerscouncil.org/cares.htm>. This month's column takes a look back at 2010 and a couple new industry efforts initiated by the industry groups that make up Dairy Cares.