

Milk Producers Council

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MPC FRIDAY MARKET UPDATE

CHICAGO MERCANTILE EXCHANGE

Blocks -\$.0925 \$1.4125
Barrels -\$.0675 \$1.3775

Weekly Average

Blocks -\$.0577 \$1.4413
Barrels -\$.0637 \$1.4013

CHICAGO AA BUTTER

Weekly Change +\$.0200 \$1.3600
Weekly Average +\$.0093 \$1.3513

DRY WHEY

WEST MSTLY AVG w/e 2/12/10 \$.4050
NASS w/e 2/13/10 \$.3960

NON-FAT DRY MILK

Week Ending 2/12 & 2/13

Calif. Plants \$1.1045 7,075,566
NASS Plants \$1.1417 12,603,624

CHEESE MARKET COMMENTS: It was a short week, best forgotten, for cheese on the CME this week. Moderate trading, showing there is more cheese being produced and on hand than is wanted. There are also enough buyers very willing to take on more product at what could be very attractive prices not too far in the future. This market looks edgy. Despite the current record high inventories, cheese production is holding steady to higher and, according to USDA's report on January milk production, more milk is currently available. Correction to last week's comment on cheese inventories: the **total amount** in storage at the end of December was at a 25 year high; the amount **held by manufacturers** was an all time high.

BUTTER MARKET COMMENTS: Trading was active this week, and prices bounced around again. *Dairy Market News (DMN)* finds that butter retail sales are steady, and total usage should increase as the Easter season approaches. Considering what looks like a fairly tight supply/demand relationship, and the higher prices for butter internationally (\$1.60 per lb and higher, f.o.b. ports around the world), it's a bit surprising that current butter prices are not higher. Concern about future milk production levels is on everyone's mind.

POWDER MARKET COMMENTS: With export volume currently very low, domestic sales disappointing, milk production increasing, and no clue about what the major seller of nonfat powders might do next, buyers seem hesitant to make major commitments. DMN reporters say some end-users with powder on hand are willing to sell at a loss – perhaps just to be able to sleep better. With low volumes, the weekly averages for the two major price series for sales last week edged lower. California producers may think it only fair to see that the low prices generated by California plants are being felt throughout the country. Current market prices are about equal to what was received for exports.

WHEY PRODUCTS MARKET COMMENTS: Prices for dry whey and whey protein concentrates are holding up very well, considering. Supplies are said to be well balanced with demand. Futures prices for dry whey on the CME this week, still below cash prices, moved up by about \$.02 per lb for spring and summer months. Perhaps the speculators are becoming believers.

FRED DOUMA'S PRICE PROJECTIONS...

Feb 19 Est:	Quota cwt. \$ 14.87	Overbase cwt. \$13.18	Cls. 4a cwt. \$12.82	Cls. 4b cwt. \$12.98
Last week:	Quota cwt. \$ 14.95	Overbase cwt. \$13.25	Cls. 4a cwt. \$12.69	Cls. 4b cwt. \$13.27

EXPORTS BELIEVED TO REMAIN A MAJOR FACTOR FOR 2010 MILK PRICES: (By J. Kaczor)

Clearly, one of the biggest reasons for the crash in milk prices in 2009 was the failure to maintain exports of nonfat powders and butterfat products at anywhere close to the volumes that were exported the year before. It's not "a" reason; it is "the" reason. Exports of nonfat powders increased by 294 million lbs from 2007 to 2008 –

and then dropped 314 million lbs in 2009, to the lowest level in five years. Exports of butterfat products increased by 66 million lbs in 2007 and added another 129 million lbs in 2008 – and then dropped 154 million lbs in 2009, to the lowest level in three years. Both of these product categories would have been even lower last year except for the substantial assistance gotten from USDA's Dairy Export Incentive Program.

Exports of various kinds of cheeses had been more or less steadily increasing for the three years ending in 2008, but fell back by about 18% last year despite some DEIP-assisted sales. Yogurts and fermented milk products have been steadily increasing for the past six years, however that volume represents less than one-half percent of what is produced by U.S. plants. Exports of dry whey and whey protein concentrates peaked in 2007, lost about 24% in 2008 but grew by 10% last year and are now about where they were four years ago.

There's no lack of agreement about why the above increases and decreases occurred: growing global demand, shortages of supplies elsewhere, and the competitive advantage of the weak U.S. currency benefited the U.S. industry, and international buyers came calling. The subsequent loss of export sales is understood to have resulted from a weakening in global demand and a recovery in milk production in Europe and New Zealand, our major competitors in international dairy product trade. The U.S. dollar, while showing occasional moments of strength, remains weak relative to Australia and New Zealand, but lately has been at least holding its own against the Euro. Like it or not, the U.S. dairy industry is back to where it was, or even worse off, than before that remarkable "bubble" in export sales volumes and prices that covered a period of about eighteen months from early 2007 to mid 2008. Particularly vexing, and telling, is the fact that despite Australia's milk production being 5% lower from July through December, 2009, compared to the prior year, their exports in every single product category except one are up by substantial amounts over the prior year. That's significant, and it should be embarrassing. It certainly is damaging to U.S. dairy industry interests.

Included in virtually all opinions provided thus far from forecasters, public and private, who are projecting significantly higher milk prices this year are two presumptions: the first is that total milk production will be lower than it was in 2009; the second is that U.S. exports will rise. The general presumption about exports is that about half of what was lost in 2009 will be recovered this year. Both of these developments are likely needed, but neither at this point can be considered anything close to being a certainty. January's estimate of milk production, released today by USDA, is reviewed in the following article. We'll have to wait for those forecasters to explain how that 50% increase in exports is going to come about.

USDA REPORTS MORE COWS AND MORE PRODUCTION PER COW IN JANUARY: *(By J. Kaczor)*

The consecutive month-to-month decrease in number of dairy cows that began last January appears to have ended. Today, USDA released its estimates of number of cows, production per cow, and total milk production for January, 2010. The **increase** in number of dairy cows was only 3,000 more than in December, but the production per cow was up sharply (33 lbs above a year ago and 29 lbs above December). Total milk production was estimated to be 0.6% lower than last January but 1.7% above December's output.

The regional differences discussed in an article last week were evident in today's report. Of the twenty-three largest milk producing states, those six Mid-western states discussed last week added a combined total of 7,000 cows compared to a year earlier, while the remaining seventeen got rid of a combined total of 198,000 cows. The Mid-western states produced a total of 146 million more lbs of milk during the month, compared to last January, while the others produced 231 million fewer lbs. Different regional viewpoints about what the future holds, or possibly no more than the completion of plans by a relatively few well-situated producers that were made some time ago? It could be either.

California was reported to have 72,000 fewer cows, 30 lbs more milk per cow, and 2.4% less milk (83 million lbs less than last January). December's numbers were revised to 78,000 fewer cows, 5 lbs less milk per cow, and 4.5% less milk than a year earlier. There was 84 million lbs more milk produced in January than in December. Western states with increased milk production in January included Oregon, Washington, Idaho, and Utah. Increases in production per cow accounted for those increases except for Washington which also added 5,000 head. Arizona, New Mexico, and Texas combined with 56,000 fewer cows and about 85 million lbs less milk.

There are two clearly different viewpoints on what is going to happen to milk production this year. Those who believe there will be fewer cows and less milk appear to believe the issue of debt and possible actions by lenders to limit credit or to decline to restructure existing loans is going to take its toll. Some of that is likely to happen. On the other hand, there is also evidence to show there are a fair number of producers who are in a relatively good position to take advantage of reasonable prices for the huge number of heifers (with or without calves), and will at least maintain existing cow numbers, if not expand. The report for January is disappointing from the standpoint of prospective milk prices, at least for the next few months. Because the numbers for last January and February were affected by CWT's herd removal activities, comparisons to this year may be distorted. March and April will more likely give us a better reading on how this year will compare to 2009. That 50% increase in exports would really help.

REMINDER: CDQAP ENVIRONMENTAL STEWARDSHIP CLASS ON MARCH 2nd AND 3rd: *(By Rob Vandenheuvel)* Any dairy wishing to become environmentally certified by the California Dairy Quality Assurance Program (and receive a 50 percent reduction in your annual fees to the Water Board) needs to complete six hours of water quality courses (and for our Central Valley members, an additional two hours of air quality courses). For those of you who still need to take the class, the water quality class will be offered at the Southern California office of MPC on Tuesday, March 2nd (1 – 4 pm) and Wednesday, March 3rd (9 am – 12 pm).

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The classes are open to any California dairyman who wants to be CDQAP-certified. You can find a flyer for the classes on our website (<http://www.milkproducerscouncil.org/cdqapspring.pdf>). Please let Debi Clark (909-628-6018) know if you plan on attending so we can make sure we have enough room.