



Milk Producers Council

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MPC FRIDAY MARKET UPDATE

CHICAGO CHEDDAR CHEESE

Blocks - \$.0100 \$1.4750
Barrels - \$.0100 \$1.4850

Weekly Average, Cheddar Cheese

Blocks - \$.0195 \$1.4770
Barrels - \$.0035 \$1.4890

CHICAGO AA BUTTER

Weekly Change - \$.0600 \$1.4325
Weekly Average - \$.0555 \$1.4425

DRY WHEY

DAIRY MKT NEWS w/e 02/10/12 \$0.6725
NASS w/e 02/04/12 \$0.6648

NON-FAT DRY MILK

Week Ending 2/3 & 2/4
Calif. Plants \$1.3621 19,693,582
NASS Plants \$1.3853 22,190,857

Prior Week Ending 1/27 & 1/28

Calif. Plants \$1.3779 15,187,647
NASS Plants \$1.3936 22,583,767

CHEESE MARKET COMMENTS: It is times like these when the system is tested. Milk production throughout the country is off to a great start this year (good weather, plenty of replacements), but sales of milk, cheese, and other important dairy products are not. There is all over milk and the U.S. daily production is likely to continue to rise through May. *Dairy Market News (DMN)* reports this week that excess cream and condensed skim is moving about the country looking for plants willing to take loads at very attractive prices (a sale at \$4.00 per cwt below class prices was reported to have occurred this week in the central region). Prices like that usually stimulate a lot of extra product production (cheese is one and an early start for ice cream operations is another). However, with most price signs pointing downward from here and little sign that feed costs will follow, the most meaningful action to steady the market would be for milk producers to hit the breaks right now. How about dusting off that funny idea mentioned several years ago – every producer sell three cows next week and not replace them. Absent that, who knows? Weekly block cheese prices have fallen on the CME by \$.119 per lb over the past four weeks with helpful comments that the market is looking for the bottom. Prices reported to NASS over this same period fell by only \$.02 per lb, which suggests there are more buyers using monthly basing points than something more timely. The CME cheese trading activity may appear to be a contest but is more like a prolonged negotiation, with assertive offers being followed by decisive bids which are followed by agreeable offers, a welcome pause, then rinse and repeat with some variations and new characters. A somewhat favorable sign over this period is there are buyers stepping in for virtually every offer and sellers for every bid – this week 38 carloads of cheese changed hands, with only a single bid and a single offer left unanswered. If it becomes a contest, sellers on the exchange will always have the upper hand. Last year's U.S. balance sheet for cheese other than cheddar was solid: production increased by 258 million lbs and year-end inventory fell by 36 million lbs. The picture for cheddar cheese was quite different: 85 million fewer lbs were produced (although production in November and December rose to about even with the year before) and 45 million more lbs were exported, yet the year-end inventory fell by only about 30 million lbs. Imagine what the year-end stocks would have been without CWT's support for cheese exports, which totaled 120 million lbs – a new record by far. Class III milk futures prices fell across the board this week, reflecting a combination of current spot price weakness and speculation about what may lie ahead. The average price for March through August fell by \$.23 per cwt to \$16.23.

BUTTER MARKET COMMENTS: With domestic demand for butter no more than fair and production continuing to rise at a rate that *DMN* says may not be sustainable, prices on the CME continue to fall – by \$.295 per lb over the past four weeks. Surplus cream is being discounted and/or shipped into central region's butter plants from both coastal areas, and from there straight into storage. More of this can be expected over the next few months. Butter exports last year were higher than the year before but were still a distant 2nd to 2008's record. Exports in the 1st half of the year were 33 million lbs higher than the prior year and 17 million lbs lower in the 2nd half. CWT's subsidies should help bring the numbers up, helping to ease pressure on butter stocks, but the global shortage of butterfat seems to have ended. CME futures prices continue to show small premiums in the nearby months and rise thereafter to \$1.67 per lb by September.

POWDER MARKET COMMENTS: Exports of nonfat powders from the U.S. last year set a new record, 960.5 million lbs. The average export price for the year was about \$1.49 per lb, which was about \$.02 per lb above December's price. Little less than a month later, prices for current (domestic?) shipments of nonfat dry milk have fallen sharply and continue to be weak. Current heavy flows of milk and condensed skim to drying plants throughout the U.S. are resulting in substantially more powder production than needed by domestic buyers for current usages and they seem to expect prices to fall further. Looking ahead, Fonterra's global auction for skim milk powder is now generating prices averaging \$1.48 per lb for April shipments and \$1.58 for shipments in May, June, and July, while the outlook for U.S. prices is looking dimmer. Longer term, the domestic and export markets should offer sales opportunities at prices reasonably close to the level of prices created by the global auction, as was the case last year.

WHEY PRODUCTS MARKET COMMENTS: Prices reported by NASS for dry whey sold last week and by *DMN* for spot sales this week again moved lower. The West's "mostly" price this week is \$.04 per lb lower than it was two weeks ago and the NASS price is \$.0465 per lb lower. Considering their earlier very strong increases, changes like these may be disappointing but should not surprise, particularly because of the increased supplies associated with rate of cheese production. CME futures prices, which had recently dropped by about \$.15 per lb for 2012's first half, recovered \$.03 to \$.05 per lb this week for the same months but reflect discounts to current NASS and regional spot prices by amounts ranging from \$.10 in nearby months to \$.20 per lb for late summer months. The very tight supply situation that existed the latter half of last year has been corrected by slightly lower domestic and export demand and by higher volumes of liquid whey available for all usages. *DMN* says buyers of DW and WPC-34 are presently content with existing contracts, but use other sources with lower prices for any extra needs they may have. The 54.5% of dry whey production exported last year came up just short of setting a new record for lbs and percentage of production.

FRED DOUMA'S PRICE PROJECTIONS...

Feb 10 Est:	Quota cwt. \$16.44	Overbase cwt. \$14.74	Cls. 4a cwt. \$15.58	Cls. 4b cwt. \$13.39
Last Week:	Quota cwt. \$16.52	Overbase cwt. \$14.83	Cls. 4a cwt. \$15.74	Cls. 4b cwt. \$13.46

DAIRY PRODUCT EXPORTS IN 2011 AMONG BEST EVER: *(by J. Kaczor)* Important steps were taken by the U.S. dairy industry in the past year on the path towards being accepted as a consistent, reliable supplier of basic dairy commodities. Among the more notable accomplishments are passage of new bi-lateral Trade Agreements and continuing negotiations on others believed to result in the opening of more markets, several well-coordinated trade missions, gaining additional international customers, and increased dedication by producers and plants to the need to provide products of the highest quality and safety. Nothing here is quantifiable, but each step in the right direction serves as an investment in the future for the U.S. dairy industry.

Following is a recap of export volume in 2011 of the four major dairy commodities used in U.S. milk price setting formulas. According to USDEC, export volumes of these products in 2011, along with other related end products and dairy ingredients, used 13.3% of the U.S. milk solids produced during the year.

- **Nonfat Powders:** 960.6 million lbs were exported at an average price of \$1.51 per lb. These exports were 13% greater than a year earlier; they represent 48.9% of production for the year.
- **Dry Whey:** 551.1 million lbs were exported at an average price of \$.56 per lb. These exports were 1.1% lower than a year earlier; they represent 54.5% of production for the year.
- **Butter:** 115.2 million lbs were exported at an average price of \$2.01 per lb. These exports were 16.1% greater than a year earlier; they represent 6.4% of production for the year.
- **Cheddar Cheese:** 113.4 million lbs were exported at an average price of \$1.87 per lb. These exports were 49.4% greater than a year earlier; they represent 3.6% of production for the year.

The volumes and prices for these fundamentally important products collectively represent the high point for the industry in international trade. The year presented a unique combination of opportunities and challenges that were handled with care. This year an entirely new stage is set for the industry. Let us hope the participants have learned lessons that can be applied to maximize success this year for themselves and for the producers of their raw product.

UPDATED MILC PROJECTIONS PUBLISHED: *(By Rob Vandenheuvel)* Looking at the commodity prices above, it's quite possible that we are on the verge of payments being available under the Milk Income Loss Contract (MILC) program. Two organizations – National Milk Producers Federation and the University of Wisconsin-Madison – publicize projected MILC payments given the outlook for future commodity values available right now. Their latest estimates are listed in the table below. Since the MILC program only makes payments on the first 2.985 million lbs of milk produced per dairy under the program (which is only about one month of production for a 1,500 cow dairy, or two months of production for a 750 cow dairy, etc.), the month each dairy selects as its “start month” will determine when that dairy will start collecting payments on its 2.985 million lbs. Therefore, it's important to evaluate all the information available at any given time.

As you can see, there are differences in the projected payments (these projections are very difficult to estimate), but the general consensus from both organizations is that given what we know right now, April and May are projected to be the highest two payment rates in this cycle.

MILC Projections	NMPF	Wisc.-Madison
February 2012	\$0.27 / cwt	\$0.05 / cwt
March 2012	\$0.53 / cwt	\$0.40 / cwt
April 2012	\$0.79 / cwt	\$0.61 / cwt
May 2012	\$0.78 / cwt	\$0.65 / cwt
June 2012	\$0.64 / cwt	\$0.49 / cwt
July 2012	\$0.46 / cwt	\$0.45 / cwt
August 2012	\$0.10 / cwt	\$0.29 / cwt

We need to remember that these numbers can change on a weekly or even daily basis. The decision that faces each dairy at this particular point in time is whether or not March 2012 is a start month that works for your dairy. If so, the deadline to submit the paperwork to the Farm Service Agency (FSA) changing your dairy's start month to March is February 14th. If, however, you do not wish to select March, the February 14 deadline does not apply to you. The deadline to change your start month to April 2012 is March 14th. If that is the case for your dairy, you have the luxury of more than a month of additional data to evaluate before making that decision.

Dairymen that would like to select March as their start month and need assistance in filing the appropriate paperwork can contact their local FSA office. MPC members wanting assistance can also contact our office at (909) 628-6018.

JANUARY “DAIRY CARES REPORT” POSTED TO MPC WEBSITE: *(By Rob Vandenheuvel)* The latest monthly column from Dairy Cares has been posted at: <http://www.milkproducerscouncil.org/cares.htm>. This month's column focuses on the hard work being done in Tulare County to streamline duplicative government regulations. As California's dairy families continue to operate in one of the most overly-regulated states in the union, the work of Dairy Cares and others to help streamline those regulations whenever possible is extremely valuable.