

Milk Producers Council

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DATE: January 9, 2009
TO: DIRECTORS & MEMBERS

PAGES: 3
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MPC FRIDAY MARKET UPDATE

CHICAGO MERCANTILE EXCHANGE

Blocks $-\$.0600$ \$1.0725
Barrels $-\$.0600$ \$1.0700

Weekly Average

Blocks $-\$.1222$ \$1.0720
Barrels $-\$.1688$ \$1.0595

CHICAGO AA BUTTER

Weekly Change $-\$.0200$ \$1.1100
Weekly Average $-\$.0147$ \$1.1220

DRY WHEY

WEST MSTLY AVG w/e 01/09/09 \$.1525
NASS w/e 01/03/09 \$.1475

NON-FAT DRY MILK

Week Ending 12/26 & 12/27

Calif. Plants \$.8169 19,253,688
NASS Plants \$.8295 27,322,839

CHEESE MARKET COMMENTS: While bottling and manufacturing plants get back to normal operations (except for Washington state), cheese prices on the CME continued downward, **to below CCC support price levels**. Even after a recovery of 3 cents today, block prices are 5.75 cents per lb below the support price; barrels are also below support. *Dairy Market News* is hearing that buyers want to buy, because prices are so low and the latest price is at about the weekly average, but sellers may not be dumb enough to do so. Does that make this a seller's market? There were a total of 50 carloads of cheese sold on the CME this week, and the last activity was a bid to buy at the closing price. Let's hope that the manufacturers hold off even more. But let's also hope that those manufacturers get back on track and limit production to existing demand. No one wants to carry inventories these days.

BUTTER MARKET COMMENTS: Prices on the CME lost 2 cents, but remain 6 cents above support price levels. Butter production normally reaches its highest point in December and January, and January is where demand generally falls off. Inventories are expected to reverse their recent downward trends. That may explain why three carloads of butter were sold to the CCC this week, at **6 cents per lb below the current market level**, and with somewhat higher costs related to the sale. DMN is hearing that more of that is possible. The futures market is more optimistic than manufacturers, with prices close to the \$1.20 per lb level by Spring. No mention is made lately about any export activity other than the heavily subsidized CWT volumes of anhydrous milkfat products.

POWDER MARKET COMMENTS: Prices are hovering just above support price levels, as the CCC stocks continue to grow. According to DMN, some product was sold in the West during the week ending January 8th at \$.775 per lb. The high end of the "mostly" price range in the West was \$.83 per lb, and no truckload sales were found with a price above \$.86 per lb. The product stored by CCC remains in the "uncommitted" category, which means that there is an effective price ceiling of \$.88 per lb for nonfat dry milk until it becomes committed or some of it is sold. Sales are weak; even **skim milk powder exports are much lower** than in mid 2008. Prices for whole milk powder are doing much better than nonfat; the price range is \$1.20 to \$1.35, well above Fonterra's latest Global Market auction price, but is weakening. CWT is actively subsidizing exports of WMP, and I say "go at it;" it doesn't affect milk prices, it's a minor product for U.S. manufacturers, and it could make up a bit for what Fonterra is seemingly doing to U.S. prices for nonfat dry milk, which is a major U.S. product which does affect milk prices.

WHEY MARKET COMMENTS: The news continues to be good for the whey protein concentrate market. DMN reports the market for WPC is firm and prices continue to rise. **Production is being stepped up in response to demand**. Haven't heard that for a long time. WPC prices do not directly affect milk prices, but there could be indirect effects on demand for other high quality dairy protein products, which do affect milk prices. Prices for dry lactose, that super wondrous product with so many beneficial uses, continue to rest at very low levels, with little demand showing.

FRED DOUMA'S PRICE PROJECTIONS...

Jan 9 Est: **Quota cwt. \$12.11 Overbase cwt. \$10.40 Cls. 4a cwt. \$ 9.50 Cls. 4b cwt. \$ 9.04**
Last Week: **Quota cwt. \$12.38 Overbase cwt. \$10.68 Cls. 4a cwt. \$ 9.54 Cls. 4b cwt. \$ 9.54**
Feb Preview: **Quota cwt. \$10.93 Overbase cwt. \$9.23 Cls. 4a cwt. \$ 9.45 Cls. 4b cwt. \$ 8.83**

UPDATE ON CALIFORNIA MILK PRICES, AND SOME COMMENTS: (by: J. Kaczor) The following table recaps minimum milk prices for 2007 and 2008 announced by CDFA for three classes of usage, and the Overbase price paid for pooled milk. These announced prices are based on milk containing 3.5% butterfat and 8.7% SNF. The **Overbase price applies to approximately 77% of California's pool milk**, and is a good benchmark to measure overall price levels and price changes. Quota prices are \$1.70 per cwt higher than the Overbase prices. The Class 1 prices in the table are those applying to plants in Southern California. The Overbase price for December 2008 is our best estimate at this time.

	2007				2008			
	Class 1	Class 4a	Class 4b	Overbase	Class 1	Class 4a	Class 4b	Overbase
January	\$14.00	\$11.92	\$12.47	\$12.00	\$23.23	\$16.40	\$16.91	\$17.44
February	15.37	12.34	13.20	12.75	21.98	14.28	17.54	16.72
March	16.01	13.24	14.13	13.58	19.17	14.36	16.94	16.01
April	16.71	14.53	15.20	14.63	20.19	14.31	16.79	15.86
May	17.71	16.00	18.05	16.59	19.05	15.19	18.66	16.77
June	20.28	17.03	21.18	19.00	20.50	15.61	19.12	17.42
July	23.26	19.84	20.54	19.90	22.77	16.08	17.77	17.35
August	23.76	21.21	19.41	20.04	19.79	16.24	16.14	16.31
September	23.10	21.62	19.34	19.99	19.51	15.51	16.63	16.22
October	23.81	21.32	17.65	19.46	18.50	13.54	16.63	15.44
November	23.43	20.66	19.75	20.23	19.00	12.20	15.14	14.27
December	23.26	19.14	18.58	19.09	16.64	10.15	13.95	12.66
Averages	20.06	17.40	17.46	17.27	20.03	14.49	16.85	16.04

This is an update of a table that was used several times in 2008 to mark comparisons with 2007's overall record high prices. The averages of each price column are simple averages. While dairy producers need to concentrate on the present and plan for what's ahead, it's interesting to look back at the last two years, if only because they each were so different and so far from what could be called normal. Two of the most striking things about 2008's prices are that the average Class 1 price was virtually the same as 2007's average (the year of record highs), and, second, how well the Overbase prices held up, until November. The Class 1 price comparison is explained by the fact that cheese prices in 2008, used for most of the year as the basis for Class 1 prices, were consistently strong until the first week in December. The range in Overbase prices from January through October was \$2.00 per cwt, after which sharp price decreases in nonfat dry milk, cheese, and butter wiped out the support. **Through October, the 2008 average Overbase price was within \$.25 per cwt of the 2007 average.**

Thoughts about 2007 include the climb from very low prices to record highs. Recovery from the losses incurred in 2006 was somewhat offset by rising feed and energy costs. Most forecasts for 2008 saw continuing increases in feed and other operating costs, but prices remaining relatively high, within about \$.75 per cwt of 2007's levels. The price forecasts for 2008 relied heavily on increases in exports of major dairy products, supported by favorable currency exchange rates and continuing strong demand from international customers. Export volumes and prices were initially strong, benefiting from an unexpected New Zealand drought early in the year, but suffered from weakening demand and increased competition later. For California producers, the \$1.23 per cwt lower average price for 2008 is not out of line with what has happened in other parts of the country. A recession was forecasted by many, but no one forecasted the economic calamity that now has affected virtually all buyers and sellers worldwide.

Even though cash and futures prices for major feed ingredients now are quite a bit lower than where they were

seven months ago, fuel costs are much lower, and virtually everything that is needed to produce milk now can be bought at a discount, **producers rightly are looking with great concern at current milk prices, and where they may be over the next twelve months. The picture is not pleasant.** Were today's butter, cheese, and powder prices used to calculate milk prices, 4a would be about \$9.47 per cwt and 4b would be about \$8.83 per cwt. The CME futures prices for Class III milk (which generally are about \$.50 per cwt higher than California's 4b prices) are currently in the area of \$10.00 for January and February, and gradually increase to above \$13.00 per cwt by August. Futures prices for butter and nonfat dry milk for nearby months are higher than current spot and cash prices – enough to add about \$2.00 per cwt to some milk prices.

One thing not shown in the above table is the fact that even with consumer optimism as low as its been in twenty years, **consumption of fluid milk continued to hold fairly even** through the entire period of record high prices, although November's volume was lower than a year earlier. Prices were lower in December but a bit higher again in January. **February's Class 1 price, announced today, is \$11.55 per cwt**, a drop of about \$.65 per gallon below November's price, which certainly should stimulate sales. **The \$11.55 per cwt Class 1 price for Southern California is the lowest it's been in more than ten years, following record high prices little more than a year ago. That's price volatility not seen before!**

An article today by John Otte, in *Farm Futures*, reprinted in Dairyline.com, reporting on a recent discussion on how to cope with extreme price volatility, said: *“The discussion gravitated toward the notion that volatility [in milk prices and feed cost components] makes planning more crucial rather than less worthwhile. The reasoning focused on two points: 1) If you run the numbers and it doesn't work on paper, how will you make it happen on the farm? 2) By regularly running the numbers, you can identify times and opportunities when margins do exist. Then it is your choice on whether or not to protect the margin with contracts or options strategies.”*

Doesn't that make sense? The provocative statement that **milk producers can control their prices and costs**, first made by those with good ideas, was mentioned in MPC articles a number of times last year. Every milk producer tries to do the best that can be done in contracting for feed. But anyone who is not working with a good commodities broker should really take the time to schedule a meeting with one, to find out what can be done, at what cost, to improve feed costs after the contracts are made, and to see what may be available in the way of receiving some extra income from the strategies they have to offer.

Next week, I'll try to get an example of how a producer who took advantage of USDA's milk price insurance program would be doing under today's market conditions.

AN UPDATE ON MILC PAYMENTS: *(By Rob Vandenheuvel)* With the collapse of the milk price, the Milk Income Loss Contract (MILC) program is now on the horizon. It appears that MILC payments will be available for producers starting in February. Last year's Farm Bill slightly increased the amount of milk that the MILC program will pay for. The new amount is 2.985 million pounds (up from 2.4 million pounds in previous years). Since virtually all California dairies produce this in only a fraction of the year, producers will have to decide with month(s) they want to sign up for.

Since this is the initial signup under the new Farm Bill, the rules are slightly different. Producers can sign up for the month they want to start **during that month**. In other words, if you would like to sign up for the MILC payment in February, you have until Friday, February 27th to enroll; for March, you have until Tuesday, March 31st; etc., etc. Some economists have looked at the futures market and made estimates on what the MILC payments might be for upcoming months. One estimate can be found on National Milk Producers Federation's website (http://www.nmpf.org/milk_pricing/milc_payments). The Cornell University Program on Dairy Markets and Policy also has estimates (<http://dairy.cornell.edu>).

A MILC fact sheet can be found on our website (<http://www.milkproducerscouncil.org/milcinfo.pdf>). If you have any further questions about the program, feel free to contact MPC (909-628-6018) or your local Farm Services Agency office.

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