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 ~ mpc@milkproducers.org ~ www.MilkProducers.org

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TO: DIRECTORS & MEMBERS **FROM: John Kaczor**

MPC FRIDAY MARKET UPDATE

CHICAGO MERCANTILE EXCHANGE

Blocks	*+$.0450*	$1.4550
Barrels	*+$.0050*	$1.4000

Weekly Average

Blocks	*+$.0205*	$1.4210
Barrels	*+$.0110*	$1.3910

CHICAGO AA BUTTER

Weekly Change	*+$.0300*	$1.7500
Weekly Average	*+$.0375*	$1.7380

DRY WHEY

WEST MSTLY AVG	w/e 6/25/10	$.3863
NASS	w/e 6/26/10	$.3634

NON-FAT DRY MILK
Week Ending 6/25 & 6/26

Calif. Plants	$1.1963	23,967,185
NASS Plants	$1.2159	26,966,874

CHEESE MARKET COMMENTS: The cheese market is unsettled. Production continues to be fairly active, according to Dairy Market News (DMN) analysts, but milk production is slowing as hotter, humid, weather arrives in the Midwest, and milkfat and nonfat solids content across the country decreases. There's also less vat fortification happening than normal, because of the cost of condensed skim and nonfat dry milk. DMN reports consumer demand to be moderate, and cheese buyers to be reluctant to buy anything beyond what is needed for current sales – Cheddar for aging, being the exception. There certainly doesn't seem to be any sound reason for cheese prices to advance much beyond where they now are. Activity on the CME is not what would be described as orderly or consistent: bids with no sellers one day; offers with no buyers another; price movements for one style or another almost daily. This week's pattern followed a now familiar one – weakness early, followed by strength, with or without actual trades occurring. The fairly active production is resulting in "recent" record high levels of output and unsold stocks. [See article on May production, below.] CME's two new dairy futures markets (cheddar cheese and skimmed milk powder) are up and running, slowly if that.

BUTTER MARKET COMMENTS: Butter prices gained another $.03 per lb on the CME this week, with virtually no trading activity. Cream and butter supplies are believed to be in short supply, and buyers and sellers see higher prices ahead. The current price is very close to becoming the highest it's been in six years. DMN is hearing that retailers are concerned that price levels are nearing the point where sales will be affected. Until now, retail sales have been good and food service sales fair. Less butterfat in current milk production and very good demand for cream for summer usages are the principal reasons for the current market strength.

POWDER MARKET COMMENTS: According to DMN, the markets for buttermilk and whole milk powders are strong, prices are firm, and demand exceeds supply. So what do you think California drying plants are doing? That's right, for the past several months they've been making record amounts of nonfat dry milk. A simple comparison of production to reported sales for the January-June period for California-produced NFDM shows that unsold stocks may have risen by 80 million lbs during that period, even with periodic dumping of product such as occurred again last week. DMN offers an explanation for the sudden price weakness but not the jump in volume – resales of old product competing with freshly produced product (maybe some of that stuff that was dumped in January or, if not, certainly from the back up that resulted from that dumping). Futures prices for nonfat dry milk on the CME didn't rise to the levels reached by the NASS weekly sales reports over the past eight weeks – those traders got burned too badly in January by Dairy America to be fooled again. The huge increase in nfdm volume reported this week cannot be directly attributed to export sales - this time.

WHEY PRODUCTS MARKET COMMENTS: "Demand for whey is reported good at current price levels. Export orders are moving normally…," says DMN this week. The West's "mostly" price lost a fraction of a penny per lb, and the NASS average price lost $.0084 per lb. The NASS price has been ranging within a $.02 per lb band for the past several months. The markets for whey protein concentrates and dry lactose are more or less steady. If anything, there is a shortness of supply for both lines of products. U.S. cheese by-products continue to be in strong demand internationally.

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FRED DOUMA'S PRICE PROJECTIONS…

Jul 2 Est:	**Quota cwt. $ 15.61**	**Overbase cwt. $13.92**	**Cls. 4a cwt. $15.52**	**Cls. 4b cwt. $12.64**
Jun 2010 Final:	**Quota cwt. $ 15.15**	**Overbase cwt. $13.46**	**Cls. 4a cwt. $15.26**	**Cls. 4b cwt. $12.23**

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MAY MILK PRODUCTION IS READILY HANDLED AND WELL BALANCED: *(By J. Kaczor)* About 110 more tanker loads of milk per day were produced in May than a year earlier – but was about unchanged on a per day basis from April. The increases over last year happened throughout the country, from New York in the East, to several Midwestern states, and to Idaho and Washington in the west. Most of those same states were among those who increased daily production above April's levels. California's production increase above last May amounted to about 4 of those additional tanker loads, but was less than the daily amount produced in April.

Following is a recap of how most of the milk not used for fluid consumption (class 1 usage) was used. Because 2009 is best forgotten by U.S. milk producers and many changes have been made in the pattern of milk production over the past ten months, comparisons of dairy product production and stocks on hand are being made for April and May, 2010. The focus is mainly on the major products used in the nation's formulas for setting milk prices. All numbers in the table below represent differences between April and May, expressed as millions of lbs of product. The inventory changes represent differences in stocks on hand at the end of May compared to the end of April. Blank spaces in the table indicate no information is available.

	Production Change (in millions of lbs)		**Inventory Change**
	U.S.	**California**	**U.S.**
American Cheese	+10.7	+1.4	+7.7
Other Natural Cheese	+5.0	+2.0	+2.6
All Cheese	+15.7	+3.4	+10.3
Butter	-1.7	-0.7	+5.2
Nonfat Dry Milk	+2.0	+0.2	+3.6
Skim Milk Powder	+2.7		
Dry Whey	-1.1		+1.3
Whey Protein Concentrate	+0.2	-0.5	-0.2
Sour Cream, Yogurt, Cottage Cheese	+6.7	+0.9	

About 77% of American cheese is Cheddar. However, in May, Cheddar production increased by 15.3 million lbs over April and production of all other types in that category fell by about 5 million lbs. Therefore, the amount of Cheddar in storage at the end of May is presumed to have increased by more than ten million lbs. Mozzarella accounted for all of the increase in production in the "other" natural category although there were offsetting increases and decreases in each of the several other varieties in the category. The total amount of cheese in cold storage at the end of May was the highest it's been in more than twenty-two years. Unfortunately, the same can be said for each month since last November. More than one billion lbs were reported in storage for April and May.

The amount of butter in storage at the end of each month includes other butterfat products such as anhydrous milk fat and butter oil. It's presumed the month to month changes reported for "butter" do reflect changes in butter, not the other two low-volume products. Because the total amount in storage at the end of May was 42 million lbs lower than a year ago, the small increase at the end of May is considered to be insignificant.

The small increase in the amount of NFDM and SMP produced in May can be taken as a positive result for the month – and the change in inventory of NFDM, about equal to the increase in the amount produced during the month, suggests that U.S. sales kept pace with production. That may be correct for the U.S. but California's production exceeded the volume of sales during May by about 15 million lbs, and by about 80 million lbs for the first half of the year.

All in all, it appears that total usage of the milk produced in May was fairly evenly distributed among all product categories. Three items not included in the table, but deserving mention, are (1) production of whole milk powder in May, while still relatively low, was almost twice that produced in April – indicating that some manufacturers may be paying attention to a product for which there is more demand than supply; (2) production of milk protein concentrate reached 12.3 million lbs in May, and seems to be on an upward trend; and (3) there is an amazing amount of yogurt that is produced each month – 340 million lbs during May, an increase of 7.6 million lbs over April, and the category seems to keep growing. A typical yogurt product contains little milkfat and about 14% solids-not-fat. Yogurt can be drinkable, sippable, or spoonable. It's all good.

LATEST "DAIRY CARES" COLUMN POSTED TO OUR WEBSITE: *(By Rob Vandenheuvel)* The June "Dairy Cares" column has been posted to our website at: http://www.milkproducerscouncil.org/cares.htm. This most recent column focuses on the hard work by our dairies in the Central Valley as you have invested extensive time and resources in implementing the 2007 "waste discharge requirements" imposed on the industry by the Central Valley Regional Water Board. California dairy families are among the most regulated ag industries in the world, and while groups like MPC, other trade associations, your cooperatives and others are working hard to try and ease the excessive regulatory (and financial) burden, it's important to step back from time to time and recognize the outstanding efforts our farmers have undertaken to protect our state's air and water resources.

"AG" STICKERS FOR YOUR DIESEL-POWERED TRUCKS AVAILABLE AT MPC: *(By Rob Vandenheuvel)* Earlier this year, you all registered your diesel-powered agricultural vehicles with the California Air Resources Board (CARB). Part of that process is labeling those vehicles as "AG" vehicles. According to the CARB regulation:

1. The letters AG shall be white block lettering on a black background. Both letters shall be at least three inches high on a five by eight inch background; and
2. The label shall be located in clear view on the left and right door of the vehicle and be in clear view at all times.

MPC has these stickers available for our members. For those of you that need a couple stickers for your truck(s), Central Valley members can contact Betsy Hunter at (661) 205-6721) and Southern California members can stop by MPC's Ontario office or call (909) 628-6018.

MPC wants to wish you and your family a blessed Independence Day Weekend!