



Milk Producers Council

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DATE: September 3, 2010
TO: DIRECTORS & MEMBERS

PAGES: 3
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MPC FRIDAY MARKET UPDATE

CHICAGO MERCANTILE EXCHANGE

Blocks +\$.0250 \$1.7200
Barrels +\$.0200 \$1.6850

Weekly Average

Blocks +\$.0420 \$1.7110
Barrels +\$.0355 \$1.6720

CHICAGO AA BUTTER

Weekly Change +\$.0450 \$2.2250
Weekly Average +\$.0595 \$2.2140

DRY WHEY

WEST MSTLY AVG w/e 8/27/10 \$.3725
NASS w/e 8/28/10 \$.3584

NON-FAT DRY MILK

Week Ending 8/27 & 8/28

Calif. Plants \$1.1257 20,531,412
NASS Plants \$1.1413 23,503,193

CHEESE MARKET COMMENTS: Prices on the CME continued climbing. This week's average price for blocks rose above last December's unusual high (it was \$.20 per lb higher than the barrel average), and prices for both styles appear to be heading even higher. Dairy Market News (DMN) reported sales through midweek were holding steady to more than steady as buyers continued to serve accounts for Labor Day weekend usage and virtually all schools of all kinds and sizes were welcoming back hungry students eager to eat food not prepared at home – meaning cheeseburgers, cheese fries, and pizzas. July production was reported yesterday: production of Italian cheeses reached an all time high in March and has decreased on a per day basis each month since; production of American cheeses reached its all time high in May, and also has decreased on a per day basis in June and July. Reports for August suggest that less milk for cheese plants and lower components are helping to keep cheese production under control. High butter prices are making usage of nonfat dry milk for vat fortification uneconomical. There is great interest in resolving Mexico's reason for imposing tariffs on cheese imports from the U.S., but let it be fair. So far, it appears that many of the complainers are demanding a solution, without offering one of their own.

BUTTER MARKET COMMENTS: Butter production in July was 3 million lbs lower than last July and 6 million lbs lower than in June. Still, July's ending butter inventory was 2 million lbs higher than June's, likely the result of very heavy sales and usage of cream during the month. The U.S. demand for butterfat, in any form, continues to push prices higher. Except for two weeks in 2008, this week's average price on the CME is the highest it's been in more than ten years. CWT announced this week the immediate termination of subsidies for exports of butter and anhydrous milkfat – the program that rewarded exporters for not using hedging tools that were readily available to them.

POWDER MARKET COMMENTS: The buttermilk powder market continues to be firm: prices this week moved higher and now reflect an \$.08 per lb premium to nonfat dry milk. According to DMN, most of the fluid from churns in the Midwest is being sold as condensed rather than going to the drier, causing stocks of BMP to dwindle. The market for whole milk powder remains firm. Current prices in the U.S., which had been higher than the recent winning prices in Fonterra's auction, are now about at parity. It's a different story for NFD. For California plants, the "string" of higher volumes with higher prices, mentioned last week, ended at one. Based upon weekly sales reports, it appears that California's July inventories increased by about 40 million lbs, but August sales, at depressed prices, are keeping up with production. The average price for nonfat dry milk received by California plants was \$1.20 per lb for deliveries in July and \$1.14 per lb for deliveries in August. Prices reported this week averaged \$1.126 per lb. Fonterra's prices for skim milk powder, f.o.b. New Zealand ports, were \$1.64 and \$1.65, respectively, for those delivery months. Richard Cotta, CEO of California Dairies, Inc., reported his views on powder prices to CDI members in CDI's August Newsletter: "Unfortunately, the powder price is expected to decline for the balance of this year." Note: grade A powder on the CME gained \$.03 per lb this week, to \$1.23 per lb. September's futures price is \$1.163 per lb.

WHEY PRODUCTS MARKET COMMENTS: The market for commodity grade whey protein concentrate is reported to be firm and prices steady. The U.S. “mostly” price remains in the mid .90’s. Production is increasing somewhat, particularly for the higher protein content products. Lactose sales and prices are steady, with increasing interest for future supplies. At the same time, demand for dry whey is also increasing, domestically and internationally. U.S. and European production is declining somewhat while Australia and New Zealand’s production season is on the upswing. Prices for dry whey have been relatively steady for five months and buyers seem to be ready, if not eager, to accept them for future purchases; with strong sales and relatively low inventories, manufacturers may be more confident in asking for more.

FRED DOUMA’S PRICE PROJECTIONS...

Sept 3 Est: **Quota cwt. \$ 17.30 Overbase cwt. \$15.60 Cls. 4a cwt. \$16.87 Cls. 4b cwt. \$15.37**
August Final: **Quota cwt. \$ 16.58 Overbase cwt. \$14.88 Cls. 4a cwt. \$15.71 Cls. 4b cwt. \$14.39**

USDA’S REPORT ON JULY MILK USAGE PRESENTS A PUZZLING PICTURE: *(By J. Kaczor)*

USDA’s reports on monthly production of dairy products and monthly inventory levels of key products provide a rough kind of commentary on how the industry is handling total milk production. But you’ll see that the story it tells isn’t at all clear, and no picture is available to clarify it. The dairy products report is pretty comprehensive; it omits only one potentially major product, anhydrous milkfat, because individual plant volume could be revealed if the total was reported. Nationwide, about 30% of monthly milk production is used for fluid usage. The following table gives a general idea of how the rest of July’s milk production was used. **The numbers in the table represent millions of lbs of products, not percentages.** They compare July 2010 with July 2009 and June 2010.

	Production Change <i>(in millions of lbs)</i>	
	July 2009	June 2010
Cheddar	+ 7.0	-9.5
All American	+14.2	-1.0
All other cheeses	+ 7.2	+8.4
Total Cheese	+39.5	+1.4
Butter	-3.4	-6.2
Nonfat Dry Milk	-1.4	-4.4
Skim Milk Powder	+8.6	-10.1
Dry Whole Milk	+1.3	+0.9
Milk Prot. Conc.	+0.6	-3.0
Dry Whey	-6.1	+1.5
Whey Prot. Conc.	-0.3	+0.7
Condensed Skim	+0.8	-2.4
Condensed Whole Milk	-1.6	-1.7
Dry Buttermilk	-0.3	+0.5
Sour Cream	-1.6	-7.6
Yogurt	+35.0	-9.1
Cottage Cheese	-5.3	+0.8
Frozen Dessert Mixes	+0.5	-5.1

July’s milk production was estimated to be 462 million lbs greater than the year before and 133 million lbs more than in June. That much is clear and it means, for example, the 462 million lbs of milk more than a year ago represents potential production of 46.2 million lbs of cheese. So you could consider that virtually all of this July’s additional milk production, compared to last July, was used to produce 39.5 million lbs of cheese. That

makes sense, but what accounts for the drop of 6.4 million lbs of dry whey and whey protein concentrate when the additional whey from the additional cheese that was produced, if dried, would amount to approximately 21 million lbs of those products? We'll never know that answer.

How about the usage of the additional 133 million lbs of milk in July, compared to June? Fourteen million lbs was used to make 1.4 million lbs of cheese, and the whey from that cheese seems to be accounted for by an additional 2.2 million lbs of dry whey and whey protein concentrates. But, if the balance of the extra milk (119 million lbs) is surplus it would have had to be used to make butter and powder, or MPC, or condensed skim, or sour cream, or yogurt, or frozen mixes. All of these possible uses in July are lower than what was produced in June.

The lesson from this exercise, if there is one, is to not sweat the details in this report and focus on cheese, butter, and powder production numbers. Be satisfied they are reasonably accurate. The rest of the milk is used somehow, somewhere, and their use (other than fluid usage) does not affect milk prices to any great degree. So, as far as I'm concerned, the important numbers to look at in the July report include the 9.5 million fewer lbs of cheddar cheese, and a total of 20.7 fewer lbs of butter and powder produced in July than in June, even though 119 million lbs of milk cannot be immediately accounted for.

URGENT: DAIRIES NEED TO CHECK WITH THEIR LOCAL FSA OFFICE ABOUT MILC STARTING MONTHS: *(By Rob Vandenheuvel)* Various dairy economists have pointed out that payments under the Milk Income Loss Contract (MILC) program could resume next spring, based on projected milk prices and feed costs. For dairies that produce less than 2,985,000 lbs of milk per year (roughly 125 cow herd), you are likely already set up to collect payments for every month the program is triggered. But for larger dairies, the "start month" you select is important if you are trying to maximize the program's impact.

For the MILC program, the fiscal year runs from October 2010 – September 2011. For those of you who have selected October 2010 as your "start month," your payments will begin as soon as a payment is available. However, this may not be the highest month for you to select. For instance, according to projections on the Cornell University website (<http://dairy.cornell.edu>), the payment in March 2011 could be \$0.12 per cwt, while the payment in July 2011 could be \$0.53 per cwt. For those dairies that only collect MILC payments for a short amount of time, it's important that you have the flexibility to choose the optimal "start month."

Dairymen are urged to contact your local Farm Services Agency office and find out what your current start month is. If your current start month is October 2011 and you'd like to change your start month, **your modification must be received by the FSA office no later than Tuesday, September 14, 2010.**

MPC members can contact our office at (909) 628-6018 with any questions regarding changes to your MILC selection.

ATTENTION CENTRAL VALLEY DAIRYMEN: CDQAP TO HOLD WORKSHOPS ON AIR REGULATIONS THIS FALL: *(By Rob Vandenheuvel)* Starting September 21st, the California Dairy Quality Assurance Program (CDQAP) will be hosting a number of workshops throughout the Central Valley to educate farmers on new air quality regulations. A flyer is being mailed out to all dairy producers, but in the meantime, it can be found at: <http://www.milkproducerscouncil.org/fall2010air.pdf>. MPC members can contact our office at (909) 628-6018 if you have any questions.

AUGUST "DAIRY CARES REPORT" POSTED ON OUR WEBSITE: *(By Rob Vandenheuvel)* The current "Dairy Cares Report" has been posted on our website at: <http://www.milkproducerscouncil.org/cares.htm>. This month's column goes into how Dairy Cares is sharing the dairymen's stories to the general public using tools like Facebook and Youtube. I encourage you all to read this column and see how your story is being shared with the consuming public.