



Milk Producers Council

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TO: Directors & Members

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MPC FRIDAY MARKET UPDATE

CHICAGO MERCANTILE EXCHANGE

Blocks	- \$.0250	\$1.6225
Barrels	- \$.0175	\$1.6425

Weekly Average

Blocks	- \$.0075	\$1.6315
Barrels	+\$0.0150	\$1.6525

CHICAGO AA BUTTER

Weekly Change	- \$.1450	\$1.9500
Weekly Average	- \$.1000	\$1.9895

DRY WHEY

WEST MSTLY AVG	w/e 05/13/11	\$.5063
NASS	w/e 05/07/11	\$.4891

NON-FAT DRY MILK

Week Ending 5/6 & 5/7

Calif. Plants	\$1.5463	13,807,532
NASS Plants	\$1.6000	21,907,716

CHEESE MARKET COMMENTS: Cheese trading this week was relatively quiet. After two weeks of small but welcome price increases, sellers turned out this week, and gave back part of what was gained last week. More sales of barrels than blocks, but blocks lost .75 cents more than barrels. The price between the two is inverted and it's not clear whether it's because one is stronger or the other weaker. (It's confusing.) Exports of cheese are very strong, and *Dairy Market News* says domestic sales are holding up fairly well. Prices reported to NASS for cheese shipments last week are in line with CME's spot prices, even as the CME benchmark jumps around from week to week. DMN says some buyers are moving ahead with stock building for later usage, apparently satisfied there is sufficient support for current price levels. Cheese production is expected to level out over the next several months, on a per day basis, at about March's levels, but the supply of milk to cheese plants will likely be the determining factor. Barring any unforeseen unpleasanties, current cheese stocks should not grow much higher than recent levels, and may be rationalized into being considered necessary for the market to function properly. Class III milk futures were only marginally lower for the week, for all months through January. They, along with this week's futures levels for dry whey and butter, support cheese prices of about \$1.75 per lb from June through October.

BUTTER MARKET COMMENTS: CME butter prices fell 17 cents through Thursday this week, before recovering 2.5 cents on Friday. Virtually everyone who commented on the changes cited corrections reported by CME to their last two weekly reports on the amount of butter held in CME's 81 approved warehouses. Some of the CME warehouses that are "approved" to hold butter supposedly related to transactions on the CME either under reported or failed to report two weeks in a row. The corrections almost doubled the total reported butter stocks in those warehouses, to 62.2 million lbs. CME says they are looking into it. Concern about the possibility that those warehouses may also have under reported butter stocks to NASS is understandable. We will find out next Friday noon when the cold storage report is released. A CME spokesman recently said "technically we don't need to approve warehouses...that requirement could be dropped." My advice is why don't you do that; it's a worthless report that apparently is not properly supervised and has become potentially disruptive. Back to prices, Friday's price rebound came from a total of five sales; the day ended with an offer at the closing price. Maybe weeks like this are worthwhile because they cause people to take a fresh look at where they are and what they are doing. Cash settled futures prices fell across the board, but ended the week at levels higher than Friday's closing price for the June-November period. October's price, at \$2.0225 per lb, lost only 6.75 cents amid the week's confusion. March exports of butter, and some other butterfat products, continued well above last year's levels. A recent *Situation and Outlook* report from Australia projects a continuing global shortage of butterfat this year, which, they say, can be filled **only** from Northern Hemisphere sources; they gave the nod to the U.S. because Europe's production is expected to go to Russia. Oh yeah!

POWDER MARKET COMMENTS: The NASS price for nonfat dry milk is now up to \$1.60 per lb, supported by a large volume increase last week. The CME price for extra grade powder is down to \$1.635 per lb. Mixed

price signals are coming from Fonterra's bi-weekly auctions. Production is heading downward and domestic demand is reported to be fair to steady. In other words, the market for nonfat powders is more unpredictable than ever. The forecast should be relatively clear: for prices to continue to rise at least a little, and for total demand of all nonfat powders to continue to be tight, and for inventories to continue to fall. Exports should continue to be very strong because it's beginning to look like the U.S. may once again become the best international source for an assured supply of those products. (The report that NFDM production is heading downward should have noted that production of skim milk powder, the product virtually identical to NFDM, is increasing at a rate equal to the decrease for NFDM.) That change over from NFDM to SMP could be a temporary coincidence. We will see. DMN reports prices for buttermilk powder and condensed buttermilk were sharply lower, an apparent response to the drop in butter prices, which was an apparent response to a mistake of some kind in a report on butter stocks from a special group of warehouses made to CME. O.K., then why did interest in and prices for whole milk powder suddenly increase? That seems unlikely. We will see about that also next week.

WHEY PRODUCTS MARKET COMMENTS: The market for dry whey and whey protein concentrates continue to be steady, solid, and undeterred by occasional shortages of product or delays in shipments. DMN reports that buyers say they are continually considering alternative uses among the dairy protein options available to them. Production should move up a tick or two as cheese plants begin to take on more milk. Prices for both major whey products were essentially unchanged this week.

FRED DOUMA'S PRICE PROJECTIONS...

May 13 Est:	Quota cwt. \$18.80	Overbase cwt. \$17.11	Cl. 4a cwt. \$19.34	Cl. 4b cwt. \$14.46
Last Week:	Quota cwt. \$18.93	Overbase cwt. \$17.23	Cl. 4a cwt. \$19.56	Cl. 4b cwt. \$14.59

CALIFORNIA DAIRIES, INC. ASKS CDFA TO RAISE THE BUTTER/POWDER MAKE ALLOWANCES: (*By Rob Vandenheuvel*) This past week, California Dairies, Inc. (CDI) sent a letter to the California Department of Food and Agriculture (CDFA) asking for a public hearing to consider increasing the butter and nonfat dry milk (nfdm) make allowances, as well as the butter f.o.b. price adjuster. The requested changes are:

- Raising the butter make allowance from \$.1560 to \$.1811, an increase of \$.0251
- Raising the nfdm make allowance from \$.1698 to \$.1984, an increase of \$.0286
- Raising the butter f.o.b. price adjuster from \$.0309 to \$.0485, an increase of \$.0176

If these increased make allowances and the increased butter f.o.b. price adjuster were implemented, it would reduce the California Class 2 (yogurt, sour cream, etc.), Class 3 (frozen products) and Class 4a (butter/powder) announced minimum prices by \$.4281 per hundredweight. As a note, for the first three months of 2011 (the latest information available), about 40-45% of our pooled milk solids have been used by Class 2, 3 and 4a plants.

The request was received by CDFA on May 11th. The California Secretary of Agriculture has 15 days to either schedule a hearing or deny the petition. If there are any questions about this hearing request, CDFA has asked that questions be directed to either Hyrum Eastman (Senior Agricultural Economist at CDFA) or Candace Gates (Chief of CDFA's Dairy Marketing Branch). They can be reached at (916) 341-5988.

FIRST QUARTER DAIRY EXPORTS ARE STRONGLY HIGHER: (*By J. Kaczor*) This week USDA released its report on exports of U.S. dairy products for the month of March. One of the more gratifying aspects of the report is that prices as well as volumes are both higher than they were last year for the same period. Exports in the 1st quarter of the year more than doubled from a year ago for nonfat powders, butter, and cheddar cheese. Exports of other cheeses increased by more than half from a year ago.

Much of the increase in butter and nonfat powder exports is likely attributable to New Zealand's attention to China's need for massive amounts of whole milk powder that began early last year. New Zealand benefits from a

special relationship with China. Fonterra has been concentrating its efforts on filling China's shortages. Production of dairy products other than whole milk powder in New Zealand was cut back significantly some months ago and is not expected to resume until their milk supply approaches peak levels this Fall. That created a supply shortage for butter and nonfat powders, which U.S. suppliers are gladly filling. A big part of the reason for the increase in cheese exports is likely CWT's approvals of export subsidies for its cooperative members.

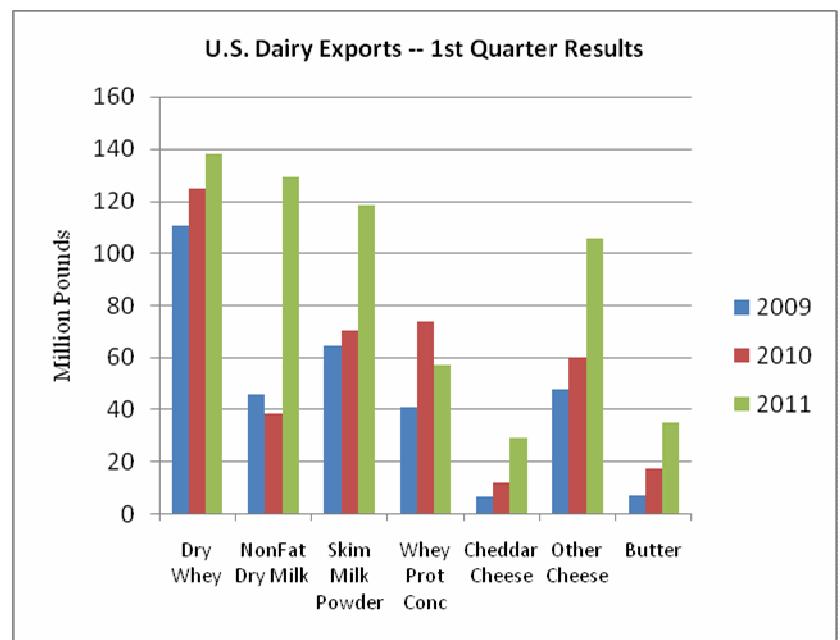
The chart on the right shows 1st quarter exports for the last three years. The 2011 volumes for all products in the graph have risen to levels which represent significant percentages of the total amounts produced of those products. In an article today in DairyBusiness Online, Dave Natzke reported total U.S. 1st quarter exports of all dairy products represented 13.2% of milk solids production.

Skim milk powder is shown separately from nonfat dry milk. It's generally believed skim milk powder is produced solely for export purposes; the volumes of skim milk powder in the graph reflect all production of that product during the periods being compared. Estimated average monthly export prices so far this year for the two nonfat powders are \$1.22 per lb in January, \$1.30 per lb in February, and \$1.41 per lb in March. Perhaps of significance for California producers, those prices compare closely to monthly prices reported by California plants for all sales of nonfat dry milk (\$1.22, \$1.315, and \$1.44 per lb, respectively, for the three months, and \$1.53 per lb for April). USDA's reports of dairy product production so far this year shows significantly lower production of nonfat dry milk and significantly higher production of skim milk powder, compared to last year. Those changes are presumed to be part of a marketing program encouraged and endorsed by certain members of the Innovation Center for U.S. Dairy, the 2008 DMI offshoot.

To the right are the percentages of 1st quarter production reflected by the export volumes shown in the above graph. These comparisons do not presume that exports occur the same month as production; it's merely a convenient tool intended to show relative impacts.

First quarter results are not always indicative of what happens over the entire year. For example, exports of nonfat powders last year started slowly, but ended a close second to 2008's record. The percentages of production for butter and cheese, while low compared to the other products shown, are significant in and of themselves and, we hope, reflect a growing opportunity for more. The strong start this year shown for all product categories (WPC included; last year was an "outlier" in terms of high volume), along with continuing opportunities in the form of critical supply shortages in major importing nations and the expected continuing weakness in the U.S. currency, would seem to provide ample support for continuing growth in exports this year and for strong domestic prices for at least most of the year. The "Plan" laid out by the Innovation Center for U.S. manufacturers is to strengthen relationships with their international customers by demonstrating an ability to provide a continuing supply of high quality products at competitive prices. Let it be done.

A Discussion paper on dairy trade has just been released by the Babcock Institute for International Dairy Research and Development, University of Wisconsin-Madison. It's timely. I will review it and report on what it foresees next week.



	2009	2010	2011
Skim Milk Powder	100%	100%	100%
Nonfat Dry Milk	11%	10%	37%
Dry Whey	47%	49%	53%
Whey Protein Conc.	40%	71%	55%
Cheddar Cheese	1%	2%	4%
Other Cheeses	3%	4%	6%
Butter	2%	4%	7%