



Milk Producers Council

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MPC FRIDAY MARKET UPDATE

CHICAGO MERCANTILE EXCHANGE

Blocks N/C \$1.7350
Barrels +\$.0050 \$1.7100

Weekly Average

Blocks +\$.0087 \$1.7350
Barrels +\$.0175 \$1.7100

CHICAGO AA BUTTER

Weekly Change N/C \$2.2225
Weekly Average -\$.0013 \$2.2225

DRY WHEY

WEST MSTLY AVG w/e 9/10/10 \$.3725
NASS w/e 9/11/10 \$.3602

NON-FAT DRY MILK

Week Ending 9/10 & 9/11

Calif. Plants \$1.0851 16,106,663
NASS Plants \$1.1195 18,720,737

CHEESE MARKET COMMENTS: Cheese prices on the CME this week were basically unchanged, with little trading activity. One sale of barrel cheese on Monday raised the price by \$.005 per lb, where it stayed for the week; seven offers of blocks on Wednesday were taken up without changing the price. Cheese production is reported to be slowing, with less milk per day becoming available as schools began taking their fair share of what is produced and protein content in milk in the Midwest and East continues to be lower than normal. Average prices reported to NASS for sales made last week edged closer to CME's spot prices. A week or two or three of CME's prices resting where they are, while futures prices and the NASS averages continue to adjust upward and closer, would likely be considered supportive. The class III milk futures price for October, at \$15.81 per cwt, is within \$.15 per cwt of the September price, and the average for the 4th quarter (at \$15.76 per cwt) increased by \$.55 per cwt over the past five trading days. The current support for current prices weakens by the month, to April's \$13.97 per cwt.

BUTTER MARKET COMMENTS: Strong demand for cream throughout the U.S. is holding butter production lower than some manufacturers would like. Lower butterfat content of milk in the Midwest has been affecting production through the entire summer season. And now, butter buyers are beginning to place orders for what they think they will need over the next three months. Dairy Market News (DMN) reports butter stocks continue to be drawn down to fill current orders. Little trading occurred this week on the CME; prices remained unchanged. Fonterra's global auction this week appeared to confirm strong global demand for butterfat, as prices were bid up by an average of \$.24 per lb for deliveries to be made from November through February.

POWDER MARKET COMMENTS: Heavy usage of condensed buttermilk is limiting output of buttermilk powder. Demand is moving lower as ice cream manufacturers ease up on their production. BMP continues to be sold at solid premiums to nonfat powders. Production of whole milk powder is also reported to be lower. DMN says manufacturers are being cautious. Don't know why; they report 6.3 million lbs of production in July and 8.0 million lbs exported. U.S. prices for WMP are at about the same levels bid this week in Fonterra's global auction. But all is not well in the powder market so long as Dairy America commands the ship. Prices reported for shipments of nonfat dry milk last week by California plants were **the lowest they've been in 18 weeks**. Export interest is reported to be strong, and why wouldn't it be, with those prices, and "support" by a weakening U.S. dollar? One point about these miserable prices that may be satisfying to California producers is they appear to be holding down prices for all producers. CWAP prices are down by \$.056 per lb over the last four weeks and NASS prices are down by \$.0295 per lb over the same period, but \$.034 per lb higher than the CWAP average. Misery and company go together.

WHEY PRODUCTS MARKET COMMENTS: The markets for dry whey and whey protein concentrates are holding steady. The average weekly "mostly" prices for dry whey in the central region have been virtually unchanged for about twenty weeks; the west's "mostly" series has lost about 2.5 cents per lb over that period. DMN reports the domestic and export markets for these products continue to be strong. Recent production has

been lower, but is expected to pick up as more milk becomes available for cheese production. Usage of condensed whey is helping to keep the powder inventories relatively tight. Futures prices for dry whey are relatively flat for most months next year, although at slight discounts to current price levels.

FRED DOUMA'S PRICE PROJECTIONS...

Sept 17 Est:	Quota cwt. \$ 17.31	Overbase cwt. \$15.61	Cls. 4a cwt. \$16.81	Cls. 4b cwt. \$15.45
Last Week:	Quota cwt. \$ 17.32	Overbase cwt. \$15.62	Cls. 4a cwt. \$16.82	Cls. 4b cwt. \$15.45

AUGUST MILK PRODUCTION IS ESTIMATED TO BE 2.7% HIGHER THAN A YEAR AGO; PRODUCTION PER COW ALSO CONTINUES ITS CLIMB: *(by J. Kaczor)* Well, the number of cows that were milked in August was lower than those milked in July and 24,000 fewer than a year earlier, but production per cow increased by enough to push total milk production up by 418 million lbs over a year ago. The math: 0.26% fewer cows producing 2.91% more milk during the month results in 2.65% more milk. August is the third month in a row where milk production exceeded by more than 400 million lbs what was produced during the same month a year earlier.

USDA reported 9,000 fewer dairy cows in August than in July; if CWT removed 31,000 during the month as they indicated they would, that means the remaining producers added 22,000 during the month, and that means the month to month progression of herd expansions from February has continued at an increasing rate. Imagine how great that makes IDFA feel. Let's see what could happen if the trend continues: 25,000 more cows in September would mean there would be 40,000 more cows this September than last year; then 30,000 more cows in October would mean there would be 94,000 more than last year. IDFA will not be able to hold back their joy.

The comparison of changes in number of cows from last October for five selected western states (Arizona, California, Idaho, New Mexico, and Texas) and six Midwestern states (Illinois, Indiana, Iowa, Michigan, Minnesota, and Wisconsin) shows the following: the western states had 5,000 fewer cows in August than July, but 21,000 more than in October 2009; the Midwestern states had 4,000 fewer cows in August than July, but 1,000 more than in October 2009. Production per cow, compared to July, was lower for both groupings. Production per cow in the Midwestern states fell by 64 lbs below July, and by 21 lbs in the western states.

California had 37,000 fewer cows in August than a year ago and production per cow was 130 lbs higher than last August. Compared to July, there were 3,000 fewer cows in the state and production per cow increased by 5 lbs. Among the eleven states being tracked, California was the only state with an increase in production per cow over the previous month.

If production per cow numbers remain about where they have been relative to last year for September and October, meaning about 50 more lbs of milk per month for each month than a year earlier, milk production in September will be 500 million lbs above the previous September, and October's production will be 600 million lbs above the previous October. That additional milk should go a long way towards correcting the shortage of butterfat products in the U.S., but what will be done with the additional 100 million lbs of cheese that may be made in the three months, and who may have a savvy sales plan for marketing the additional nonfat powder?

FONTERRA'S FIRST BI-MONTHLY AUCTION FINDS PRICES MIXED TO SLIGHTLY HIGHER: *(by J. Kaczor)* The results were mixed this week in Fonterra's first-ever "fortnightly" global auction. Prices were fairly steady for the two main milk powders, lower for buttermilk powder, and higher for anhydrous milkfat. The globalDairyTrade (gDT) website shows there were 300 qualified bidders, 127 of which participated in this week's rounds. Following are representative prices and price changes for the first delivery month of November compared to the prices bid two weeks ago, which were also for shipment in November.

- Whole milk powder: \$1.644 per lb, no change from two weeks ago;
- Skim milk powder: \$1.430 per lb, up \$.010 per lb from two weeks ago;
- Buttermilk powder: \$1.343 per lb, down \$.074 per lb from two weeks ago;
- Anhydrous milkfat: \$2.411 per lb, up \$.259 per lb from two weeks ago.

It looks like bidders for the milk powders feel prices are about right, at least for November. There's no way to tell for sure, but it's likely the bidders this week for the November contract included many of those who bid two weeks ago for that same month. That may become less of a pattern as bidders reconfigure how they plan their purchases for future months now that twice the number of the options are available. The gDT website gives examples of how bidders, if they plan properly, can mix and match volumes and months to develop an assured supply for any particular month; seven combinations were available through August, now there are fourteen. (The website needs to be updated to show how it can be done.)

Prices bid for the second two weeks of the second and third contracts (each consisting of three month periods, requiring one third of awarded volumes to be shipped in each of the months) showed more change from the prices bid two weeks ago than was the case for the first contract prices.

- Whole milk powder **rose** \$.052 per lb in the 2nd contract and **fell** \$.012 per lb in the 3rd;
- Skim milk powder **fell** \$.002 per lb in the 2nd contract and **rose** \$.053 per lb in the 3rd;
- Buttermilk powder **fell** \$.139 per lb in the 2nd contract; no volumes were offered in the 3rd;
- Anhydrous milkfat **rose** \$.216 per lb in the 2nd contract and **rose** \$.082 per lb in the 3rd.

Prices were more flat than mixed for the milk powders, which could be seen as a positive result considering there may be as many now who see the glass as half empty rather than half full. Buttermilk buyers seem to be testing the market; some think it's a bargain when the price is below that of skim milk powder. Buttermilk powder prices in the U.S. generally carry premiums to nonfat dry milk prices; the premiums this week range from 5.5 cents per lb to 12 cents per lb. The price movements for international anhydrous milkfat prices seem to support the case that global butterfat supplies are short of overall demand.

Here's more about the pending NZX futures contract program for whole milk powder. The announcement that NZX will use gDT's spot month prices for settlement of the NZX whole milk powder futures contracts (beginning October 8th) drew a protest about the possibility that Fonterra could influence the prices for those futures. (Fonterra apparently had indicated their intention to use the futures contracts.) NZX defended their decision to use gDT prices because they believe it is the most transparent and credible benchmark available, and they have been assured there will be robust oversight provided. Could Fonterra possibly influence futures prices? Fonterra is committing for bid somewhat less than one half of its expected total production of whole milk powder for the year. That leaves 800 or 900 million lbs to be sold outside the auction by Fonterra, and probably an amount equal to or greater than that amount to be sold by other manufacturers throughout the world. Prices charged or paid for spot and contracted sales outside of the auction could influence prices bid in the auction just as easily as the opposite. Also, significant – or even relatively small – changes in the volume of whole milk powder offered by Fonterra for bidding would be noticed by bidders and could influence their bids. So, influence of these kinds over futures prices is not only possible, there're probable, but would be innocent and inadvertent. I'll side with NZX's well-considered decision on this one.

And, now, here's yet another risk management tool coming for traders in skim milk powder. It was announced this week. It's a deliverable contract, like CME's four month old orphan that is sitting right where it started, to be offered by NYSE Liffe (a division of Euronext Group, which runs options and futures markets in 5 major cities in western Europe). This one could make sense; the futures contracts will be settled by prices charged for product deliveries within a 150 kilometer radius of Antwerp, Hamburg, or Rotterdam. Launch date is set for October 18th. Fonterra also has mentioned a plan for a skim milk powder futures market on the NZX, to be cash-settled against SMP prices f.o.b. Oceania ports. Because of the geographic distances between them, it's hard to say if these two futures products will conflict, complement, or be completely indifferent of each other.

REMINDER – CDQAP WORKSHOPS ON NEW AIR REGULATIONS START NEXT WEEK: *(By Rob Vandenheuvel)* As we've written in past newsletters (and as you've seen in recent CDQAP flyers mailed to your dairy), a series of workshops are scheduled for this fall to update dairies (and other farmers) about new air regulations. The flyer can be found at: <http://www.milkproducerscouncil.org/fall2010air.pdf>. Next week, two workshops will be held. The first will be on Tuesday, September 21st from 9:30 am – 12:30 pm at the Stanislaus County Ag Center (3800 Cornucopia Way, Modesto). The second will be held on September 23rd from 1 – 4 pm at the Tulare County Ag Center (4437 S. Laspina, Tulare).