



Milk Producers Council

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MPC FRIDAY MARKET UPDATE

CHICAGO CHEDDAR CHEESE

Blocks	N/C	\$1.5350
Barrels	+\$.0350	\$1.4700

Weekly Average, Cheddar Cheese

Blocks	+\$.0085	\$1.5350
Barrels	+\$.0200	\$1.4655

CHICAGO AA BUTTER

Weekly Change	- \$.0500	\$1.3100
Weekly Average	- \$.0425	\$1.3420

DRY WHEY

Dairy Market News	w/e 05/04/12	\$.4963
National Plants	w/e 04/28/12	\$.5713

NON-FAT DRY MILK

Week Ending 4/27 & 4/28

Calif. Plants	\$1.2342	23,140,823
Nat'l Plants	\$1.2180	27,309,819

Prior Week Ending 4/20 & 4/21

Calif. Plants	\$1.2576	22,112,106
Nat'l Plants	\$1.2404	26,198,896

CHEESE MARKET COMMENTS: Trading on the CME this week was a lot less active than it has been, but more interesting. That scary \$.10 per lb differential between blocks and barrels has narrowed to \$.065 per lb as buyers and sellers continue to spar over who is more right. The price for blocks was unchanged with, or despite, a block sale of 8 loads on Tuesday. The price for barrels rose to within \$.04 per lb of blocks on Wednesday, possibly because a seller was absent or asleep, and was knocked back down by a seller the next day. The two sides at the exchange appear to be close to agreement, but *Dairy Market News* says some buyers they talk with believe prices should be lower and they are acting accordingly. Cheese production continues to be very heavy throughout the U.S. Inventories continue to rise. CME futures traders for milk and cheese this week apparently were impressed enough with the cash trading activity to hold prices about where they were for May and June before giving way for all months thereafter. Class III futures for June, July, and August are below \$15/cwt; the highest price over the next 12 months \$15.60, which is not reached until a year from now. Those prices, along with some scary stories about what may happen to feed costs, should be frightening. Based on the weekly reports from *DMN* regarding current milk production and the present net cost for dairy replacements, the prospects for higher milk prices continue to look gloomy. What is needed are fewer dairy cows. This is a test for the free market proponents. Does the system work? Does it work fast enough to avoid another catastrophe?

BUTTER MARKET COMMENTS: This week's report that daily butter production in March was lower than it was in February could have been taken as a very positive sign that somehow the supply/demand situation for butter was improving. It was not taken that way because it only explains why the earlier report on the amount of butterfat in cold storage in March was not as high as expected. (The favorable report on low butter production in March nullifies the favorable report on March butter inventories. In this case, two positives do not mean the opposite, only "never mind.") Exactly why daily butter production was lower than it was in February is unclear. That is what one calls an anomaly – something unexpected and unexplainable. Instead, *DMN* reports butter churns continue to run at or close to capacity through April and into May to handle all the raw product coming at them. Domestic sales are presently slow. One possible bright spot on sales may be an increase in export activity. If that is so, credit likely goes to CWT for stepping in at the right time. The total quantity of butter exports assisted by CWT is, in truth, not that great, but it does tend to encourage others, and it seems to distract or upset the competition. CME activity this week was somewhat higher than the past several weeks. Thirteen carloads were traded; the price fell over three days, to \$1.31 per lb. Interestingly, the weekly prices reported by manufacturers to AMS continue to be consistently higher than the CME cash price. CME futures lost about the same amount as cash prices for the week, but continue to show hope for higher prices as early as August.

POWDER MARKET COMMENTS: The market for nonfat dry milk continues to be weak and prices continue to edge downward. *DMN* says buyers continue to resist offers beyond their contractual amounts unless they are given "consideration." Call them nibbling bidders. Production continues at record levels – U.S. production of

nonfat powders in March exceeded 200 million lbs; California production exceeded 100 million lbs. Exports appear to be weak at this point. International prices continue to fall. Inventories continue to rise. There does not seem to be any way out of this predicament except to increase exports or to reduce production. Here is a chance for those really smart people who run the Innovation Center for Dairy to hire another consulting firm to tell us again that U.S. producers have “low enough” costs to compete with anyone in the world. The combined domestic and export sales volume reported to the two major price collectors over the past two weeks is estimated to be somewhere around 60 million lbs, with prices moving lower, averaging about \$1.23 per lb this week.

WHEY PRODUCTS MARKET COMMENTS: Continuing high production of dry whey is pressuring prices, but there are signs the whey protein market may be stabilizing. Prices this week in the west are unchanged but are a bit lower elsewhere. According to AMS, DW prices and sales volumes are holding up fairly well. At \$.5713 per lb, the national average price is well above the “mostly” prices for the central and western regions. Higher production of whey protein concentrates is helping to keep dry whey inventories from growing, but is putting pressure on WPC prices. The national average “mostly” price for WPC-34 is now down to \$1.34 per lb, with a spread of \$.18 per lb from the low to the high.

FRED DOUMA'S PRICE PROJECTIONS...

May 4 Est:	Quota cwt. \$15.61	Overbase cwt. \$13.91	Cl. 4a cwt. \$13.84	Cl. 4b cwt. \$13.76
April '12 Final:	Quota cwt. \$15.82	Overbase cwt. \$14.12	Cl. 4a cwt. \$14.72	Cl. 4b cwt. \$13.43

OUR MILK SURPLUS, THE AMERICAN WAY – JUST DO IT: (*by J. Kaczor*) The U.S. appears to be on its way to a long string of all-time dairy product production records. The surge in milk production that began last August, and which really kicked into high gear in January is, of course, the main reason for the records to be set. But, as we know too well, another contributing factor is the continuing weakness in U.S. fluid milk consumption. Combined, the increase in production and the decrease in what at one time was the major usage of fluid milk in the U.S. results in a virtual ocean of daily milk production that must be used within a day or two of its production, or be lost.

That is not an easy task even if the industry were guided by a single goal, fully supported by all of its organizations and all of its operations. Instead, we have what we have: a disorganized unplanned network of independently-minded entities, competing with each other and each working to further their own interests. That is as it should be; it is called the free enterprise system. But it is times like these when one wonders about the advantages a competitor like Fonterra has, supported as it is by government edict, and operating as a virtual monopoly with a single-minded objective, which is to get the best possible price for a full line of dairy products and dairy ingredients every day of every month of every year it has existed. [Sure, that is an over-statement, or over-simplification, but it contains some grains of truth.]

The total increase in milk production in the first quarter of this year compared to last year is 2.536 billion lbs. The decrease in first quarter fluid milk consumption compared to last year is about 250 million lbs. Together they amount to 2.786 billion lbs of milk, which calculates to about 590 tankers per day looking for a home. Some of the milk is used to make dairy products such as sour cream, yogurt, cottage cheese, and frozen desserts. Some of it is used as ingredients for other foods. But the vast majority of that volume must be converted into a compact form where it can be stored, and transported to where it can be used or sold when the opportunity arises. That means primary products like cheese, butter, and powders. Here is what we know was produced so far this year beyond what was produced during the first quarter last year.

- Cheese: an additional 113.2 million lbs
- Butter: an additional 43.5 million lbs
- Dairy Powders: an additional 122.6 million lbs

The numbers above do not include products produced by plants that fall short of the 1 million lb per year requirement for reporting. There are other products as well, in addition to the above list. They include a wide variety of buttery spreads, butter oils and anhydrous milkfats, and products designed to not fit into a standardized product category, and therefore are not reportable. One way or another, with rare exceptions, all of the milk produced every day is received at a milk plant somewhere in the country, is weighed, sampled, tested for antibiotics, pasteurized, and processed in one way or another. The plants say bring it on. Wise men say slow it down and let us plan a little better for all of our sakes.

PRICES CONTINUE TO FALL IN THE GLOBAL DAIRY PRODUCT AUCTION: (*by J.Kaczor*) The weighted average price for all products sold in the global auction May 1st was 4.7% lower than the average for the previous auction held two weeks earlier. This was the sixth time out of the last seven that prices gave ground. The total price decrease per lb of product since January 17th is \$.389, a 23.2% difference. Of the 620 presently qualified bidders 136 participated by indicating interest in acquiring some portion of the six products available; 119 stayed in long enough to be awarded some of the 73 million lbs that were sold. Two of the six product lines increased in price: Fonterra's cheddar cheese (similar to U.S. barrel cheese) rose by \$.002 per lb to \$1.334 per lb; lactose powder rose by \$.039 per lb to \$.914 per lb.

This was the first auction using the re-structured contract arrangement consisting of six single-month delivery periods. Contract #2, the second month following the month in which the bids are placed, continues to be the "Spot" month used by NZX, New Zealand's major commodity exchange, as the basis for settling futures contracts for whole milk powder, skim milk powder, and anhydrous milkfat. Contract #2 is also the period in which the greatest volume of products is offered. For example, 43.1 million of the 70.8 million lbs of product offered by Fonterra in this auction were listed for contract #2. Of the total volume Fonterra offered, 62% was WMP, 16% was SMP, and 14% was AMF. Based on USDA's forecasts of annual production, it appears Fonterra is presently offering on the auction over the coming year approximately 40% of its WMP and 30% of its SMP. Relying on automatic sales of those volumes, Fonterra appears to have been confidently concentrating on developing markets for its burgeoning output.

Fonterra is the only seller of the four who publicly posts volumes to be offered before each auction. In addition to Fonterra, Dairy America and Arla Foods offer skim milk powder and Murray Goulburn offers lactose. Dairy America uses contracts 1 and 2, Arla Foods uses contract 2, and Murray Goulburn uses contracts 3, 4, and 5. Reports on their volumes are delayed for ninety days. Winning prices for Dairy America and Arla Foods continue to be well below winning prices for Fonterra's like products. Based on the change in the weighted average price for skim milk powder in contract 2, it appears Dairy America and Arla Foods have reduced their volumes offered in that period, while prices for Fonterra's SMP fell sharply. For the first time in this auction, for reasons not clear, Fonterra also offered 11 million lbs of WMP in contract 1.

There is quite a bit of speculation in New Zealand about the effect of the current weakening prices and strong currency on next year's prices for Fonterra's member producers. The March auction effectively closed out the fiscal year for Fonterra – the heavy volume Spot month for that auction was May. The three auctions since March reported weighted average price decreases of 3.5%, 9.0%, and 4.7%, respectively. However, as indicated above, the majority of Fonterra's dairy product exports continue to occur outside the auction and there is no way to tell whether or to what extent prices for those sales are influenced by the auction.

MAY MPC BOARD MEETING NEXT TUESDAY: (*By Rob Vandenheuvel*) MPC's monthly board meeting will be held next Tuesday (May 8th) at 11 am. This month's meeting will be at the office of Trinity Financial Partners (901 Via Piemonte, Suite 150, Ontario, CA 91762). All current and prospective MPC members are invited to attend; lunch is provided. Please call the MPC office (909-628-6018) to rsvp for the meeting.