



# 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 ~ [office@milkproducers.org](mailto:office@milkproducers.org) ~ [www.MilkProducers.org](http://www.MilkProducers.org)



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**FROM:** John Kaczor

## MPC FRIDAY MARKET UPDATE

### CHICAGO MERCANTILE EXCHANGE

Blocks	- \$.0750	\$1.6900
Barrels	- \$.0950	\$1.6900

### Weekly Average

Blocks	- \$.0310	\$1.7030
Barrels	+\$0.0200	\$1.7210

### CHICAGO AA BUTTER

Weekly Change	+\$.0650	\$1.8350
Weekly Average	+\$.0505	\$1.8140

### DRY WHEY

DAIRY MKT NEWS	w/e 10/14/11	\$.6375
NASS	w/e 10/08/11	\$.6029

### NON-FAT DRY MILK

#### Week Ending 10/7 & 10/8

Calif. Plants	\$1.5291	9,978,302
NASS Plants	\$1.5415	16,674,684

**CHEESE MARKET COMMENTS:** The fairly clear message given by CME cheese trading activity over the past several weeks was that plants and major buyers were uneasy and rightly reluctant to make significant decisions until some clarity showed through. Questions about total cheese sales seemed to at least be partly answered last week when August production numbers were compared to August cold storage numbers. Sales exceeded production and imports for the month. The other major questions may have been broader, about the balance of the milk supply and the need for more cheese to be produced – and what level of price could support whatever answer is given. Clearly, prices above \$2.00 per lb given the current uncertain domestic and international financial turmoil were too high to be sustained for long – but what price is sustainable? Daily block prices ranged from a high of \$1.79 on September 1<sup>st</sup> to a low of \$1.68 yesterday. Barrel prices over that period ranged from \$1.76 to \$1.64. That is a tight range but it included what appeared to be several short-term imbalances, particularly for barrel cheese; there were 12 days when barrel prices were \$.06 per lb or more below block prices and were higher than blocks four of the last six trading days. The average prices for first sales by manufacturers tend to underestimate those imbalances, which contributes a measure of price stability for everyone else in the marketing channel. The sizable price drops for both styles this week appears to have gone a long way towards resolving a major manufacturer's concern about out-of-balance stocks – good. There were plenty of buyers accepting the offers. Why not consider today's closing prices of \$1.69 per lb as good as a \$1.70 floor price and leave it at that? However, exports of cheese in August were about 10% lower than last August (possibly reflecting the jump in value of the U.S. dollar) and 5% lower than July's shipments – not good.

**BUTTER MARKET COMMENTS:** Butter prices advanced by a solid \$.065 per lb this week on the CME, following last week's \$.01 increase. That keeps butter prices higher at this time of year than three of the past four years, and appears to reflect continuation of the strong sales pattern shown by last week's report on the amount of butterfat in cold storage on August 31<sup>st</sup>. Cream supplies are reported to be readily available for butter makers but that should change soon as butterfat usage for typical holiday items increases and butter production moves lower. *Dairy Market News* reports this week that butter prices f.o.b. dock in New Zealand range from \$1.63 per lb to \$2.03 per lb. Use of a simple average of price ranges is customary and, in this case, is believed to reflect the weighted average. Buying activity in the U.S. is building for the upcoming holiday and baking seasons. CME futures prices softly support current cash prices for November, then dip by about \$.10 per lb for the first quarter of 2012, before returning to current levels.

**POWDER MARKET COMMENTS:** *DMN* says "hand to mouth" buying patterns and lower volume orders reflect the market for nonfat dry milk in the eastern region, and discounts reflect the western market. Production of nonfat powders is lower in the East but steady in the West, with a pronounced shift to greater output of skim milk powder destined for the export market. Speaking of which, August exports of nonfat powders totaled 80 million lbs, about equal to last August's volume and to July. California plant volume of NFDM continues to be relatively low as a larger percentage of total sales become non-reportable skim milk powder. Volume reported to NASS remained steady and fairly strong, with prices for shipments made last week rising by \$.0254 per lb while the CWAP average price was \$.009 per lb lower. There are rumors that trend may change for the worse.

However, the overall trend for U.S. prices is pointing downward as reports about the record amount of New Zealand's milk production promise an annual increase of more than 10% above their accounting year that ended in May. Winning prices in last week's global auction for shipments in December were slightly lower, but rose for delivery months next Spring. The market for buttermilk powder is becoming more active, particularly in the East. Supplies are abundant in the West and *DMN* reports some shipments of condensed BM are moving to Midwestern buyers. BMP prices appear to be steady, but have shifted to levels substantially lower than NFDM prices. For U.S. whole milk powder the story is steady interest from current customers, steady prices, and possible interest from new users.

**WHEY PRODUCTS MARKET COMMENTS:** Prices reported to NASS for shipments of dry whey last week were \$.0025 per lb lower than the week before, the first weekly drop in a long while. The average price held above \$.60 per lb, but lower international prices were again noted. *DMN* says the market for dry whey is strongest in the East and gradually weakens as one moves westward. Prices in the East are now about where they were during the "bubble" years and, despite what appears to be a well-balanced national market, some buyers are concerned. August exports of dry whey totaled about 50 million lbs, 30% higher than a year before. The average price in September for whey protein concentrate-34 came in at a record high, just above 2007's level. However, WPC buyers are sure to weigh the price differences with NFDM, per lb of protein, along with the relative availability and handling issues for the two products.

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#### **FRED DOUMA'S PRICE PROJECTIONS...**

Oct 14 Est:	Quota cwt. \$18.90	Overbase cwt. \$17.21	Cl. 4a cwt. \$18.26	Cl. 4b cwt. \$15.70
Last Week:	Quota cwt. \$19.04	Overbase cwt. \$17.34	Cl. 4a cwt. \$18.09	Cl. 4b cwt. \$16.08

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**U.S. CONGRESS APPROVES THREE FREE TRADE AGREEMENTS WITH COLUMBIA, PANAMA AND SOUTH KOREA:** (*By Rob Vandenheuvel*) This past week, both the U.S. House of Representatives and the Senate approved Free Trade Agreements (FTAs) with Columbia, Panama and South Korea. The U.S. dairy industry will benefit from these three FTAs through greatly reduced or eliminated tariffs on cheese, butter, skim milk powder and whey that we export to those countries. According to information put out by the U.S. Dairy Export Council (USDEC), these three agreements could result in about \$430 million per year in dairy product export gains for the U.S., with much of those gains (\$380 million per year) coming as a direct result of the FTA signed with South Korea.

While the agreements were largely carried by Republicans in both houses of Congress, a special thanks goes out to Senator Dianne Feinstein and Representative Jim Costa (Fresno) who set aside partisan politics and supported the California dairy industry by voting to approve all three of these trade agreements. We also want to thank California's Republican Congressional delegation, who supported these three agreements virtually unanimously.

**SEPTEMBER'S 'DAIRY CARES REPORT' POSTED ON OUR WEBSITE:** (*By Rob Vandenheuvel*) The Dairy Cares column for this past month focuses on a series of videos released by Dairy Cares last month entitled, "Profiles in Sustainability" (a link can be found at: <http://www.milkproducerscouncil.org/cares.htm>). This six-part series features California dairy families as they outline how our industry places a priority on animal welfare, environmental stewardship, sustainability and the nutritious nature of the milk we produce. I strongly encourage our readers to take some time and watch these videos. Share it with your friends, family and neighbors. We've got a great story to tell, we just have to take the time to tell it. If you'd like to receive a complimentary copy of these videos on a DVD, please send an email request to [DairyCares@gmail.com](mailto:DairyCares@gmail.com).

**A NOTE TO OUR READERS:** (*By Rob Vandenheuvel*) Next week I hope to delve into a bill that was introduced this past Wednesday by Senator Robert Casey (D-Pennsylvania). The bill (S. 1682, the "Dairy Advancement Act of 2011") is an attempt to reform our nation's dairy safety net policies, which is the same goal as the "Dairy Security Act" (a.k.a. the "Peterson-Simpson Bill") that we've written about in recent weeks in this newsletter. I have initial questions and concerns about the policy changes in this bill, as well as the impact it will have on our chances to achieve real reform in the near future, but due to traveling conflicts, I am unable to fully analyze the legislation for this week's newsletter. Things continue to heat up on the dairy policy reform front in Washington, DC and I look forward to delving into this new legislation in next week's issue. So stay tuned...