

Milk Producers Council

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MPC FRIDAY MARKET UPDATE

CHICAGO MERCANTILE EXCHANGE

Blocks $-\$.0725$ \$1.4300
Barrels N.C. \$1.4300

Weekly Average

Blocks $+\$.0150$ \$1.4820
Barrels $+\$.0240$ \$1.4520

CHICAGO AA BUTTER

Weekly Change $+\$.0050$ \$1.2425
Weekly Average $+\$.0045$ \$1.2425

DRY WHEY

WEST MSTLY AVG w/e 10/15/09 \$.3350
NASS w/e 10/10/09 \$.3174

NON-FAT DRY MILK

Week Ending 10/09 & 10/10

Calif. Plants \$.9817 9,336,831
NASS Plants \$1.0162 10,949,185

CHEESE MARKET COMMENTS: Prices on the CME appear to have turned quickly. Prices for blocks peaked at \$1.5075 per lb on Tuesday and then lost a total of \$.0775 per lb on Thursday and Friday. Barrel prices rose on Monday and held, before adjusting downward on Friday. The steady stream of bids from buyers that had pushed prices up turned into a steady stream of offers from a few manufacturers. Trading volume was moderate. *Dairy Market News* (DMN) offers little insight into what may have led to the lower priced offers. In fact, the comments they received earlier in the week suggested a fairly tight and strengthening market. A nice combination of lower current milk production and steady sales, the approaching heavy sales season, and strong Class 1 usage and rising powder prices which pull milk away from cheese plants, are all supporting indicators. It's not surprising that one or more manufacturers may have felt they had more cheese on hand than they wanted and may have believed the recent price surge for cheese was more than was justified, but it's puzzling as to why the offers were so much lower than existing prices. It's hard to understand prices falling when some cheese manufacturers are looking for more milk to fill current orders. Monday's market should be interesting; uncertainty is not anyone's friend, except for speculators.

BUTTER MARKET COMMENTS: The butter market was quiet this week. A half-cent was added Monday, from a bid. Production of butter continues to be on the low side and retail sales are steady. Compared to cheese and powder prices, butter appears to be considerably under priced at this time.

NONFAT POWDER MARKET COMMENTS: Dairy powder markets are tight. Production is lower and demand is strong. Prices are responding as expected under those conditions. The news from DMN on powder production and demand suggests that the current price strength is indeed real, although unexpected. Considering that export volume is well below last year's level and some of the CCC-owned powder that has been "swapped" by FNS for other food items is finding its way into commercial channels, one would think that the market certainly wouldn't be strong, but it is. Just where the demand is coming from is unclear; DEIP sales have helped, but U.S. dairy industry usage (which is reported to make up about 70% of nonfat dry milk usage) simply shouldn't be strong enough to absorb the shortfall in demand from the lower export volume. Somehow, that growing stock of powder in storage appears to have dwindled down to the point where some buyers are telling DMN they cannot get the amount they need. The lower production of nonfat powders in July and August, along with DEIP commitments, could explain it all. Prices reported by manufacturers to NASS for current sales, which do not include DEIP sales, rose about a half-cent last week, and the California plant average price rose by close to 2.5 cents. The West's "mostly" price this week ranges from a low of \$1.09 to a high of \$1.22 per lb.

WHEY PRODUCTS MARKET COMMENTS: Prices for dry whey and whey protein concentrate are slightly higher, apparently more in response to the rising prices for nonfat dry milk and buttermilk powder than from end user demand. The West's "mostly" price eased a quarter cent higher. Cheese manufacturers, or rather WPC and

lactose manufacturers, are in a good spot right now with prices for their commodity grade products apparently well above manufacturing costs. That's fair; they were well under costs for quite a while. Demand appears to be steady.

FRED DOUMA'S PRICE PROJECTIONS...

Oct 16 Est: Quota cwt. \$ 13.56 Overbase cwt. \$11.86 Cls. 4a cwt. \$11.45 Cls. 4b cwt. \$12.64
Last week: Quota cwt. \$ 13.60 Overbase cwt. \$11.91 Cls. 4a cwt. \$11.29 Cls. 4b cwt. \$12.88

FONTERRA'S INTERNET AUCTION: PRICES NOW HIGHER THAN YEAR EARLIER:*(By J. Kaczor)*

International bidders for regular grade whole milk powder were determined enough on October 6th to push prices up by another 8.4 cents per lb above September's auction. The winning price for December deliveries (the "spot" month, the second month after the auction month) was \$1.384 per lb f.o.b. ports in New Zealand, and \$1.281 per lb f.o.b. ports in Australia. The average price for all products (regular, instantized, and UHT) for the "spot" month, is now above where it was last October. The total increase in price for regular commodity grade WMP from the low points of February and July is 55 cents per lb, but is still about 86 cents below the peak that was reached in mid 2007.

This auction was the third month in which Australian powder was offered. In September, prices for the two offerings were equal; a 5 cent per lb differential appeared in October and it now widened to 10 cents per lb. That could be a result of the distance between the winning bidders and their source of product; however no explanation so far has been given. Fonterra expressed satisfaction with the price increases, citing an improving balance between demand and supply. They anticipate a "consolidation" period where buyers will likely review their immediate needs, currency valuations, and the anticipated recovery from the global recession.

The December auction will include two grades of anhydrous milkfat, the first of an anticipated number of additions to the line of products to be offered. The leading candidate for the next addition may be the dairy commodity with the second largest volume in international trade – skim milk powder, a close cousin to U.S. nonfat dry milk.

AUGUST EXPORTS REMAIN BELOW YEAR EARLIER LEVELS: *(By J. Kaczor)* The following tables compare August U.S. exports of nonfat powder, butterfat products, cheese, and dry whey with the volumes in the previous August, and the most recent twelve months with a number of prior periods. The volumes in the tables reflect millions of lbs and, where shown, the prices reflect cents per lb.

	August 2008		August 2009	
	Volume	Price	Volume	Price
Nonfat Powders	79.6	\$1.53	62.6	\$.89
Butterfat Products	26.9	1.24	1.7	1.35
Cheese & Spreads	25.6	2.02	19.5	1.74
Dry Whey	44.7	.44	34.5	.35

The volumes for nonfat powders and butterfat products (butter and anhydrous milkfat) include DEIP subsidized shipments. Substantial additional exports in each category are expected for September. The volume of nonfat powder exports is the highest it's been since February. The volume for cheese this year increased slightly from January through March, after which small month-to-month decreases have occurred. About 33 million lbs of DEIP supported sales of butterfat products are booked but have not yet been shipped.

The decreases shown for current export volumes generally reflect the continuing adjustment the U.S. dairy industry is making out of the wild year or so period of worldwide speculation and shortages of dairy products. Yes, it was great, but that period and those prices reflected a combination of circumstances and events that caught everyone by surprise – buyers, sellers, milk producers, economists – as well as our own U.S. Dairy Export

Council which sometimes seems to have taken credit for it happening. Well, it wasn't planned or even foreseen, but the pending loss of the windfall volume was clearly evident, and wasn't managed very well by the industry's major producer cooperatives.

The following table shows the export volumes for twelve month periods ending with this August.

	Powders	Butterfat	Cheese	Dry Whey
Aug '08 – July '09	580.5	94.4	240.8	445.4
'07 – '08	826.0	195.1	279.1	489.0
'06 – '07	571.4	34.3	188.6	558.1
'05 – '06	592.9	23.8	146.1	448.8
'04 – '05	707.6	15.3	132.2	438.3

For a perspective on powder volume, exports of powders in 2003 and 2004 averaged 277 million lbs per year. Except for dry whey, the above table tends to support the point that the U.S. dairy industry has the ability to respond to unexpected needs by international buyers right up to the time they leave, to return to their regular suppliers. It's important to note that once milk production recovered from a very brief downdraft in New Zealand last year, and when Australia's production stabilized, their export volumes of the products in the above table increased substantially from the previous year. It's sad and pitiful, and something should be done about it, don't you think? CWT and USDEC had mentioned they had begun to formulate a plan to develop, support, and maintain a robust export program that could at least come close to equaling those of Oceania (Australia and New Zealand) and Western Europe. They should be encouraged to do just that. One very important first step towards that happening is to help establish a relatively stable set of month-to-month milk prices in order for the export program to be consistently competitive. That first step must come from some form of a Milk Price Stabilization Program. One hopes that Secretary of Agriculture Vilsack will direct the attention of his yet to be formed Dairy Advisory Committee to that task.

LARRY SHEHADEY, 1907-2009: A statement released by his family this week said Larry was always open to new ideas, a comment which understates by far his approach to business and to life. He seldom assumed, often questioned, always listened. He was generous in the most practical of ways, socially active, family oriented, innovative in his thinking, and very competitive. Those who have had the pleasure of working with or against Larry will agree with the concluding sentiment in the notice of his passing: *He led an incredibly successful and long life: and his impact and legacy will last for generations to come.*