



Milk Producers Council

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MPC FRIDAY MARKET UPDATE

CHICAGO MERCANTILE EXCHANGE

Blocks - \$.0700 \$1.4100
Barrels - \$.1400 \$1.3700

CHICAGO AA BUTTER

Weekly Change +\$.1100 \$1.9900
Weekly Average - \$.1120 \$1.9980

NON-FAT DRY MILK

Week Ending 11/5 & 11/6

Calif. Plants \$1.1591 15,166,429
NASS Plants \$1.1888 16,953,758

Weekly Average

Blocks - \$.1270 \$1.4040
Barrels - \$.1585 \$1.4050

DRY WHEY

WEST MSTLY AVG w/e 11/5/10 \$3.900
NASS w/e 11/6/10 \$3.719

CHEESE MARKET COMMENTS: That wasn't a circus or a street fight the past four weeks; it was the Chicago Mercantile Exchange's cheddar cheese spot market in action. Sellers with too much cheese on their hands may have had too little time to move it through regular channels while buyers were waiting for lower prices. Buyers were wanting cheese, needing cheese, but believing prices will surely be lower if they hold off. Others on site just watched the show. Producers could only shake their heads and cover their eyes. Over this period prices for blocks lost \$.33 per lb and barrels lost \$.3625 per lb. This week's average for blocks is now higher than only eleven other weeks this year; barrels are higher than seventeen other weeks. However, this week did end with an encouraging sign – four sales which combined to raise the block price one cent were followed by two uncovered bids to sell at that level. Also encouraging was the fact there were far more buyers than sellers over this four week period. Previously, when prices began to fall, there was speculation that support may be found at \$1.60 per lb, then \$1.50 per lb; now, it does look like the market may be at a point where this week's average prices generate the prices buyers have been anticipating. Dairy Market News reports that the cheese pipelines have slack to fill and many more normally heavy sales weeks are ahead.

BUTTER MARKET COMMENTS: Last week's very sudden and very big drop in butter prices, caused by a single offer and a single sale, left most market watchers wondering what happened, and why. On Monday an unfilled bid raised the price \$.12 per lb where it held until today when an offer dropped the price by a penny. That snap back suggests that last Friday's \$.27 per lb drop on an uncovered offer was an aberration. The current price is still at a relatively rare high level, reflective of the continuing global shortage of butterfat. However, DMN reports that buyers are still expecting prices to be lower by the year's end – because that's the pattern. Maybe, but global butterfat shortages don't fit that pattern. Sales are reported to be going well; production is steady as butter plants have to compete for cream needed for other holiday type products.

POWDER MARKET COMMENTS: First, the good news: the report on September exports of nonfat dry milk and skim milk powder explained where much of that month's lower inventory went – exports for September totaled 95.5 million lbs, the third highest volume month ever. The average price was about \$1.20 per lb. More? The California plant average price for last week's sales increased, with higher volume than the week before. That's rare, a higher average price with higher volume, and good to see. More? The California plant average is again within the full range of western cash prices, and is within \$.011 per lb of the West's "mostly" price range reported this week. Production of buttermilk powder is steady but sales are slumping a bit, mainly from lower ice cream manufacturing needs. Exports of whole milk powder in September exceeded the entire amount that was produced during the month. Domestic needs for WMP are being filled from end-users' stores. Prices held steady during the week.

WHEY PRODUCTS MARKET COMMENTS: Supplies of whey protein concentrates and dry whey are reported to be tight throughout the U.S. Prices for both lines moved marginally higher this week. September

exports for dry whey totaled 41.7 million lbs, 3 million more than was produced (human grade) that month. September exports of WPC totaled 24.2 million lbs, 80% of what was produced for human consumption that month. Despite the tightness in supplies of these products for domestic usage, DMN hears about concern that the whey protein market may be affected by recent price weakness for butter and cheese. The western “mostly” price average edged up to \$.39 this week.

FRED DOUMA’S PRICE PROJECTIONS...

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|--------------------|---------------------------|------------------------------|-----------------------------|-----------------------------|
| Nov 12 Est: | Quota cwt. \$16.45 | Overbase cwt. \$14.75 | Cls. 4a cwt. \$16.24 | Cls. 4b cwt. \$12.97 |
| Last week: | Quota cwt. \$16.47 | Overbase cwt. \$14.77 | Cls. 4a cwt. \$15.73 | Cls. 4b cwt. \$13.41 |

MORE ON INDUSTRY DATA; WHO DO YOU TRUST, HOW DO YOU USE IT: *(By J. Kaczor)* Some very good questions were asked about last week’s article on the large amount of dairy industry data available to anyone/everyone in the industry who faces important questions about what should or needs to be done in their businesses. The point of the article was to show how much information is available from so many sources about the U.S. dairy industry, and what needs to be considered in using the data. It followed an article a week earlier on how little information is available about important international dairy industry matters. That article ended with a caution about taking what little international information is available, at face value.

The reader, a milk producer, first asked “Where is the unbiased, audited and timely information that we can use to help gauge the demand for products?” He then asked why he should believe the available information is accurate and sufficient for that task, citing infrequent or non-existent audits of reports submitted to NASS and the correlation of butter and cheese prices to the sometimes volatile CME spot prices. As I said, good questions.

The need for verification of data directly or indirectly used to set minimum milk prices was made clear in the past three years when errors were found in weekly reports of nonfat milk sales reported to NASS and when the Commodities Futures Trading Commission found apparent manipulation of prices on the CME. The first case resulted in lower prices for producers; the second resulted in higher prices. The price reporting errors were subtle and covered a long period of time and were found only after USDA’s Office of Inspector General was convinced by The Milkweed to investigate. The second case involved a relatively short time period but required extensive investigation by the CFTC.

Both of the above actions led to improvements in oversight of those activities. The Agricultural Marketing Service, responding to OIG’s directions, reviewed their price reporting and inventory storage programs in 2007, received extensive comments from the industry, and issued a final order in 2008 which made those reports mandatory, subject to review by AMS, and provided penalties of up to \$10,000 for each instance of noncompliance to a cease and desist order. Because of the size of the industry, AMS established a program designed to maximize the effectiveness of their staff by scheduling more visits to the larger reporters and by establishing benchmarks or guidelines (using detailed regional and individual company spreadsheets and charts) by which each weekly or monthly report is evaluated for possible errors. Weekly reports are subject to corrections going back four weeks. Plants that produce less than 1,000,000 lbs of product per year (equivalent to about three tanker loads of milk per week) are exempt from reporting sales.

The Government Accountability Office, at the behest of Congress, investigated the operation of the Chicago Mercantile Exchange’s spot markets for butter and cheese and their related futures markets. The GAO found that trading on the Exchange is “thin” (few participants and few trades) and subject to possible manipulation. However, they were satisfied that improvements in oversight made by the CME and CFTC staffs greatly reduced the likelihood that any manipulation would go undiscovered.

Comments: This response to the two specific concerns mentioned by the reader is not likely to satisfy. The CME did not and does not represent its programs as useful for setting milk prices; that decision was made by the dairy industry. CME butter and cheese trading is thin, but each session is attended by qualified representatives of manufacturers, buyers, and sellers who may interject their positions into what is happening at any point during the session or in sessions that follow. CME spot markets are designed to offer a ready public market for sellers who want immediate sales of butter and cheddar cheese and buyers who want immediate supplies of those

products – nothing more. The improvements made in NASS price collection and inventory reporting procedures two years ago appear to be working. Rarely does a week or month go by without corrections being made to account for those inevitable late, missing, or incorrect reports. However, the rules and product definitions for reporting sales result in the exclusion of vast amounts of cheese, butter, nonfat dry milk, and dry whey from those reports, and seem to lay out ways to avoid reporting particular sales. Also, the practical matter of setting definitions and rules for reporting amounts of products in storage at a specific time each month creates questions about what the numbers really represent.

The simplest answer to the question on how to gauge demand (measured variously by sales, usage, consumption, or disappearance) is to compare changes over time, not month to month. As to what changes to compare, a NASS statistician offered this advice: “the best numbers to use when attempting to calculate disappearance are the production and stocks numbers.” According to that approach, if stocks increase more than production in a like period usage is less than supply in that period, and if stocks increase less than production in a like period usage is greater than supply in that period. Comparisons of those differences to earlier months and to different periods could represent changes in demand. Cooperatives should be advising their members on what they see in the way of demand for their products. Some do, some don’t. Individual producers also can use the market knowledge, and tools, of qualified brokers and lenders and suppliers to gather information on what may be happening, industry-wide, to demand and supply. Don’t ignore supply relative to demand if you’re concerned about prices, and don’t focus on prices without looking at costs.

GAP BETWEEN CLASSES 4A AND 4B WIDENS...CALIFORNIA PRODUCERS THANKFUL FOR BUTTER/POWDER REVENUE: *(By Rob Vandenheuvel)* Looking at the latest milk pricing projections from Fred Douma, the projected minimum price for milk sold to butter/powder plants in November is \$16.24 per hundredweight, while milk sold to cheese plants is projected to have a minimum price of \$12.97 per hundredweight. **That’s a staggering difference of \$3.27 per hundredweight!** *(And that’s averaging the first two weeks of the month. Using only the current commodity values, the difference is \$3.89 per hundredweight!)* As we enter into this season of thanksgiving, our state’s dairy farmers would be remiss not to send a dose of that thankfulness to our state’s butter/powder manufacturers (largely plants owned by CDI/Dairy America), who are paying more than \$3 per hundredweight more into the pool for the same milk being sold to cheesemakers.

U.S. DAIRY EXPORT COUNCIL’S ANNUAL WEBINAR NEXT TUESDAY: *(By Rob Vandenheuvel)* Next Tuesday, the U.S. Dairy Export Council is hosting an annual “State of the Industry” webinar. For more information on webinar, or to register, please visit: <http://www.usdec.org>.

WORKSHOPS ON NEW CENTRAL VALLEY REGIONAL GROUNDWATER MONITORING PROGRAM CONTINUE NEXT WEEK: *(By Rob Vandenheuvel)* Last week, I wrote an article on a new regional groundwater monitoring effort underway in the Central Valley. This effort is aimed at providing a more affordable alternative to the current requirement that all Central Valley dairies must eventually install groundwater monitoring wells on their individual facilities. If you missed that article, you can find it at: <http://www.milkproducerscouncil.org/updates/110510.pdf>.

Next week, eight more workshops are scheduled throughout the Central Valley, providing dairy farmers with an opportunity to learn more about this effort. Those workshops are:

- Monday, November 15th, 10-11 am, Kings County Ag Center (680 Campus Drive, Hanford)
- Monday, November 15th, 1:30-2:30 pm, Tulare County Ag Center (4437 S. Laspina, Tulare)
- Tuesday, November 16th, 1:30-2:30 pm, Tulare County Ag Center (4437 S. Laspina, Tulare)
- Wednesday, November 17th, 10-11 am, Robert J. Cabral Ag Center (2101 E. Earhart Ave., Stockton)
- Wednesday, November 17th, 1:30-2:30 pm, Stanislaus County Ag Center (3800 Cornucopia Way, Modesto)
- Thursday, November 18th, 10-11 am, Stanislaus County Ag Center (3800 Cornucopia Way, Modesto)
- Thursday, November 18th, 1:30-2:30 pm, Fresno County Farm Bureau (1274 W. Hedges Ave., Fresno)
- Friday, November 19th, 10-11 am, Sacramento County Farm Bureau (8970 Elk Grove Blvd., Elk Grove)