



Milk Producers Council

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TO: Directors & Members

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MPC FRIDAY MARKET UPDATE

CHICAGO MERCANTILE EXCHANGE

Blocks +\$.0850 \$1.7075
Barrels +\$.0675 \$1.7100

Weekly Average

Blocks +\$.0385 \$1.6700
Barrels +\$.0195 \$1.6720

CHICAGO AA BUTTER

Weekly Change +\$.1200 \$2.0700
Weekly Average +\$.0675 \$2.0570

DRY WHEY

WEST MSTLY AVG w/e 05/20/11 \$.5138
NASS w/e 05/14/11 \$.4936

NON-FAT DRY MILK

Week Ending 5/13 & 5/14

Calif. Plants \$1.5605 13,370,309
NASS Plants \$1.6137 19,866,690

CHEESE MARKET COMMENTS: Cheese prices on the CME have been bobbing up and down over the past several weeks. This week buyers arrived early, wanting to buy and to pay more for what they wanted. Twenty-five carloads of blocks and barrels traded hands the first two days of the week, with most of the action started by bidders. The sellers didn't respond to enticements in the form of higher bids for the rest of the week. The only news of note this week relevant to the cheese market was USDA's report on the surprisingly low increase in April milk production, released after trading closed Wednesday. Class III milk futures prices responded sharply (not necessarily to the milk production report), with prices for the nearby months increasing by more than \$1.00 per cwt. The price for July rose by \$1.40 per cwt and is the highest for the year, at \$18.96 per cwt, which is equivalent to a cheese price of about 17 cents per lb higher than today's closing prices. Today's report on the amount of American cheese in long term cold storage facilities was disappointing in that it showed a normal March to April increase after the two previous monthly reports showed month to month decreases, which were counter to normal and expected increases and which offered hope for lower future stock levels.

BUTTER MARKET COMMENTS: Butter prices increased early this week on the CME, and are again above \$2.00 per lb. Monday's increase resulted from an unfilled bid and brought the price squarely to \$2.00 per lb. On Tuesday, 12 carloads traded hands, mostly from bids, and the price ended up 7.5 cents per lb for the day. Thus, as was the case with cheese trading, there was no discernable reaction by butter traders to Wednesday's report on April milk production. However, USDA's cold storage report, released after trading closed today, should provide strong support for the butter market. Butterfat products in cold storage at the end of April were slightly lower than a month earlier, whereas the normal pattern, even last year when butterfat stocks were falling, is for stocks to increase at least through May. One butterfat index continues to point to future weakness for butterfat demand: prices for anhydrous milkfat in Fonterra's global auction, for transactions from July through January, once again fell in Tuesday's session, by an average of about 14 cents per lb. AMF prices are now back down to about where they were from October through December – not necessarily low, but definitely lower than their highs that were reached in March. CME's weekly report on butter stocks in CME Approved Warehouses? See a brief report below.

POWDER MARKET COMMENTS: Prices reported for shipments of nonfat dry milk last week increased by 1.4 cents per lb for California plants and for all plants reporting to NASS. The volume associated with California plants remains steady, somewhat below estimated current production levels. The volume reported to NASS, representing currently priced shipments, was somewhat higher than average for a second week in a row. Those changes, along with continuing decreases in the price for extra grade NFDM on the CME and *Dairy Market News'* updated "mostly" prices for carload sales throughout the U.S., neatly bracket current prices for nonfat powders between \$1.60 and \$1.68 per lb. The spot month (July) winning price for skim milk powder in this week's global auction fell 14 cents per lb, to \$1.85 per lb, but is still over-heated by about a dime (it's still 5 cents per lb higher than the winning price for whole milk powder, which fell 7 cents per lb). The first bidding occurred

for milk protein concentrate (70% protein) this week. The volume offered was very low. The winning price of \$2.858 per lb was just about what Fonterra identified as the current market price. Based on the price per lb of protein, MPC-70 was a steal but not much should be taken from new offerings with low volumes.

WHEY PRODUCTS MARKET COMMENTS: Prices are reported to be steady for dry whey and whey protein concentrates. Supplies are said to be tight and demand continues to be strong, supported by continuing strong orders for export. Today's DMN report contains a chart showing production trends for whey protein concentrates, classified broadly by their protein contents. The lower class covers protein content ranging from 25% to 50%; the higher class covers protein content ranging from 50% to 90%. Concentrated whey with protein levels above 90% fall into a separate specialized category, isolates. The chart covers 2003 to 2010. Production of WPC in the lower category showed a slight downward trend over the full period; production of products in the higher category rose by an annual rate of about 20%. 2010's total production in both categories was about 70 million lbs higher than 7 years earlier. DMN only reports market prices for WPC (34% protein), and notes that current prices on a per lb of protein basis for that category as well as for dry whey and nonfat dry milk are currently in fairly close alignment. This affords users of these products price effective options, within practical limits dictated by the intended end usages of the products. (Lactose content is a consideration as well as the differing physical quantities of each product needed to provide a given quantity of usable protein.)

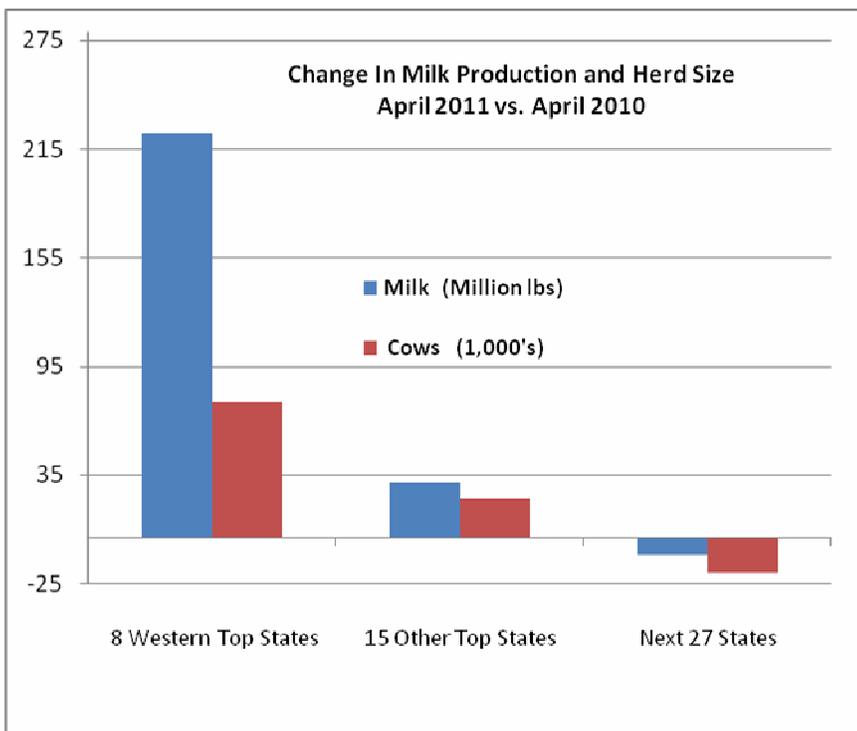
FRED DOUMA'S PRICE PROJECTIONS...

May 20 Est: **Quota cwt. \$19.05** **Overbase cwt. \$17.35** **Cls. 4a cwt. \$19.78** **Cls. 4b cwt. \$14.68**
Last Week: **Quota cwt. \$18.80** **Overbase cwt. \$17.11** **Cls. 4a cwt. \$19.34** **Cls. 4b cwt. \$14.46**

GROWTH IN U.S. MILK PRODUCTION CONTINUES TO WEAKEN: (By J. Kaczor) Last year's monthly increases in milk production grew somewhat steadily from January through September, where it peaked with a half billion lbs more milk than the same month a year before. The percentage increase was 3.3%. With only 1,000 more cows that month than the previous year, virtually the entire increase came from higher production per cow. Production per cow for the entire year came close to setting a new record. That was then. USDA's final count for 2010 showed a total increase of 59,000 cows over the full year. This year cow numbers have already increased by 45,000, but monthly increases in production per cow are less than half of where they were through last April.

The number of milk cows this April was 78,000 higher than a year ago (8,000 more than in March) but production per cow increased by only 12 lbs for the month. Last April's PPC increase was 62 lbs. Total milk production in April was 246 million lbs more than a year ago, an increase of 1.5%, the lowest percentage increase since last May. The signals to producers are generally positive. Milk prices, beginning in February, finally moved to a higher level and show signs of moving even higher and staying around. Sales in all categories except fluid milk are steady to good. Exports are strong because of an alignment of factors similar to what occurred in 2007-2008, and should continue to be so for some time.

Why then is milk production apparently weakening? Weather definitely has affected



production this year, and costs of production are high and the feed and fuel components appear to heading higher. However, the increase in number of cows points to an interest in expansion. For April, the biggest production increases are limited to a relatively few states, most of which are in the West. Eight of the eleven western states are among the 23 largest milk producing states. Those eight stand out from all but a few others with respect to their increase in number of cows and milk production. On the other side, all six of the states reported to have lower production than a year ago are in the Midwest. The chart on the previous page shows the sharp differences in the geographical pattern of April's milk production. The 8 western states had 75,000 more cows and produced 224 million lbs more milk than a year ago. The other 15 of the largest milk producing states had 22,000 more cows and produced 31 million lbs more milk. The other 27 states had 19,000 fewer cows and produced 9 million lbs less milk. Had Texas been included in the western group, the remaining 41 states would have totaled negative milk production and fewer cows than the year before. The additional cows and milk output in the West comes with substantially rising costs, principally from corn and hay prices.

USDA says California producers added 5,000 milk cows in April, which means they had 14,000 more than a year before. Production per cow increased by 35 lbs (to 1,990 lbs per cow, the third highest among the 23 top milk producing states), and total production for the month was 89 million lbs more than last April, an increase of 2.6%. Even though California's milk prices continue to be among the lowest in the country, the state's average blend prices for the year's first quarter are a close second to the record prices reached in the first quarter of 2008, and it's expected that when April's prices are reported next week, prices this year to date will set a new record.

Unfortunately, it looks like those record high prices will be mostly, all, or more than offset by record high feed costs. Just around the corner: higher interest rates, to counter inflation. Down the road (if IDFA has its way): total deregulation of the dairy industry, they say to improve price transparency and industry efficiency. Maybe they should get what they ask for.

CME TERMINATES TWO WEEKLY REPORTS: *(By J. Kaczor)* Last week's Butter Market Comments section included a discussion of a problem CME was having with one of its weekly reports, their Weekly Butter Storage Movements & Stocks. That report was released on Tuesday afternoons. The problem they found, or stumbled over, or had brought to their attention, was the fact that the numbers they were reporting were not only incorrect, they were very incorrect, and apparently had been so for some time. I had mentioned the fact that some brokers and market forecasters made a point of citing those numbers as important market indicators. Those who looked for the report this week found the following notice: **“Effective immediately, CME has determined to discontinue issuing its Weekly Butter Movements and Stocks Report. Please direct questions to Tom Sandy, Associate Director, Market Surveillance.”** (A similar notice was made for their weekly report on nonfat dry milk.) Mr. Sandy directed me to someone in CME's Corporate Communications Department who declined to comment on the reasons for discontinuing the butter stock report and wouldn't say what their investigation found, if anything, but said they had been considering its termination for some time.

HELPFUL ONE-PAGER AVAILABLE ON “COMMON REASONS FOR CARCASS DRUG RESIDUES”: *(By Rob Vandenheuvel)* In case you haven't seen it already, MPC has posted a document recently published on “Common Reasons for Carcass Drug Residues” on our website at <http://www.milkproducerscouncil.org/carcassresidue.pdf>. The one-page document, written by Dr. Michael Payne, DVM – a familiar name to many of us in the California dairy industry – lists some of the “more common reasons leading to having a carcass condemned for drug residues.” As the paper notes: “According to the current USDA data available in 2008 cull dairy cows accounted for just over 7% of all cattle slaughtered in the US, but were responsible for approximately 90% of carcasses in which drug residues were detected.” Our thanks to Dr. Payne for putting this helpful document together, and I strongly encourage our readers to check it out.

CONGRATULATIONS TO MPC MEMBER KERRI VANDER POEL FOR BEING NOMINATED FOR 2011 “FARM MOM OF THE YEAR”: *(By Rob Vandenheuvel)* Kerri Vander Poel, who along with her husband Brian own and operate Skyview Dairy in Shafter, CA, has been nominated for Monsanto's 2011 “Farm Mom of the Year.” You can check out Kerri's nomination and submit your vote of support at <http://www.monsanto.com/americasfarmers/Pages/farm-mom-vote-form.aspx>.