

Milk Producers Council

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MPC FRIDAY MARKET UPDATE

CHICAGO MERCANTILE EXCHANGE

Blocks -\$0.0675 \$1.7675
Barrels -\$1.1800 \$1.7200

CHICAGO AA BUTTER

Weekly Change +\$.0750 \$1.6500
Weekly Average +\$.1045 \$1.6515

NON-FAT DRY MILK

Week Ending 8/1 & 8/2

Calif. Plants \$1.3537 9,591,265
NASS Plants \$1.3956 13,088,309

Weekly Average

Blocks -\$0.2105 \$1.7500
Barrels -\$1.1240 \$1.7165

DRY WHEY

NASS w/e 8/2/08 \$0.2581 WEST MSTLY AVG w/e 8/7/08 \$0.2800

CHEESE MARKET COMMENTS: Monday's report on June cheese production, following last week's report about lower cheese sales, may explain what happened this week to cheese prices on the CME. The increase in all cheese production was a modest 1.3%, but Cheddar increased by about twice that. Cheese sellers came to the market and block prices fell Monday through Thursday, before recovering 6.25 cents of the decrease on Friday. The block/barrel price spread is reasonable. Prices haven't been this low for a long time. The uptick today was a good sign; buyers seem to know when bargains are available.

BUTTER MARKET COMMENTS: Highest prices in almost two years. An amazing 35 sales were made this week on the CME. Dairy Market News attributes the buying activity to the slightly lower amount of butter in storage and to continuing strong export and domestic sales. Buyers are said to be concerned about product availability later this year. Frankly, it looks like an overreaction; strong domestic demand for butter just doesn't make much sense at this time. Strength of this kind in butter prices depends almost entirely on continuing strong exports. That could happen, but Western Europe has plenty on hand and New Zealand and Australia are eager to begin to retake what they believe is their rightful place as world leaders in dairy product exports. Their milk production season begins this month. The answer should be known by September.

POWDER MARKET COMMENTS: Prices and volumes reported by NASS and California plants to CDFA were lower again this week. The West "mostly" price also edged downward. So far this year, at least through June, sales of nonfat powders have kept up fairly well with production, with export sales leading the way. It's hard to see that continuing indefinitely. The report of June exports is expected next week.

WHEY MARKET COMMENTS: DMN says the market is weak. Some dry whey was sold last week in the central region at less than 20 cents per lb. Inventories continued to rise through June. The Western "mostly" price has not moved from 28 cents for a long while, and now fairly reflects the current market. WPC prices continue downward.

FRED DOUMA'S PRICE PROJECTIONS...

August 8 Est: Quota cwt. \$18.11	Overbase cwt. \$16.41	Cls. 4a cwt. \$16.42	Cls. 4b cwt. \$16.29
Last week: Quota cwt. \$18.28	Overbase cwt. \$16.58	Cls. 4a cwt. \$16.02	Cls. 4b cwt. \$16.85

INCREASES IN MILK PRODUCTION CONTINUE TO EXCEED USAGE: (By J. Kaczor) U.S. milk production in June increased by 3.0% and Class I (fluid) usage fell by 3.2%. It's not exactly a "race to the bottom," but it's beginning to look like consumers in the U.S., along with those of several other major countries, continue to react to higher prices for virtually everything they want or need. The official word so far in the U.S. is an economic slowdown. Sure it is. But the fact is that **per capita consumption of fluid milk** is continuing to decrease at a rate of about 2% per year in the U.S. and total consumption of cheese over the last 3

months was reported to be about 3% lower than the same period last year. There's no preaching here, but it does not look like there is an easy way out of the current industry cycle of higher milk prices being erased by higher costs of production while total domestic consumption is at best, treading water.

The following table compares June production of major dairy products in California and the U.S. compared to a year earlier.

	California	United States
Butter	+22 %	+9 %
Nonfat Dry Milk (nfdm)	+17 %	+12 %
Skim Milk Powder (smp)		+106 %
All Cheese	-9 %	+1 %
American Cheese	-21 %	+1 %
Cheddar Cheese	-21 %	+2 %
Cottage Cheese	-16 %	-5 %
Sour Cream	-13 %	-1 %
Dry Whey		-2 %
Whey Protein Conc.	+4%	+4 %

The increase in the combined totals of nfdm and smp was 23%. Figures for smp and dry whey are no longer available from CDFA. Month-end inventories of dry whey increased by 23%, whey protein concentrate by 58%, and nonfat dry milk by 22%. There's work to be done!

MORE ON NONFAT DRY MILK PRICES: (By J. Kaczor) Last week a report about nonfat dry milk prices ended with some questions about how prices for exported products can be so much higher than prices recorded for current market sales. If you missed last week's article, you can read it at http://www.milkproducerscouncil.org/friday_updates.htm. The possible reasons given included non-reporting of higher priced sales (unlikely under NASS' elevated oversight program), sales to a broker at or below prices reflective of current market prices and then resold for export after a significant markup, or a possible effect of the higher volumes of exported skim milk powder on average export prices. The graph that was part of the report showed that the CWAP and NASS prices ranged from about \$.50 per lb **below export prices** in February to \$.27 per lb below in May, which is the latest available month for export data. Data for June should be published next week.

The graph also clearly showed a different pricing pattern since September 2007 than for earlier periods with respect to the closeness of CWAP prices and NASS prices, and since December to their relationship to nonfat dry products sold for export. Since December, export prices have been consistently and significantly higher than the two market price series. A discussion this week with the Chief Economist for USDA/AMS/Dairy Programs about specific rules for reporting sales by companies who are members of a federation of cooperatives (or by any company to anyone other than a final user), clarified an understanding that the rule about **first sales being the only sale that is to be reported** can be used to establish a sale price that is used in milk price formulas, **with all later sales of the same product not recordable** until the product shows up at a "port" where it leaves the country. A further clarification of remaining questions on this issue is being sought. **If that is happening, it means that an immense amount of money is being withheld from milk producers around the country and the resulting net profits are going to the proverbial middleman.**

However, in discussing the matter this week with a number of people with different industry interests, it was suggested to me that the large amount of skim milk powder that is being produced and exported in conjunction with fixed-priced long term contracts, may explain at least part of the reason for the troubling price differences. June's export report next week could shed some light on that interesting idea.

End