

Milk Producers Council

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MPC FRIDAY MARKET UPDATE

CHICAGO MERCANTILE EXCHANGE

Blocks +\$.0100 \$1.9325
Barrels +\$.0450 \$1.9200

CHICAGO AA BUTTER

Weekly Change -\$.0025 \$1.5500
Weekly Average -\$.0179 \$1.5340

NON-FAT DRY MILK

Week Ending 7/04 & 7/05

Calif. Plants \$1.3741 11,621,028
NASS Plants \$1.3955 15,474,204

Weekly Average

Blocks -\$.0163 \$1.9075
Barrels -\$.0401 \$1.8480

DRY WHEY

NASS w/e 7/05/08 \$.2726 WEST MSTLY AVG w/e 7/10/08 \$.2800

CHEESE MARKET COMMENTS: Prices on the CME this week moved downward through Wednesday – then reversed course today and finished the week higher than last Friday. These price “corrections” are a sign of a healthy market, showing a give and take between sellers and buyers. The wider than normal spread between blocks and barrels was corrected in a single day by a 10 cent increase for barrels. There’s concern about the large amount of surplus milk now being offered to cheese plants (other than those in California). It’s hard for a plant to pass up the \$3 to \$5 per cwt windfall discounts on milk that Dairy Market News reports being offered to cheese plants in various parts of the country. Those offers could disrupt an otherwise strong and stable market – by either displacing part of a regular milk supply or by resulting in an unwanted increase in cheese production.

BUTTER MARKET COMMENTS: Mid-year pause? Market correction? Maybe a little of both explains why butter prices on the CME on Monday dropped by 2.25 cents per lb. DMN believes from what they hear that buyer resistance may be the main reason. And then Monday’s price drop was mostly recovered today. The weekly pricing pattern so far this year continues to follow quite closely with last year’s. The big differences between this year and last year that could have an effect on butter prices so far is the direction of U.S. milk production, the direction of export sales, the cost of producing milk, and the slowing economies in the U.S. and some foreign countries. It’s a mixed bag, at best.

POWDER MARKET COMMENTS: Prices are steady on the spot markets and higher on the weekly averages reported by NASS and CDFA. DMN attributes the higher average sales prices partly to indexing a portion of the current week’s sales to prior week’s prices. The California plant average price continues to bounce around, and remains lower than the NASS average. Factors affecting the California average include the percentage of sales under long-term contracts, skim milk powder sales, and export sales. The western “mostly” average has been edging upward for the past 3 weeks, and also could be influencing the weekly average.

WHEY MARKET COMMENTS: DMN reports that whey supplies may be backing up, at least in the central region, as some drying plants are said to be turning away loads of condensed whey, even from regular suppliers. The market undertone is weak. Production is steady, sales are slowing, inventories are growing, and NASS average prices continue to fall. It looks like just about everybody has given up on whey products – which means existing stocks in the hands of buyers (particularly international buyers) should be declining. That should lead to future market improvement. What happens to the milk supply this Fall in New Zealand and Australia, and to the questionable strength in the economies of several key foreign countries, should help determine whether a rebound happens. Prices for whey protein concentrate continue to weaken, and stocks continue to rise.

FRED DOUMA'S PRICE PROJECTIONS...

July 11 Est. Quota cwt. \$18.76 Overbase cwt. \$17.06 Cls. 4a cwt. \$15.99 Cls. 4b cwt. \$17.44
Last Week Quota cwt. \$18.74 Overbase cwt. \$17.04 Cls. 4a cwt. \$15.97 Cls. 4b cwt. \$17.43

WHAT IS BUTTER? (By J. Kaczor) In the wild and crazy world of reporting about dairy products, what is included as "butter" depends on the particular weekly and monthly report you happen to be reading.

- Daily **trading and prices** for butter reported on the CME include only butter containing 80% butterfat;
- Weekly **sales** volumes and prices of butter reported to NASS include only butter containing 80% butterfat;
- Monthly **production** volumes of butter reported to NASS include butter containing 80% and 82% butterfat;
- Monthly **storage** volumes of butter reported to NASS include all butter plus all anhydrous milkfat and butter oil;
- Monthly **export** volumes and prices of butter reported to the USDA's Foreign Agricultural Service include separate lines for butter and the concentrated forms of butterfat represented by anhydrous milkfat and butter oil.

That means that attempts to reconcile beginning inventories, production, and sales of butter are fruitless. But why? A distinction between 80% and 82% butter for sales reporting is understandable because there is a clear difference between the two in costs and prices. But what is keeping NASS from at least foot-noting pertinent facts about what is being reported? It's certainly not those buyers and sellers who have been clamoring for greater transparency, so it must be those others who cherish and benefit from private sources of information.

UPDATE ON CALIFORNIA MILK PRICES: (By J. Kaczor) The following table includes minimum prices announced by CDFA as of today. The Class 1 prices are those for Southern California. Quota prices are \$1.70 per cwt higher than the Overbase prices.

	2007				2008			
	Class 1	Class 4a	Class 4b	Overbase	Class 1	Class 4a	Class 4b	Overbase
January	\$14.00	\$11.92	\$12.47	\$12.00	\$23.23	\$16.40	\$16.91	\$17.44
February	15.37	12.34	13.20	12.75	21.98	14.28	17.54	16.72
March	16.01	13.24	14.13	13.58	19.17	14.36	16.94	16.01
April	16.71	14.53	15.20	14.63	20.19	14.31	16.79	15.86
May	17.71	16.00	18.05	16.59	19.05	15.19	18.66	16.77
June	20.28	17.03	21.18	19.00	20.50	15.61	19.12	
July	23.26	19.84	20.54	19.90	22.77			
August	23.76	21.21	19.41	20.04	19.79			
September	23.10	21.62	19.34	19.99				
October	23.81	21.32	17.65	19.46				
November	23.43	20.66	19.75	20.23				
December	23.26	19.14	18.58	19.09				

June's Overbase price should be reported next week; it could be about \$1.65 per cwt lower than last June's. Look again at today's projections made by Fred Douma included above. Prices through May continued to generate higher overall prices for California producers, but a comparison of 2008's Class prices for June to the same prices a year ago suggest that lower prices may be expected for the balance of the year.

Class 4a prices over the second half of last year reflected the record high prices that resulted from international short term reactions to shortages of nonfat dry milk in major exporting countries. Those prices are unlikely to

be approached this year, and U.S.-produced **skim milk powder** is taking an increasing share of that market from nonfat dry milk. The **June 2007 4b price** reflects a monthly average cheese price of \$1.98 per lb, and more than \$2.00 per cwt from the dry whey component which no longer exists in the price formula in last year's form. The June 2008 4b price reflects a cheese price of \$2.09 and could be reflective of 4b prices for the rest of the year. Putting these considerations together, along with the effect of the sizable shift of usage from the higher priced 4b class to the lower priced 4a class, it appears that minimum milk prices from July through December could be significantly lower than for the same period a year ago. That said, a change in the amount of milk produced in the U.S., or a disappointing amount that is produced in certain other countries, or something else, could improve price prospects later this year. Any ideas?

LAST WEEK TO APPLY FOR LIVESTOCK INDEMNITY PROGRAM: *(By Rob VandenHeuvel)* While many of you have likely already filed the paperwork for FSA's Livestock Indemnity Program (LIP) – which compensates dairies for the animals that died during designated “disaster periods,” this is just a reminder that the deadline to submit applications to FSA is next **Friday, July 18, 2008**. If you have not prepared your LIP forms yet, and would like assistance from MPC, please call the office at (909) 628-6018.

Our thoughts and prayers are extended to the family of MPC board member BJ Schoneveld, with the passing of their father, grandfather and husband John Schoneveld this past Tuesday. Please remember the Schoneveld family in your prayers.

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